

**The Viennese students of Civilization**  
Humility, Culture and Economics in  
Interwar Vienna and Beyond

Erwin Dekker - The Viennese students of Civilization

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***The Viennese students of Civilization:***  
Humility, Culture and Economics in Interwar Vienna and Beyond

De Weense studenten van de beschaving:  
bescheidenheid, cultuur en economie in Wenen en daarbuiten

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by  
Erwin Dekker  
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*We felt that the civilization in which we had grown up had collapsed.  
We were determined to build a better world.  
Hayek, Foreword to Mises, Socialism*

*Humans are at best in the process of becoming civilized  
Norbert Elias*



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# Chapter 1 - Introduction

## *1. Late visitors to Pompeii*

In 1931 Carel Willink a Dutch painter starting working on one of his finest works: 'Late Visitors to Pompeii' (see cover)<sup>1</sup>. He had been travelling with his brother Jan through Italy visiting Florence and Pisa. During his visit to Italy he had been particularly impressed by the work of the surrealist De Chirico, and that influence can be seen in the use of light and shadow in his work of the period. But this is not the place to talk about his style of painting. I want to talk about what we see in this picture. We see four well-dressed gentlemen standing with their backs toward one another. The figure closest to us seems rather stiff, but distinguished, while the gentleman in the back is contently puffing on his cigar with an air of contentment. The gentleman on the left in his brown suit somewhat suspiciously looks over his shoulder towards us, while the gentleman in blue on the right is clearly facing away from us. It seems that they have stopped talking to one another quite some time ago.

In the background we see the ruins of Pompeii; they are still illuminated, or is it the other way around? Do the ruins still radiate some light? In any case, that light fails to reach the gentlemen. The formerly prestigious buildings have been in need of repair for a long time, and at certain places the bushes even overgrow the ruins. The forces of nature seem to be on the winning hand. Bushes are growing where the precious

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<sup>1</sup> The picture 'Late visitors to Pompeii' by Carel Willink is on display at the Boijmans van Beuningen, Rotterdam.

city once flourished. And to emphasize this even more a volcano is emitting smoke in the back. This mountain of doom, the Vesuvius if these are the ruins of Pompeii, is about to erupt. It is clear that whatever these gentlemen had in common, the civilization of which they were once part, is in serious danger. They seemed to have turned away from their common project; no longer are they willing to cooperate. And even though one of the four gentlemen is overlooking the ruins, he looks anything but alarmed.

Looking at the painting we cannot escape thinking of the period in which Willink was working on it. The early 1930's were indeed a time in which the various European countries turned inwards and away from one another. It was a period during which international cooperation broke down, a period during which even more serious dangers were becoming clearly visible. The painting thus not only shows the ruins of an old civilization, but also the ruins of our own civilization. Willink presents a dark prophecy for Europe and its civilization. The only beam of light is emitted from these ruins, as if Willink is saying there will only be hope if we somehow return to our common project, our shared goals and values. A first step in that direction would be for these gentlemen to turn around, and recommence a conversation which has long ceased.

Some commentators on the painting have pointed out that the gentleman in the brown suit bears a close resemblance to the painter himself, Carel Willink<sup>2</sup>. If the light on the ruins symbolizes hope, than how should we interpret the role of the painter here? Is the painter also a source of hope; does he have a role, a responsibility, in the process? And how are we then to interpret his somewhat suspicious expression?

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<sup>2</sup> An observation easily confirmed by a comparison with some of his self-portraits from this period.

Is the painter aware of our attention to him? Does he think we are expecting something from him, and is he unsure what to do with these? What is the role of a painter when he feels that his civilization is in decline? Does he have a responsibility towards the other men, and the civilization behind him? Or even stronger can he save that civilization? Or does the title 'Late visitors to Pompeii' suggest that we have come to learn this lesson much too late, that all hope at this point is in vain? The painting clearly raises these questions, but without providing a clear answer.

Now you might wonder why a book on a group of scholars from Vienna starts with an analysis of Willink's picture. Well, I brought it up because the issues I just discussed and the questions I raised are at the heart of this book. Of course this is only indirectly true, for this is a book about social scientists, philosophers and intellectuals from Vienna, rather than about Carel Willink or art. But the Viennese students of civilization whom will be the main protagonists in the book which follows are facing many of the same problems. During the 1930's they felt that *their* civilization was in decline, or even about to be destroyed. When Ludwig von Mises, one of the Viennese students of civilization, walked along the grandiose Ringstrasse of Vienna with one of his students he gloomily predicted that grass would grow where they were walking now. But however depressed Mises and his fellow intellectuals might have felt at the time, they did feel that this civilization was worth preserving. Perhaps more importantly they asked themselves what their own role was in this process. Had they played a role in this decline? Did they have a responsibility to defend their civilization, and even if they wanted to, was there anything they could contribute?

But it was not just a circle of scholars around Mises who were deeply worried. The intellectual mood in Vienna had been pessimistic since the period leading up to WWI. There were great concerns about the political developments within Vienna and the broader empire, most notably the populist anti-Semitism of Viennese mayor Karl Lueger, and the various nationalistic uprisings in the Empire. When the Empire was broken up after WWI many intellectuals felt that this was a great loss, one that broke up a natural unity. Only a small minority, mostly those on the left, believed that the dissolution of the Empire was the perfect opportunity for a new start. Liberal and conservative intellectuals on the other hand increasingly started worrying about the fate of their beloved civilization.

Among them was a group of Viennese economists who are better known as the Austrian School (of economics). Before WWI the main figures in this School were Carl Menger, Friedrich von Wieser and Eugen von Böhm-Bawerk. In the interwar period its main representatives were Ludwig von Mises and Friedrich von Hayek. Joseph Schumpeter was trained within the tradition of the school, but moved away from it somewhat during the interwar years. The response of this group of scholars to the developments in Vienna, the Habsburg Empire and later Austria and more broadly in the Western world will be the topic of this book. More specifically I will examine how they conceptualized the importance of civilization for the study of the economy and of society, and secondly how they conceptualized their own relation, as scholars, vis-à-vis the economy and society. I will argue that this group of scholars from Vienna which is usually called the Austrian school of economics is better understood as the Viennese students of civilization. Now this is no

issue of semantics, but an argument that our current understanding of them is flawed in at least three ways.

The first of which is perhaps the least important. They are usually understood as 'Austrian'. Traditional histories of this Austrian school start with a discussion of the founding father Carl Menger, who lived in the Habsburg (or Austro-Hungarian) Empire. The entire second generation, most notably Von Wieser and Von Böhm-Bawerk also identified themselves as inhabitants of the Empire rather than as Austrian. But even in such standard accounts the term Austrian is primarily used to mark off a particular group of economists, not as a way to understand their work. I will argue that the Viennese context was of crucial importance to their work. All of these men including the scholars of the interwar period lived and worked in Vienna, and that is also where they very frequently interacted in intellectual circles. The city was the connection between them, socially as well as intellectually. And as I will argue in chapter eight the Viennese conversations were also the most important point of reference for their work. But most importantly the political, cultural and economic developments in Central Europe prompted them to ask specific questions. So the quarrel is not merely over Austrian or Viennese, but also about the importance of this context.

What is of more importance is the fact that this group of scholars is normally understood as economic scientists in a rather narrow sense. Carl Menger's first book is indeed relatively narrowly concerned with economics. But even he feels part of a broader group of social scientists and historians as is clear from his methodological writings. With the possible exception of perhaps Böhm-Bawerk all subsequent members of the school have published widely on methodology, economics, political philosophy and sociology. This is not surprising given the fact that the



training at the university in Vienna and especially the intellectual conversations in Vienna were never restricted by disciplinary boundaries. More importantly especially the scholars who are traditionally considered members of the school during the interwar period became increasingly concerned with the study of civilization as I will demonstrate in chapters two and three. The market to them was part of our civilization, it was a cultural phenomenon. This is of importance for two reasons, firstly because it is a different conception from markets than is common in economics. The Viennese students of civilization believe that markets are cultural phenomena, as opposed to the more common view that they are natural or artificial. Secondly, it helps us to realize that markets are only a part of our civilization, and can thus only be understood within a wider cultural framework. So rather than being concerned with the economy, and how to study it, the Viennese were concerned with their civilization and how to study it. Perhaps even more significantly the focus on civilization and the (unintended) outcomes of interpersonal processes should make us wonder whether this tradition is well described by methodological individualism, which is often identified as *the* characteristic of the Austrian school.

This leads us to the third point, the emphasis I wish to place on *students*<sup>3</sup>. It is common among economists to think of themselves as

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<sup>3</sup> For a long time I pondered on the right label, convinced that the label economist or economic scientist is unsatisfactory. The label of 'intellectual' springs quickly to mind for those who are not very bound to any particular academic discipline, or form of writing. But both Schumpeter and Hayek wrote very derogatory essays about intellectuals ('those second hand dealers in ideas, who know a little bit about a lot'). So it would be rather odd to apply that label to them. I of course considered the term political economists, but that term only emphasizes the market-state dichotomy from which I want to get away. I also considered social scientists, but felt that it presented them as our contemporary interdisciplinary academics, rather than the scholars

policy advisors who can steer or even stronger engineer the economy. And even if some are somewhat critical of mechanistic metaphors they still think of themselves akin to doctors, who can diagnose the ills of society and are able to prescribe cures for the economy. The Viennese students of civilization on the other hand think of themselves as possessing very incomplete knowledge of their civilization. They do not fully understand the organically grown institutions which form an essential part of civilization. To emphasize this Hayek repeatedly claims that we should 'marvel' at the workings of the market. They argue that economists cannot engineer or steer the economy, but are primarily students of markets or other cultural phenomena with an imperfect understanding of it. This does not mean that there is no positive role for economic knowledge. It does mean that economic knowledge does not easily lead to solutions or cures, but instead makes us aware of our limitations, both as human beings and as students. Economic knowledge shows us what we cannot achieve. An insight which they hope will have a therapeutic effect on us; they hope we consequently adjust our expectations of what we can achieve as human beings, and what students of civilization can achieve. This puts them in a difficult

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working in a field with little visible disciplinary borders. And these Viennese men, especially the younger generations almost never held official university positions (at least not in Vienna). The final alternative term I considered was liberal, but that term although it captures much is also confusing. Firstly because liberal has very different meanings in Continental Europe and the United States, and secondly because the meaning of liberal is far from constant even within Central Europe during the period we study. But I think they do feel that they are contributing to a Western liberal project, broadly conceived.

I later found out, to my pleasant surprise that Boettke (2012) also uses the concept of student. There is also an instance when Hayek comes very close to this label, when he addresses a group of historians in Britain he writes: "What I want to talk about tonight is more specifically the role which the historians can play in this connexion -where by historians I mean really all students of society, past or present' (Hayek, 1944/1992: 203).

predicament when they feel that the civilization they study and cherish is in danger. Only very reluctantly, and only some, then attempt to stand up for their civilization, to defend it; even though they remain skeptical of their own capacity to do so.

Willink's painting in other words really exemplifies the three major themes of this book. Firstly the meaning and the importance of civilization as represented by the ruins of Pompeii. Secondly the responsibility of the painter, or in our case the students of civilization, to his or her civilization. And thirdly the importance of the continued conversations to study this civilization, to cultivate it, and to move it forward. And even the fact that this conversation has ceased in Willink's painting will have a symbolic meaning as we will discover later.

## ***2. Civilization?***

Now I can imagine that at this point one becomes impatient with my frequent use of the word civilization, both in my analysis of Willink's painting and in my description of a group of Viennese students of this rather broad concept. As Norbert Elias observes in the opening paragraphs of his 'The Civilizing Process': "there is almost nothing which cannot be done in a 'civilized' or 'uncivilized' way (Elias, 1939/2000: 5). On the other hand Elias observation clearly points to the fact that civilization is always concerned with practices, how things are done: with greater or less foresight, with more or less specialization, with manners or without, with more or less technical sophistication. But there is also another connotation to the word civilization, when we for example speak of a certain level of civilization. We then use it to rank as

it were certain practices or groups of people with more or less civilization.

Something which stands out in virtually all theories of civilization is the emphasis on the interaction between individuals, how they live together. The division of labor (and associated technologies) is invariably considered to be a central element of civilization. Another important element is the development of knowledge, practical, technological as well as scientific. As such it seems surprising that the concept has not been more central in economics, concerned as it is with the division of labor, the level of technology, and human capital. This neglect of civilization is probably due to the cultural or moral connotation of the term. Civilization suggests not only various levels of division of labor but also various levels of culture or morality. This moral side is at odds with modern economics which has been concerned with rationality and emphasized the purely personal nature of preferences. It is also, at first sight at least, at odds with the cultural relativism prominent in the humanities during the past decades.

In fact the concept of civilization has always been plagued by this problem of the combination of the economic, social and the moral. Elias shows in detail how in German the notions of 'Kultur' and 'Zivilisation' have become disconnected. The German term 'Zivilisation' refers to outer appearances, while 'Kultur' is used to refer to those accomplishments of which they are really proud, which so to say constitute their identity. Or one could also say that 'Kultur' is the authentic of the two concepts, while 'Zivilisation' could be imitated. Other people than the Germans could be civilized, but it was doubtful whether they could also acquire 'Kultur'. This distinction has been used to differentiate between the technical (civilization) and cultural, social

and moral elements of civilization (culture), for example by Alfred Weber (Weber, 1921/1998: 196). As Elias observes this distinction has also been used to stress national differences. This trend has continued more recently in Huntington's work to suggest a clash of mutually incompatible civilizations (Huntington, 1998). In this book I will not distinguish between culture and civilization in the German sense. I have purposely sought for a term which encompasses the moral, cultural, social and economic aspects of human interaction, which I believe the Viennese students study.

I have moreover found that among twentieth century authors on civilization (admittedly I only studied European authors) there is, contrary to my expectations, a surprising consensus on what the central element is of any type of civilization: restraint<sup>4</sup>. Hayek most extensively discusses the concept rather late in his life, in the postscript to 'Law, Legislation and Liberty'. There he argues that civilization has become possible through restraint: the restraint of our natural inclinations, our instincts. But also, and that is especially important for Hayek, the restraint on our rationalism, the recognition of the limits of our rational faculties, our ability to know and design. Such restraints he argues have usually come about organically, they are: "a tradition of learnt rules of conduct which have never been 'invented' and whose functions the acting individuals usually do not understand" (Hayek, 1982: 155). Central in Norbert Elias' account of civilization are the interrelated effects of self-constraint and social constraint (constraints by others). And in yet another prominent account the anthropologist Malinowski argues that restraints are central to make civilization possible: "Culture

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<sup>4</sup> Some references to Non-European uses of Elias' civilizing process are collected in Mennell and Goudsblom, 1997.

(...) implies obedience and submission to certain restraints”  
(Malinowski, 1947: 33). And in Freud, too, civilization is considered to be made possible through restraints (Freud, 1930/1946). Authors from different fields share a central element in their analysis of civilization.

What they also share is that they tend to contrast civilization to barbarism, or a state of nature. What is however peculiar to the way we will use the word civilization here is that the escape from barbarism comes at a price. Popper describes this price as the ‘strain of civilization’. Malinowski describes a similar phenomenon when he writes that:

“For all this there is a price to be paid in terms of obedience to tradition. Man must submit to a number of rules and determinants that do not come from his organism but from submission to his own artifact and machinery, to cooperation, and to the tyranny of words and other symbols” (Malinowski, 1941: 188)

This may sound strong, but Hayek and Popper reach similar conclusions. They also believe that civilization comes at a severe price, so much so that we must conclude that man is (at least initially) civilized against his wishes<sup>5</sup>. In this respect we should also mention Freud who agrees that civilization comes at a price, but concludes that this price might become unbearably high. And not only does he believe that the price is sometimes too high, but also that the submission to these norms and the repression of our instincts can lead to mental problems (Freud, 1930/1946).

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<sup>5</sup> Hayek also cites the anthropologist Geertz in support of his thesis.

This consequently means that freedom for all these writers (with the possible exclusion of Freud) is only possible through restraints: freedom is made possible by civilization. Civilization, the norms and institutions which regulate human interaction, enable us to be free. A good example of an institution which enables freedom is the division of labor. By the division of labor the possibilities for human flourishing multiply, but it does mean that we become dependent on others, and that we will only produce a small part of the wide array of goods we desire (although that part in abundance, so that we can trade). And freedom in this perspective of the students of civilization is thus made possible because the individual and his fellow individuals follow cultural norms. Our freedom is dependent on the fact that other people share our civilization, and do not permanently revolt against it.

Understood as such freedoms are common goods, they come about because various individuals accept certain institutions and subject to certain norms and rules. I like to illustrate this with the freedom of speech, which is increasingly interpreted as the *individual* right to say whatever is on one's mind. The perspective of the students of civilization on such a freedom would be very different. They would, first of all, stress the common language which underlies communication, and which is essential to exercise speech meaningfully. Secondly they would emphasize the fact that freedom of speech can only exist if we restrain ourselves, that we provide others with the space to express their opinion. Freedom of speech in other words is a shared freedom which can only come about in a civilized conversation, in which certain norms regarding the art of conversation are observed. Freedom of speech does not entitle every individual to the unrestrained right to say everything he pleases, when he pleases. This might not mean a very significant

difference legally it would make much in difference in the practice of conversation, in how this freedom is embedded in conversational norms. It also highlights that this freedom is a common good, which can only come about if individuals comply with certain norms (although norm-following will never be complete). This view is illustrated by Elias with a conversation between Goethe and fellow German poet Eckermann. Eckermann once said to him: "I give open expression to my personal likes and dislikes", to which Goethe responded: "One must seek, even if unwillingly, to harmonize with others" (quoted in Elias, 1939/2000: 30). In other words, sustaining common freedoms means restraining ourselves.

Another common complaint against civilization is that it suggests a process of natural development and especially of progress. For the authors we will analyze in this book that is not at all the case, they are very aware of the possibility or the danger of regress. Hayek speaks of a revolt against civilization and the often gloomy Mises repeatedly fears the destruction of the Western civilization altogether. And the reason for Malinowski to write about freedom and civilization is because he too fears that our civilization is in danger. Such fears are clearly evident from the title of Popper's 'The Open Society and its Enemies'. And Norbert Elias has written extensively on the possibility and actual decivilizing process in Germany (Elias, 1996). In fact an important argument of this book will be that the Viennese students of civilization shifted from a belief in gradual (natural) progress in civilization, to a belief that their civilization was in danger, and that they had the duty to protect it. This consequently means that for them, as for Malinowski, Elias and to the later Freud, the civilizing process was a positive process. Or as Popper would put it dramatically, civilization and the restraints on



ourselves were the price humans had to pay, the ‘cross we had to carry for being human’ (Popper: 1945: 176)<sup>6</sup>.

### ***3. Why civilization?***

My purpose in this book, however, reaches somewhat further than reinterpreting the Viennese students of civilization. At certain points I will attempt to show that the perspective of the Viennese students of civilization is a fruitful way of understanding the economy and more broadly our civilization. In those sections I will further explore the themes discussed in the preceding chapters and attempt to connect the Viennese tradition to contemporary authors on these subjects. So why, you might ask, should we be interested in studying civilization, reconsidering how we think about markets, and the role of the scholar in relation to his object of study?

I have three reasons for believing so, or at least I will restrict myself to three reasons in this introduction. Reason 1: The market process has cultural effects, and it dependent on a certain ‘market culture’ for its continued existence. To give but one example of the importance of this market culture, the arguments for (free) trade advanced in the seventeenth and eighteenth century were part of a moral discourse in favor of exchange and in opposition to conquering land through war<sup>7</sup>. Various progressive authors argued that a society in which war is not accepted as a means of appropriation will be more

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<sup>6</sup> A possible breakdown of civilization or a decivilizing process is further discussed in the concluding chapter.

<sup>7</sup> The paper which paradoxically has made me most aware of this is Neurath’s ‘War Economy’ paper, which takes very serious the economic benefits of war (Neurath, 1919/2004)

conducive to a market economy than one in which this is not the case. An idea which lives on to this day in the economic belief that market societies work better if property rights are respected and protected. That market societies function better if supported by a certain morality might not be very controversial. The former part of my claim is perhaps less widely accepted. But I think a little reflection will make it clear to everyone that markets have cultural (including) moral effects. If we frequently engage in market processes than this will shape our culture, it will for example influence our level of trust (for better or worse). Or it will change how we value other individuals. And market societies also tend to foster a culture in which effort is praised, instead of one in which for example social status is important. Embedding the economy in civilization I think allows us to take these interactions seriously, without resorting to speculative ethics. Economics is already about valuation of goods and the work of others, so to argue that such valuations are both an input and an output of economic processes should not come as a surprise, or be all that controversial. In cultural terms we might say that market societies thrive better in some civilizations than in others, and our civilization is partly shaped by the relative importance and character of market process.

Even though this broadens our domain of study it does not mean that economics is all of a sudden a part of ethics. I have struggled for a long time with the question how these Viennese students of civilization could combine a claim of neutrality or at least impartiality with support for free markets. In fact this has puzzled me more widely when I studied economics, which claims to be value-free but at the same time seems to support market institutions. Now the solution to this riddle is not easy, I also do not think that I have developed a definite answer. But I think the

tension can at least be better understood if we realize how central valuation is in economics. And the argument that the Viennese students of civilization advance is all about valuation. The Viennese students of civilization argue that market processes collect (as it were) a variety of individual valuations; they allow valuation to take place. Without valuation we would have no basis to make decisions, we would not know how to weigh the options (rational choices would be impossible). So without valuation there would be nothing left of our basis for economics *and* ethics (see especially Hayek, 1962). Ethics is clearly more about how we *should* value than how we *do* value. But still to make ethics work we need the comparison between both: between how people *do* value and how they *should* value. The argument by the Viennese students of civilization is that the market is an essential part of our civilization or culture, because it is where such valuation process primarily takes place. Their argument is thus not (always) pro-market in the sense of pro-market and anti-state, but it is pro-market in the sense that it stresses the importance of the process of interactive valuation which takes place on markets. They do not necessarily argue for markets, but they argue that valuation is central to human interaction, and that markets are a very useful, perhaps uniquely useful, means to coordinate these valuations.

Reason 2: Social science is different from natural science to the extent that the social scientist is always part of what he is studying. Now this point is of course a kind of commonplace in methodological writings on the social sciences, and even of some relevance in the natural sciences, especially in quantum physics. Already in the 1930's the Viennese economist Oskar Morgenstern argued that economic prediction was impossible because this prediction would become part of

the economy it was attempting to predict. A well-respected economic prediction would defeat itself, Morgenstern argued, or on the contrary it would become a self-fulfilling prophecy. The argument I wish to make, which is very much inspired by the Viennese, goes somewhat further. It is an argument that we are part of the culture we are attempting to study, and that this implies limitations and possibly even responsibilities. Let us start with the limitations. Our perspective is always limited by the institutions we know and by which we were civilized. And more generally the Viennese students of civilization argue that we cannot fully know or understand our civilization, and hence we should be very careful in trying to reconstruct it rationally. The organically grown institutions often contain a lot of knowledge, which is not always easily accessible to the student of civilization. To emphasize the limitations of the student, the Viennese place culture between the instincts which we call nature, and our rational faculties. Hayek argues that culture enables the individual; cultural institutions such as language and markets 'make us intelligent'. Intelligence for them is a cultural product, and that implies limitations to what we can know about that culture. In other words we cannot step outside our own civilization to observe it from outside as it were.

The Viennese students of civilization (with some variation between them) however also argue that we bear certain responsibilities to that civilization. In this book I will show how, when their civilization is under attack, these scholars attempt to defend civilization. First against the overconfident rationalism they associated with socialism and later against the threats of fascism and irrationalism. This defense in time of need is actually part of a longer tradition starting with Menger who already argued that it is the 'calling' of every social scientist to test

the institutions of our civilization for suitability and to improve these institutions where possible. So more than just being the social scientist enabled and limited by his or her civilization, the student bears certain responsibilities towards it.

Reason 3 is perhaps somewhat more indirectly related to civilization, but it builds on this last point about responsibilities. Knowledge, scientific or of some other type, requires cultivation or it will like a civilization or heritage of any other kind crumble and ultimately disappear (remember the ruins in Willink's painting). I do not suspect that many will disagree with this rather general statement, but they might not draw the full implications from it. I think it has far-reaching implications for the way we practice our scholarship. It first of all raises questions about how to cultivate various types of knowledge. It raises questions about the institutional setting in which this is best achieved. The Viennese students of civilization for example worked outside of academia, in social circles with broad concerns as I will show in more detail. It should also make us reflect on the increasing emphasis over the past decades on the progress of knowledge within economics and other social sciences. It in many ways reflects the reformist zeal of the rationalist of which the Viennese students of civilization are rather skeptical. Building on their arguments I think we quickly realize that traditionally the scholar's task is not only to improve our knowledge, but also to preserve it, to act as its custodian. In Michael Oakeshott words: "to acquire and enlarge will be less important than to keep, to cultivate and enjoy" (Oakeshott, 1962: 169). And perhaps we should be hesitant to throw entire traditions of economic knowledge out because they do not utilize our contemporary methods, or current theoretical assumptions. The Viennese warn repeatedly during the interwar period,

and earlier, against attempts for radical or revolutionary attempts to rationalize or overthrow traditions and norms. They argue that these institutions are only imperfectly understood, and that the knowledge contained in them, or produced by them is of great value. We could expand that argument to knowledge, we should warn against over-optimistic attempts to revolutionize fields and traditions of knowledge, and perhaps we also have a role as custodians of the knowledge which has been passed down to us. There should be room in any field of knowledge not only for those who improve, but also for those who reflect, dare I say protect. To use Carl Menger's words again to test for suitability the knowledge which has been passed down to us.

I have tried to adopt this attitude when writing this book, there is more attention and space for reflection on existing traditions of economic knowledge than on progress. But it hopefully also shows that the reflection on older traditions of economic knowledge is far from a passive process. Just as any other type of heritage conservation it is an active process, which poses acute questions about what to preserve, what to cultivate and inevitably what to neglect. This process of cultivation forces us to relate ourselves to the knowledge of the past, instead of conveniently ignoring/accepting it. I like to believe that our (economic) knowledge is like a city which consists of older buildings next to new architectural highlights, where the new buildings have sometimes replaced the old, and where they are sometimes extensions of older parts of the city. The city of modern economics however looks more like those cities which were run down by the modernist architects, in which the old had to make way for the new, and hardly a trace of the old foundations is left. Luckily most of that older economic knowledge is not yet completely lost, like some of these architectural highlights of the

past. The older parts of our economic knowledge, however, are often neglected or forgotten.

This is not to say that there has been no cultivation of the Viennese tradition, in fact that tradition has received quite a bit of attention over the past decades. The reflection on the Viennese economic tradition has tended to focus on its methodological individualism and even more prominently on its free-market conclusions. It has proved a great inspiration to American libertarians who felt closely related to the Viennese economic tradition. I have greatly profited from this renewed interest in the Viennese tradition, primarily through the enormous resources which are once again widely available online and in print. And I have benefited greatly from the emergence of an extensive body of secondary literature on the Austrian school that accompanied this renewed interest. But I will take a rather different perspective. Rather than focusing directly on the individualism or free-market conclusions of the Austrian school, I focus on the different style of economics they practice, the way they envision economics as part of a wider study of civilization, and how they relate themselves as scholars to their object of study.

#### ***4. Interpreting the Viennese or the Austrians***

So how does my account of the Viennese students of civilization precisely differ from other narratives about what is usually called the Austrian School of economics? To examine these differences I will first discuss the legacy of the Austrian school of economics. There are really two legacies of the Austrian school of economics. The first legacy is within economic theory, while the second legacy is closer to practical

politics and political philosophy. A somewhat separate legacy is emerging around the work of Friedrich A. Hayek who, since he is so central in this book, will be discussed in section five.

Even within economic theory the legacy of the Austrian School can be divided into two strands. One strand believes that the contributions of the Austrian school are mainly of historical interest, while there is also a group of scholars who identify themselves as 'Austrian', and who attempt to keep this tradition alive and relevant. This latter group has been growing since the 1980's, but is still operating at the margins of the economics discipline.

The former group can perhaps be best summarized by looking at some standard histories of economics. In histories of economic thought the Austrian School of economics is primarily discussed because of their contributions to marginal analysis. Eric Roll's history is typical in dealing with the Austrian economist primarily as contributors to marginal utility analysis (Roll, 1973). He discusses a group of first generation marginal analysts, of which Carl Menger is a distinguished member along with other scholars such as Gossen, Jevons and father and son Walras. Carl Menger stands out from the other contributors of the first generation by being concerned with a general system, and developing a fully subjective theory of value. Menger's disciples Böhm-Bawerk and Wieser are then treated together as solving some 'marginal' problems, which Menger had left open in his own work. Wieser's main contribution in this story is his development of a theory of costs on a subjective basis and the extension of Menger's marginal analysis of distribution. Böhm-Bawerk on the other hand is praised for extending marginal and subjective analysis to interest and capital, but as many other commentators agree he only partly succeeded in these efforts. The history by Ekelund and Hébert is



one of the few which also considers the later generations with a special focus on competition and market processes (Ekelund and Hébert: 1983). Characteristic of this type of approach, as exemplified in the histories mentioned above, is that the focus is almost purely on the contributions to economic theory as an autonomous body of knowledge. The Austrians are understood as modern-day economists with some alternative views. A prime counter-example is the recent book by Robert Leonard who has constructed a wonderfully detailed and localized history of the mathematical economists from Vienna (Leonard, 2010). His book is not merely concerned with the contributions of the mathematical economists to the wider body of economic theory. He rather presents the mathematical economists as fascinating thinkers in their own right, embedded in the rich interwar and highly politicized context of Vienna, thinking simultaneously about parlor games, politics and economics.

The focus on the 'economic' aspects of the Austrian economists is also predominant among those who consider themselves to be part of the modern Austrian School or the Neo-Austrians. There are very good overviews of what they consider to be the Austrian legacy (Kirzner, 1987, Boettke, 1994 and Boettke, 2010)<sup>8</sup>. And while they certainly are more widely interested in the contributions to economics of the Viennese students of civilization, they, too, do restrict themselves to economic issues. Especially subjectivism, methodological individualism, entrepreneurship, market processes, the role of uncertainty and information and the nature of competition receive ample attention within this neo-Austrian tradition. And while there is sometimes a tendency towards political economy (concepts like capitalism and

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<sup>8</sup> For a great collection of historical texts see Littlechild (1990, 3 volumes).

socialism are much more common in this tradition than elsewhere in the discipline of economics) they rarely attempt to include cultural or social aspects. For some this reflects the belief that economic principles are far more important, while for others it means that they only attempt to explain a certain domain of society. On the other hand what has been called the 'Austrian revival' has led to an increasing interest in the original context in which the Austrians wrote, with various authors wondering about the 'Austrianness' of the Austrian school (Craver, 1986; Smith, 1990; Koppl, Horwitz & Desrochers, 2010). Nevertheless the emphasis in this 'Austrian revival' has been on the study of the economy, rather than the study of society or civilization.

This kind of uneasiness about the 'non-economic' is wonderfully demonstrated in Blaug's classic history of economic theory (Blaug, 1962). Blaug treats the marginal revolution mainly through Jevons and the only time that the Austrians take centre stage is when he discusses theories of interest. Then, however, hidden away in a technical discussion of marginal utility theory there is a discussion of the political significance of marginal utility theory and Blaug suddenly shifts gears. He argues that: "It was the Austrian School that was markedly conservative and given over to attacks on socialism and the espousal of laissez-faire. The aversion to radical politics was a characteristic note in Vienna seminars, just as interventionism and a bored attitude to Marxism was characteristic of the Cambridge economist" (Blaug, 1962: 283). Seemingly out of nowhere we are in the middle of a political economic debate, where marginal analysis was not only a contribution to pure economic theory, but also had political and social significance. What perhaps stands out most is Blaug's phrasing 'given over to', as if such non-economic views were merely subjective, part of an undesirable

emotional involvement which was absent at Cambridge. Blaug nonetheless seriously considers the idea that marginal analysis and some other characteristics of economics around 1870 were due to social and political changes. He continues to argue that: "If the argument is that politics entered into the development of modern economics, one can only concur" (Blaug, 1962: 283). Unfortunately the reader is left guessing why and how. Within Blaug's work in which extra-economic factors are almost wholly absent, the reader is mainly puzzled by these remarkable sentences<sup>9</sup>. Especially since only one more line is devoted to the subject: "But the idea that modern economics has no other *raison d'être* than to provide an apologetic for capitalism is too farfetched to be entertained".

Blaug's treatment is perhaps typical for the attempts of economists to keep matters political out of their work, and field. Contrast that to what historian Tony Judt has recently argued, in his book 'Ill Fares the Land' about the fate of social democracy: "We are the involuntary heirs to a debate with which most people are altogether unfamiliar. If we ask who exercised the greatest influence over contemporary Anglophone economic thought, we shall find that the greatest influence was exercised by a handful of foreigners, all of them immigrants from central Europe: Ludwig von Mises, Friedrich Hayek, Joseph Schumpeter, Karl Popper, and Peter Drucker" (Judt, 2010: 97-8)<sup>10</sup>. Now Judt here uses the term 'economic thought' but it becomes clear that he sees that influence as much broader from philosophy of science, to political philosophy and from economics to management

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<sup>9</sup> Later editions do consider some more extra-economic factors, but not many. Blaug's history is very much an internal history of economic thought.

<sup>10</sup> Peter Drucker is a scholar famous for his work in management, but we will also meet in the chapter in which we examine the response of the Viennese to the rise of fascism.

studies. But what has been their influence? Judt believed that “the Austrian experience has been elevated to the status of economic theory [and had] come to inform not just the Chicago school of economics but all significant public conversation over policy choices in the contemporary United States” (Judt quoted in Homans, 2012)<sup>11</sup>. Judt felt that the Austrians had unjustly reduced debates about social policy to a dichotomy between individual freedom and central state planning. This dichotomy, he argues, has over time killed all serious attempts at a social-democratic or ‘third-way’ alternative in the United States.

Another scholar critical of this legacy, Mirowski has recently argued that Hayek has shaped much of the post-war policy discussion through the Mont Pèlerin society; a society of scholars, intellectuals and journalists which influenced entire academic departments, and spawned various think-tanks. Mirowski argues that the Austrian School and Hayek more specifically has played a formative role in the establishment of what has come to be known as neo-liberalism (Mirowski, 2009). An ideology in which the belief that markets can be constructed is central according to Mirowski. These constructed markets can be employed to govern, and will replace alternative types of social relations and modes of governance. An ideology according to which the market even has the power to discipline states, although paradoxically enough the state is able to construct markets (Mirowski, 2009: 434-7). To give an example: The common market created in the European Union can be seen as both created by politicians to govern the European economy, and aimed at disciplining politicians. The

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<sup>11</sup> In these two quotes by Judt one is perhaps struck by a rather negative attitude towards these ‘foreign immigrants from Austria’. Judt is certainly trying to maximize the distance between us and them, to make clear that we have little to learn from these men from a far and distant place.

underlying ideals of the creation of the common market and a common currency was not just to create one European market, but also discipline the economies and the politicians of the (southern) European states.

That is one end of the political spectrum, where Hayek and other Austrians are heavily criticized for the role in the formation of modern (neo-) liberalism. They are also heralded by various libertarian groups in the United States. Those groups believe that the Austrians, including Menger but often excluding Wieser, are unique defenders of individual liberty, and staunch opponents of any kind of socialism. For them it is of crucial importance that Hayek maintained close personal contact with Margaret Thatcher. And that her as well as Reagan's policies were (supposedly) heavily influenced by his views. Thatcher even proudly proclaimed that she always carried a copy of 'The Road to Serfdom' around. A recent biography of Mises labeled him 'the last knight of liberalism' (Hülsmann, 2007). And one could continue on with examples.

But such political uses of the Austrian legacy are often quite far removed from to the original intentions of the Viennese. In modern American libertarianism the Austrian legacy is often coupled with a strong belief in the capacities of the individual. As such it is at least as much American as it is Austrian, for the Viennese repeatedly warned against such optimistic individualism. But more generally one wonders if it has never struck these libertarians as odd that they have associated themselves with a group of scholars who were on the whole sympathetic to (and later nostalgic about) the Habsburg *Empire*. Even though Mises, and to a lesser extent Hayek, has been very critical of the state and state power, their vision was never one in which this state would be absent.

Mirowski's association of Hayek with the view of markets as constructs which can be designed completely ignores Hayek's criticism

of precisely this view<sup>12</sup>. But a more general issue with these political uses of the Austrian legacy is that they tend to treat it as an ideology, an article of faith. And hence they ignore that the Viennese primarily sought to study markets and our wider civilization, rather than to formulate political ideals. Now such interpretations are not wholly surprising; there are definitely elements of an ideology present in the work of the later Viennese. Hayek attempts to write a constitution of liberty, which clearly indicates that we are dealing with more than analysis. And Mises increasingly emphasized the a-priori foundations of economic knowledge. This has led to vehement debates which certainly suggested that one was dealing with articles of faith, rather than with arguments. That, however, should not obscure that their most important contribution was a scholarly one. It was a contribution to our economic knowledge, and the appropriate way to study the economy.

What is perhaps most striking is that these two legacies co-exist, without many attempts to integrate the political analysis with the economic analysis. This brings us back to the matter at hand: how my interpretation of the Viennese students of civilization differs from that of other accounts. Firstly it differs in that it refuses to treat them as economists, or political philosophers. In fact they are neither, they study our civilization as a whole. And they are neither scientists nor ideologues, but interested observers and interpreters. In the history of economics there is the famous Adam Smith problem: how is it possible that the same man who wrote a book about the wealth of nations, in

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<sup>12</sup> When Mirowski writes that freedom can only be negative in the sense of Isaiah Berlin for the neoliberals he also misses a crucial points of the Viennese legacy (Mirowski, 2009: 437). As I will show in later chapters, and have already done briefly above, freedom according to the Viennese is always of a positive kind. It is civilization which enables freedom. And certainly 'free from external constraints' has no meaning in this tradition, for freedom is enabled precisely by accepting certain constraints.

which individuals (and states) pursue their self-interest, also wrote a book about the importance of our moral sentiments. A problem now considered irrelevant because they two books are best understood as an organic whole, the one supplementing the other. Let us not walk down the same path regarding the Austrians and attempt to isolate their economic theories from their wider study of our civilization (including moral sentiments and the restraints on these), only to be forced to reconnect them later on.

As such one might be tempted to think that my interpretation has elements in common with Heilbroner's notion of 'worldly philosophers'. Heilbroner, a student of Schumpeter, argues that the most interesting economists of the past also had a vision which allowed them to see further than others. And certainly I find many agreeable things in Heilbroner's work. But he tends to emphasize the fact that these worldly philosophers would be able to master our economies, and to fully understand both our contemporary society and its past: "When the economists were done, what had been only a humdrum or a chaotic world became an ordered society with a meaningful life history of its own" (Heilbroner, 1953: 7)<sup>13</sup>. In his rather dramatic history the worldly philosophers are turned into masters instead of remaining students.

My emphasis on the notion of civilization is inspired by my reading of them, and it is supported by the wide-ranging literature on the intellectual culture in Vienna during the first half of the twentieth century. I know however of no economic or political narrative which places this emphasis on the notion of civilization. By emphasizing

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<sup>13</sup> Or earlier: "Yet it was the faith of the great economists that just such seemingly unrelated threads could be woven into a single tapestry, that at a sufficient distance the milling world could be seen as an orderly progression, and the tumult resolved into a chord" (Heilbroner, 1953: 6).

civilization as a unifying theme I hope to bring their ideas closer to their original context, but especially closer to their original intentions, although I am afraid that some of these efforts will certainly be undone by my emphasis on the contemporary relevance of thinking about the economy as part of our civilization. In this sense the book is a balancing act between two ideals. On the one hand the ideal to demonstrate the contemporary relevance of the insights about civilization and economics of the Viennese, to show that there are alternative ways of understanding the economy. And on the other hand the ideal of showing what they really meant, and how their work is part of a larger Viennese and Central-European cultural atmosphere.

### ***5. The conversations about Hayek***

The most famous Viennese of all the students of knowledge I will consider is undoubtedly Hayek. And from recent scholarship there is starting to emerge a full picture of his body of work. By now there are three intellectual biographies about him by Hennecke, Caldwell and Ebenstein, as well as a book which contains the extensive interviews conducted with Hayek on his life and work (Hennecke, 2000; Caldwell, 2004; Ebenstein, 2003; and Hayek, 1994). And on the more political side of the spectrum Jeremy Shearmur has written an insightful book on Hayek's liberalism as a living research program (Shearmur, 1996).

As several reviewers have pointed out Ebenstein's intellectual biography unfortunately lacks a coherent narrative about the intellectual development of Hayek (Horwitz, 2005; Howson, 2006). It is rather a collection of fragments on various debates in which Hayek engaged, from which it is difficult to figure out how the various elements



of Hayek's work fit together. And it remains unclear how we best can best understand his body of work as a whole. Hennecke in his German biography of Hayek explicitly states that he does not offer an overarching narrative, but only the stepping stones towards a comprehensive perspective. To some extent Hennecke is selling himself short; I certainly profited most from his biography. His command and range of sources is impressive and his observations are often very insightful. More importantly I consider his idea of Hayek as maturing towards a liberal 'Sozialphilosoph' as an attempt to come to grips with his work as a whole, which is not too different from my own interpretation. Hennecke, like I am here, is looking for the appropriate concepts to capture the Hayek and the Viennese tradition. He furthermore recognizes the importance of *traditions* within Hayek's work, a step up from so many other authors who simply assume that Hayek is best understood as modern social scientist.

A coherent narrative is present in Caldwell's intellectual biography<sup>14</sup>. Caldwell emphasizes the journey of Hayek from Vienna to London, to Chicago and later to Germany, but also his journey from business cycle theory and methodology to the role of knowledge in society and political philosophy, towards complex systems and emergent orders. More importantly, I think Caldwell poses one of the central questions regarding Hayek. He asks how we make sense of Hayek's body of work as a whole: "These sorts of violent twists and turns in research interest cry out for explanation. Is it possible to make sense of Hayek's journey?" (Caldwell, 2004: 7). In the way that Caldwell

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<sup>14</sup> Caldwell has also published an earlier paper 'Hayek's Transformation', but from a comparison between the arguments in the book and the article it seemed clear to me that Caldwell's position in the later biography is more balanced (Caldwell, 1988), see also Foss (1995).

poses the question, we also already find part of his answer. He thinks of Hayek as taking ‘violent twists and turns’, and later in the book he indeed argues that there is a particular point in time from which Hayek’s intellectual interests seem to spring in many directions. Caldwell especially stresses the importance of Hayek’s 1937 essay ‘Economics and Knowledge’, and the wider intellectual interests which it sparked in his work. What emerges from Caldwell’s biography is an image of Hayek the economist pre-1937 and Hayek the broad scientist post-1937, who was not only an economist but also a methodologist, an evolutionary psychologist, a complexity theorist and a political philosopher<sup>15</sup>.

That thesis seems to me to be problematic for a number of reasons. Firstly the intellectual environment in London was much narrower, than it had been in Vienna (Hayek latter commented that “I had become a little tired of a purely economics atmosphere like the London School of Economics”). So even if the 1937 essay was a turning point it reflected concerns which had emerged much earlier in Hayek’s mind, although not in his published work. Secondly it fails to explain Hayek’s motivation for writing the ‘Road to Serfdom’ which is not directly related to the 1937 article. It is one thing to develop broader scientific interests, but what sparked the political interest?<sup>16</sup> And thirdly it emphasizes, or rather assumes the existence of clear disciplinary

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<sup>15</sup> Caldwell’s explanation for this conclusion exemplifies his lack of emphasis on the Viennese context. He writes in a footnote: “When I say that Hayek turned away from economics, I do not mean that he would never again write about economics. I mean simply that, prior to 1936, all his published writings were on economics; afterward, his interests were broader” (Caldwell, 2004: 231). As I show in chapter eight the publications were only of secondary interest in the intellectual culture of Vienna, in which the circles and seminars were primary. Those conversations were renowned for their breadth, and we know enough about these conversations in Vienna to claim with confidence that Hayek’s concerns had never been narrow in Vienna.

<sup>16</sup> The clear distinction made here between the two should not obscure the fact that I believe there is no strong distinction between them.

boundaries that Hayek is crossing. But such boundaries did not exist in the intellectual environment in which Hayek came of age: interwar Vienna. For Caldwell Hayek remains a scientist to the end. As he writes towards the end of the introduction to his intellectual biography: “But it would take nearly a lifetime of scholarly work before his particular vision of what it meant to do scientific economics would finally emerge” (Caldwell, 2004: 9).

I have two issues with this way of framing the issue as you might have come to expect by now. Firstly I disagree with the emphasis on science, and secondly with the understanding of Hayek first and foremost as an economist, with some additional interests. Perhaps as a consequence of this Caldwell also sees Hayek as mainly solving theoretical puzzles: the role of money in the economy, how a monetary economy develops and adjusts through time, etc. I would, on the contrary, stress the importance of real-world problems to Hayek: the downfall of the Habsburg Empire and the culture associated with it, the rise of socialism and later fascism, the emergence of the welfare state and how entire generations of intellectuals and scientists were misled by mistaken ideas about what it means to do social science.

Nonetheless I think that Caldwell’s question is of great importance: how to understand Hayek’s work as a whole? I have already stressed above how I think that conceptualizing him as a student of civilization helps us to put various elements of his work in place. Not all, I virtually ignore his work on psychology ‘The Sensory Order’<sup>17</sup>. I hope to demonstrate that the other parts can be coherently understood as an attempt to understand how our civilization functions, is maintained and

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<sup>17</sup> Caldwell (2004, chapter 12) offers an interesting analysis as to how this book relates to the wider body of Hayek’s work.

how it develops. Underlying all these inquiries is a deep-rooted skepticism about the capabilities of the individual and the extent to which we can fully understand our own civilization.

This skepticism is given its due prominence by Jack Birner, who has also attempted to understand Hayek's work as a more or less unified project. Birner offers an alternative way to understand Hayek's work as a whole. He argues that Hayek set out a research program relatively early in his career (as early as the mid 1920's). And Birner argues that Hayek stuck more or less to this program during his entire scientific career. Birner further argues that: "Research programmes are defined by *scientific problems* (or better: problem situations, as problems always arise against a particular scientific background) and *methodological principles*" (Birner, 1999: 54, emphasis in original). Now often I found myself agreeing with Birner, for example the way in which he works out the tension between Hayek's individualism and his emphasis on evolution, although I believe that this tension emerges in the Viennese tradition even before Hayek. And I could not agree more when Birner writes that: "If we wanted to characterize the most general common motive in all of these fields, we could single out the idea of knowledge and its limitations" (Birner, 1999: 78). But the emphasis on methodological principles or a particular research program seems overdrawn to me. Birner, furthermore, seems to ignore, or unable to integrate the more political side of Hayek's work into his methodological framework<sup>18</sup>. Overall I think Birner is at his best when he looks for unifying themes in Hayek's work, more so than when he attempts to find a particular consistent research program. What remains stable in

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<sup>18</sup> For a more detailed criticism of the four methodological principles identified by Birner see appendix B in Caldwell, 2004.

Hayek's work is an underlying perspective, a way of looking at the world, not the central problem, the way to solve these, or the actual solutions. What remains central in his work is a concern about civilization and a desire to understand how our civilization can be maintained and improved combined with a highly developed awareness of the limits of human capabilities.

## ***6. Economic knowledge and knowledge about civilization***

The manner in which my account is perhaps most different from other narratives and interpretations of the Austrians is in how it understands economic knowledge. One will find later in this book links with novels, poems and above we started with a painting. The references to art, or culture, are not common in books about economics. They might lighten up the cover, but that is usually it. In my account they will do more, they are part of my interpretation, they contain knowledge as well. It took me some time to understand this. I think there were three sources of inspiration which convinced me that the real issue might lie in what we consider economic or social scientific knowledge. A real issue, not only because it has consequences for how we write as scholars, but also a real issue because it has consequences for how we understand the scholars of the past who do not neatly stick to scientific disciplines. Let me discuss these three first and then reflect on how my view of economic knowledge differs from more standard accounts.

The first source of inspiration was an anecdote told to me by Arjo Klammer about John Hicks. He remembered visiting John Hicks at his

private home for an interview about his work. When idle for a moment Klammer noticed that Hicks' book collection consisted mainly of historical works. And when they came to discuss 'Value and Capital', his magnum opus, Hicks made it clear that he was rather disappointed with the reception of his work. He felt that only the mathematical parts had had real influence on post-war economics, while Hicks had always believed that the real meat was in his understanding of the economy rather than in the equations. In an autobiographical account Hicks recounts how he visits the United States for the first time in 1946 where he is welcomed as a hero, *the author* of Value and Capital, by a new generation of economists: Paul Samuelson, Kenneth Arrow, Milton Friedman and Don Patinkin. With some humility Hicks then continues: "But I am afraid that I disappointed them; and have continued to disappoint them. (...) I have felt little sympathy with the theory for theory's sake" (Hicks, 1984: 287). What Hicks is experiencing is a shift in what is considered to be important economic knowledge. To him that knowledge is what he wrote, verbally, in 'Value and Capital', to a new generation it was contained in the equations at the end of the book.

The second source of inspiration was a more recent book by Thomas Sedlacek, 'The Economics of Good and Evil' (2011). Rather than starting his history of economics book by going back to Adam Smith, François Quesnay or perhaps Aristotle he starts his story about the economics of good and evil with the epic of Gilgamesh. This epic is the first recorded story in human history. He analyzes the story for what it can tell us about the economy in general and about the views of the economy of the Sumerians. By modern standards this is clearly not scientific knowledge; the epic of Gilgamesh is just a story, a myth. Sedlacek, however, is able to extract valuable knowledge from it, about

the relation between nature and civilization and the importance of cities for the economy and civilization more generally. In one of the other parts of his book he analyzes passages from the Old Testament. In Genesis 41 the Egyptian Pharaoh has a dream which Joseph interprets for him as an economic forecast of seven years of abundance followed by seven years of famine. Joseph in turn gives the following advice to the Pharaoh:

“And now let Pharaoh look for a discerning and wise man and put him in charge of the land of Egypt. Let Pharaoh appoint commissioners over the land to take a fifth of the harvest of Egypt during the seven years of abundance. They should collect all the food of these good years that are coming and store up the grain under the authority of Pharaoh, to be kept in the cities for food. This food should be held in reserve for the country, to be used during the seven years of famine that will come upon Egypt, so that the country may not be ruined by the famine.”

(Genesis 41:33-36 quoted in Sedlacek, 2011: 63)

This story from the Old Testament is economic knowledge or advice surely, but it has no place in the history of the academic discipline, at least as we currently write and teach it. One could say that the behavior that Joseph advises here is prudent behavior, to use an old-fashioned term. It is using the things we have wisely, for prudent men: “can see what is good for themselves and what is good for men in general; we consider that those who can do this who are good at managing households or states” (Aristotle, *Nicomachean Ethics*: 1140b). In this sense we are reminded of the origins of the very word economy, which originally meant managing the household. That origin is not found in

scientific knowledge, but practical knowledge of managing the family household and that of the state.

The third source of inspiration was the work of the Viennese students of civilization, especially Hayek. In his work he famously argues that there exists next to theoretical knowledge an important other class of knowledge, the knowledge of time and place (Hayek, 1937). He argues that the most important function of markets is to gather these varied bits of localized and dispersed knowledge in the hands of various individuals. And there are other parts of his work in which Hayek emphasizes the importance of metaphors to understand complex structures (Caldwell, 2004: 226). It is clear that for Hayek scientific knowledge is not the only type of valid knowledge, and certainly not the only type of *valuable* knowledge. It was this insight which I saw confirmed time and again in my reading of the Viennese. What ultimately inspired me as much as it puzzled me was that I continuously was drawn to passages in the works of the Viennese which were hard to classify in traditional categories of economic knowledge. They were not empirical observations, not theoretical statements, nor explanations of these theories. Let me give a few examples:

“All provident activity directed to the satisfaction of human needs is based on knowledge of these two classes of quantities [the quantity of goods required and the quantity of goods at our disposal]. Lacking knowledge of the first, the activity of men would be conducted blindly, for they would be ignorant of their objective. Lacking knowledge of the second, their activity would be planless, for they would have no conception of the available means.”

(Menger, 1871/1950: 80)



“The technical expert mocks the laymen who expect him to produce the miracle, of lifting a weight, for which he does not have the power; similarly the sociologist should mock the oft-repeated proposals, which will produce the greatest imaginable effects in society, before the necessary historical powers to bring these changes about are strong enough.” (Wieser, 1910: 144)<sup>19</sup>

“If we are to understand how society works, we must attempt to define the general nature and range of our ignorance concerning it. Though we cannot see in the dark, we must be able to trace the limits of the dark areas.” (Hayek, 1960: 23)

“Marxism sees the coming of socialism as an inescapable necessity. Even if one were willing to grant the correctness of this opinion, one still would by no means be bound to embrace socialism. It may be that despite everything we cannot escape socialism, yet whoever considers it an evil must not wish it onward for that reason and seek to hasten its arrival.”

(Mises, 1919/1983: 217)

How are we to understand these statements? What type of knowledge do they represent? Some of them are phrased as imperatives, are they therefore moral? Or are they merely variations of a type of prudent advice, just like Joseph gave to the Pharaoh? They certainly emphasize the importance of interpretation of the world, and our own position.

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<sup>19</sup> My translation, in German: Der technische Fachmann spottet über den Laien, der von ihm das Wunder verlangt, eine Last zu heben, ohne die nötige Kraft parat zu haben; so muss der Soziolog über die immer wiederholten Vorschläge spotten, welche die größten gesellschaftlichen Wirkungen hervorbringen wollen, ohne geschichtlich vorbereitete Mächte von genügender Stärke zur Verfügung zu haben.

They also seem to represent a type of wisdom reminiscent of the philosophical or Buddhist aphorisms one occasionally comes across. There is also a methodological element to them, about how scholarship ought to be conducted, but they are certainly not statements of methodological principle.

Below I will suggest that understanding them is central to understand the contribution of the Viennese students of civilization. I will argue that these statements are perhaps best understood as therapeutic statements. They are a kind of therapeutic knowledge that helps us deal with the world, instead of helping us to understand or change that world. It is knowledge that makes us aware of our place in the world, and aware of who we are.

Another way to describe this is to say that the Viennese tradition emphasizes the tragic element of human existence, and of the scholar. Think for example back to Popper's observation about the cross we have to carry for being civilized, or the emphasis on the unintended consequences of human action within the Viennese tradition. That perhaps also explains why I repeatedly felt the need to refer to art, to paintings, novels and plays to understand the Viennese tradition. Including this side of their work in my analysis has, if nothing else, at least helped me tremendously to understand how distinct the contribution of the Viennese students of civilization is.



## Chapter 2 – Trapped between Ignorance, Customs and Social Forces

*The individual in the in the tradition of the Viennese students of civilization*

*Wer seine Schranken kennt, der ist der Freie,  
wer frei sich wähnt, ist seines Wahnes Knecht*

*Who knows his limits, he is free  
who believes he is free, is a slave to delusion  
From the play 'Libussa', by Grillparzer*

The individual is the cornerstone of any kind of liberalism. It is the individual who is endowed with agency, a will, preferences, rationality, sometimes with rights, and somewhat less often with duties. In economics the individual is similarly the central agent; it is he who steers the economy through his decisions on the market. In economics taking the individual as the starting point of an analysis has come to be called methodological individualism. Traditionally this methodological individualism has especially been strong in Austrian economics, whose adherents have put much emphasis on it. It is for example the first methodological principle discussed in the 'Elgar Companion to Austrian Economics'. And more broadly in economics the principle gained renewed interest when macro-economics was criticized for its lack of micro-foundations during the 70s and 80s of the twentieth century. In the context of my thesis that the Viennese are best understood as students of civilization, it becomes a pressing issue how the emphasis on the individual is to be reconciled with the civilization of which he or she is part.

It might seem at first sight that methodological individualism is incompatible with the emphasis on culture, and the limits of the individual. We, however, do know that the Viennese students of civilization have always been critical of the mathematical approach associated with individualist micro- and macro-economics. They have especially been critical of the assumptions of rationality and full information associated with it. Instead the Viennese have stressed the ignorance, lack of willpower and uncertainty that individuals have to deal with. What has received less attention is the extent to which the Viennese students of civilization have emphasized the limited autonomy of the individual. His or her actions are constrained by his or her own knowledge (or lack thereof) by social forces (such as competition and conformity) and by traditions, customs and morals (summed up in the German word *Sitte*). What has received even less attention than this limited autonomy, is that the Viennese students of civilization do not merely think of these 'constraints', as, well, constraints. They reject the idea that cultural, social and economic forces merely constrain an already free, rational and autonomous individual. Instead they argue that such social and cultural ties enable the individual to be free, rational and autonomous. What emerges from their work are interacting people who at the same time constrain and enable one another. This puts seriously into question to what extent methodological individualism helps us to understand the contribution of the Viennese students of civilization. If the explanation of individual behavior is as much dependent on the analysis of these interpersonal norms, beliefs, traditions and institutions (social, cultural and economic) as it is on the decision-making of the individual we might question to what extent we

can truly explain social and economic phenomena starting with the individual.

This insight is not completely new. Madison has put into question the methodological individualism of Hayek and he points out that Hayek was reluctant to use the term (Madison, 1990). Madison also shows the importance of interpersonal processes for the individual. Caldwell in his biography of Hayek notes that Hayek over time emphasized the evolution of norms and traditions more than individual behavior (Caldwell, 2004: 261-88). Hayek himself attempted to distinguish his type of individualism from other types of individualism in his essay 'Individualism: True and False'. The reluctance about individual rationality and reason is, however, an older trait of the Viennese tradition. The importance of the lack of knowledge is an important feature in the work of Menger and the emphasis on cultural and social constraints is especially strong in the work of Wieser. In the work of Mises we can find a somewhat stronger individualism, especially in his attempts to deduce the science of praxeology from some postulates about individual human behavior.

In this chapter I will show the development in Viennese thought about the individual and his economic, social and cultural ties. I will do so in relation to the (political) context in Vienna, the Habsburg Empire and later Central-Europe. The Viennese students of civilization were initially, that is during the 1860's and 70's, quite optimistic about the role of the individual and the extension of human knowledge. That optimism was soon tamed by subsequent political developments in the Habsburg Empire and other European countries, especially by the rise of mass parties and the failure of Austrian political liberalism. Friedrich von Wieser extensively reflected on these developments and he stresses

the importance of moral and social forces which constrain and enable the individual. He also argues that certain social elites will be able to break from these constraints. Hayek is more critical of the role of such elites and emphasizes the importance of cultural constraints which ultimately enable the individual to flourish. Although like Wieser he is well aware that individuals might resist the constraints which are associated with civilization. All these thinkers were thus concerned with a process of civilization of individuals and groups of people. They were not attempting to sketch an idea of the individual in the abstract, or alone on an island (the favorite economic figure of Robinson Crusoe), but they were analyzing how social, cultural and economic forces constrain and enable the individual, and how such efforts interact with these social and cultural norms and economic forces.

### ***1. Emancipating the individual***

To reach the starting point of Viennese thinking about the individual we will take a rather strange detour which will take us to the University of Chicago in 1924. There Albion W. Small, today a little known sociologist, is working hard to establish sociology as a scientific discipline. To prove the importance of the field of sociology he is writing a history of it, with special attention to its early European beginnings. Albion Small finds an ally who, some sixty years earlier had also struggled to establish economics as a scientific field in Vienna, freed from a priori assumptions and freed from the historians who had claimed that economics was within 'their field'.

Any student of Austrian economics will now expect that Albion Small is writing about Carl Menger. But according to Small, it was not

Menger, but Schäffle who was the first to shift the emphasis of economics from things to people. Goods for Schäffle are not ends, but means (Small, 1924)<sup>20</sup>. And in his first major book Schäffle indeed distinguishes himself from many of his contemporaries, by arguing that neither the optimization of monetary nor that of material wealth is the ultimate goal of economic actors or states. Instead, Schäffle argues, the individual aims to fulfill his complete psychological and physical needs via the goods and people around him. This places the individual and his interaction with fellow men at the center of economic analysis. It are his or her goals which determine what economics is all about, Menger would follow suit. As German economists had grasped before Schäffle this meant that economics as a science was no longer just serving the state, and advising the state how to maximize the national wealth<sup>21</sup>. The dedication on the title page of Schäffle's main book 'for educated men of all classes' makes clear that this is not economics for state-officials but for interested laymen (Schäffle, 1861).

Schäffle's economics, however, did not merely start from the individual it also ended with the individual, and this was perhaps a more novel contribution than his starting point: "Economics originates in the inner-lives of people and leads as means for human development back to its origin; therefore its task is not, to produce goods for their own sake, but to bring people the external goods for their worldly

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<sup>20</sup> This historical claim that Schäffle was the first to do so is hard to verify, broad as it is. An alternative strategy is to study the shifts in the set-up of economic (text)books. For Smith wealth comes first, Ricardo focuses on the production of goods, while many German mid-century (19th) textbooks start with goods as human needs. Menger and Schäffle on the other hand start with the goals of the individual.

<sup>21</sup> An early proponent of this view is Hermann in "Staatswirthschaftliche Untersuchungen" (1832).



development” (Schäffle, 1861:4)<sup>22</sup>. Menger concludes similarly that: “Man with his needs and his command of the means to satisfy them, is himself the point at which human economic life both begins and ends” (Menger, 1871/1950: 108). This was quite a break with many of their German contemporaries who stressed the development of the Volk and civilization as a whole. That does not mean that the notion of civilization was absent or unimportant for Menger and Schäffle. In fact even for Menger, who is further removed from this German tradition than Schäffle, civilization remains a central concern. In his most important work ‘Grundsätze der Volkswirtschaftslehre’ the concept of Kultur, appropriately translated as civilization by the English translators, is one of the central concepts. This is often obscured because many later economists have mostly been interested in Menger’s theory of value, exchange and prices.

Menger discusses in various places the importance of civilization, which he mainly employs to distinguish between different levels of development. In his analysis of the origins of money he, for example, shows how different types of money are appropriate at different levels of civilization. And in other places he uses the idea of levels of civilization to distinguish those with a more advanced division of labor and especially more knowledge from those who are closer to a primitive state. He writes for example about the causes which have elevated: “mankind from barbarism and misery to civilization and wealth” (Menger, 1871/1950: 73). The most important place, however, in which

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<sup>22</sup> My translation, in German: "In Wahrheit aber geht überall die wirkliche Wirtschaft aus dem inneren Leben der Persönlichkeit hervor und führt als Mittel menschlicher Entwicklung auf dieselbe zurück; denn ihre Aufgabe ist es nicht, Güter um ihrer selbst willen anzuhäufen, sondern dem Menschen die äußeren Mittel seiner irdischen Entfaltung zu bringen."

Menger uses the notion of civilization in his theory of goods. Menger distinguishes between higher and lower order goods. Goods of the first order are those which can be directly consumed, such as bread. Goods of the second however cannot be directly consumed, but can be used to produce goods of the first order, flour to bake bread for example. While goods of the third order can be used to produce goods of the second order, and so on. Now this may sound rather straightforward and of little importance, but for Menger producing goods of higher orders is a mark of civilization.

He argues that in the most primitive states men are confined to gathering goods of the first order. But as their knowledge increases they are able to produce these goods instead of gathering them. This enables them to bring the supply of them, to some degree, under their control. The extent to which they are able and willing to produce goods of higher orders is thus dependent on the state of their knowledge. And as Menger argues: "Increasing understanding of the causal connections between things and human welfare, and increasing control of the less proximate conditions responsible for human welfare, have led mankind, therefore, from a state of barbarism and the deepest misery to its present stage of civilization and well-being" (Menger, 1871/1950: 74). Both Schaffle and Menger make it clear that the division of labor stressed by Smith is *not* the main driving force of economic development. The true cause of progress is the advancement of our knowledge and consequently our ability to produce goods of a higher order.

Menger's argument extends even further; he does not only want to show that the advancement of knowledge is more important than the division of labor. His discussion of the various orders of goods leads straight into the heart of his theory of the economy and economic goods.

Menger argues that since the production of these higher order goods takes time it becomes necessary to plan for our needs in advance. This planning for our needs in advance is according to him another mark of civilization: "Wherever we turn among civilized peoples we find a system of large-scale advance provision for the satisfaction of human needs" (Menger, 1871/1950: 79). To do so all civilized men must become aware and deliberate about their (future) requirements, and the quantity of these goods they will need: "Lacking knowledge of the first, the activity of men would be conducted blindly (...) lacking knowledge of the second their activity would be planless" (Menger, 1871/1950: 80). Or consider what Schäffle says about the matter: "If human beings, without planning, without calculation, without insight, without foresight, without precautions would act economically, their successes would be limited, without lasting value" (Schäffle, 1861: 22)<sup>23</sup>. The process of civilization is thus not only aimed at producing higher order goods through the advancement of scientific knowledge, but it is a cultural and moral process as well. It requires foresight, calculation, planning, or to use an older word, it requires prudence<sup>24</sup>.

Civilization thus advances when we plan further ahead, when we produce goods of an ever higher order according to Menger. This also leads to an increased division of labor and not the other way around: "The further mankind progresses in this direction, the more varied the kinds of goods become, the more varied consequently the occupations, and the more necessary and economic also the progressive division of

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<sup>23</sup> My translation, in German: "Wenn der Mensch ohne Ordnung des Planes, ohne Berechnung, ohne Einsicht, ohne Vorsicht, ohne Fürsorge für dauernde Befriedigung wirtschaftlich sich bethätigte, dann wären seine Erfolge gering, ohne Nachhaltigkeit."

<sup>24</sup> See also Elias, who argues that increasing interdependence requires more: "foresight, more complex self-discipline" (Elias, 1939/2000: 387).

labor” (Menger, 1871/1950: 73). Most importantly, for Menger, this shows the crucial role of knowledge for a society or community. The community is emancipated from barbarity through this process of the extension of human knowledge about causal processes which allows them to plan for and produce goods of a higher order. The welfare of the individual, the fulfillment of her needs becomes possible through the awareness of and deliberation about future needs.

Menger clearly sketches an optimistic picture of the individual and his community; the community becomes more knowledgeable and is able to plan further ahead. This process does not occur without hiccups. Contrary to those two other marginal thinkers with whom he is often associated, Jevons and Walras, Menger devotes much attention to errors of judgment and planning. He argues, however, that at least some of the uncertainty in human decision making can be overcome through the extension of knowledge. Menger is not very clear what the role of human purpose is in the advancement of civilization. Sometimes it seems he is arguing that increased (scientific) knowledge has advanced civilization. In his analysis of the origins of money, on the other hand, he shows how money comes about as a side-product, an unintended consequence of human action. We will return to this question, but let us now turn to Menger’s brother, Max.

## ***2. Liberal hopes***

Where Carl is most concerned with theory, his brother Max is more practically oriented. He was actively trying to formulate a solution to what in the nineteenth century euphemistically had come to be called the ‘social question’. This social question was pressing in Vienna mostly

because of the recent expansion of the city. The new districts were slums: full of abominable homes with extremely poor hygienic circumstances. Poverty and contagious diseases spread through the city. This social problem had been primarily recognized by socialists and progressive liberals. Intellectually the socialists had found their eloquent spokesmen in Ferdinand Lasalle, who was very popular in the German-speaking world<sup>25</sup>. He expounded a popular version of Marxism in which one of the central elements was that workers were entitled to their share of the profits. While Carl Menger was active as journalist and economic theorist, his brother Max Menger went directly to the laborers and independent shop-owners to explain to them why socialism was not the way forward. To do so he needed an alternative, an alternative answer to the social question. This answer came from Lasalle's main opponent in Germany, the progressive liberal politician Hermann-Schulze Delitschz. He had founded the first 'Genossenschaft' in 1849, a co-operative which was based on the principle of self-help. These ideas formed the basis for Max Menger's lectures for the society of printers in Vienna in 1866.

In his lectures to the society of printers Menger sketches a dreadful picture of everyday life for the workers. Their labor depletes all their energy and stumps their mind. Furthermore they have to deal with a constant uncertainty about the future of their jobs; they are in constant danger of being fired, in which case they would be condemned to stealing and begging. On top of that the work is often dangerous and the workers constantly run the risk of being injured and being unable to continue working (Menger, 1866: 3). Rather than drawing the

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<sup>25</sup> Lassalle would later also be influential in founding the German social-democratic movement.

conclusion from these circumstances, that socialism is the way forward, he attempts to show that there is something fundamentally wrong with socialist programs for the future. These programs deny the basic laws (Gesetze) of the economy. Most importantly they ignore the importance of competition and personal responsibility<sup>26</sup>.

The alternative he offers are 'co-operatives'. Such co-operatives could take on many forms; they could provide insurances against illness or unemployment, they could organize forums for worker-education, and they could publish newspapers, brochures and magazines. The co-operatives would operate based on small weekly or monthly contributions from the workers or shop owners. Aside from such measures that would support the weak and unfortunate amongst the workers, Menger argued such co-operatives could also improve the position of the independent workmen as a group. They could do so by setting up 'Volksbanken' which could provide loans to members for mortgages, or to set up small businesses. These 'Volksbanken' would provide an early form of micro-finance. Another possibility would be, especially for the small shop owners to set up consumer co-operatives, to buy in large quantities and thus save on costs. Through such institutions the people with little capital could compete with big capital. Finally, but certainly not least importantly Max Menger suggests that these co-operatives could become property developers and thus improve the housing conditions for the workers, and lower middle classes.

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<sup>26</sup> These lectures can also be studied as an early instance of the emerging Austrian School of economics, for one of the crucial objections against the plans of the socialist by Max Menger is that they deny the basic laws (Gesetze) of the economy, and he then argues that under the socialist plans the right incentives would not be in place to stimulate competition and its associated virtues.

These initiatives were based on the concept of 'Selbsthilfe', self-help. It was neither the state nor the generosity of the higher classes that was called upon, but the workers would help themselves and each other. The liberals had a special reason why such a scheme was not based on outside help of any kind. Such co-operatives would stimulate the right virtues, to create "independent free men" (Menger, 1866:10). The virtues one needed as independent free man were above all those of thrift and self-control (Sparsamkeit und Selbstbeherrschung). Such co-operatives would teach these men first to save from their somewhat meager income and the long-term goals of housing or starting an own business would teach them self-control. Max Menger believed that such co-operatives could even have additional positive effects. Since they would be democratically governed, the members would learn to express their own interests, and more importantly individuals would learn to subordinate their personal interest to the general interest.

These latter concerns fed right into that other central concern of the late nineteenth century, the extension of the right to vote. It was for the optimistic Max important that workers would develop into responsible and free men in society, liberal individuals who possess the right virtues. These individuals would no longer be oppressed by church, state or moral weakness. It was this ideal that Max Menger held up to the workers he was lecturing. He claimed that with self-help it would become possible for the workers and the lower middle-class to climb the social ladder and to strengthen the middle-class. "There is no better political school than these co-operatives. Such societies are the proper schools for liberal autonomy" (Menger, 1866:53). Max Menger was aware that such processes would take time and patience, as someone close to him wrote about the housing problem: ""A nation [like

ours] that has hardly emerged from the primitive conditions of a natural economy cannot be transformed overnight into a nation of shopkeepers. This nation must be educated to thrift, it must learn the value of its own work and the true value of money (...) it must learn how to delay gratification for a safer future” (Friedmann, quoted in Judson, 1996: 138). Where Carl Menger was arguing that higher order goods would lead to higher levels of civilization, on a more practical level the Viennese liberals were promoting liberal autonomy and virtues such as thrift, prudence and self-control<sup>27</sup>.

Carl Menger, however, was never far removed from more practical issues. In a series of two newspaper articles published in 1890 he explains the compatibility of the idea of self-help with classical political economy. And earlier in his career he had been active as an economic journalist for various Viennese newspapers. Based on his excellent reputation as journalist and economist, he became full professor at the age of 33, the Emperor asked him to tutor Rudolf, the Crown Prince and heir to the throne. It was well-known within the Empire that while Emperor Franz Josef was conservative, his son Rudolf

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<sup>27</sup> Carl Menger was well aware of the social politics of his age and the work on *Selbsthilfe*. In a series of two newspaper articles published in 1890 he explains the relation between self-help and classical political economy: “What distinguishes classical political economy from the school of modern Social-Politiker in the social question is by no means its intention. Both recognize the unfavorable economic position of a large part of the workers, both desire a change in favor of the workers, neither rejects state-support on principle. Their opposition is that the Smithian school expects the improvement of the economic position of the workers to come from the elimination of all state and social factors which negatively influence the competitive position and the income of the workers, while it only deems advisable positive interventions of the state in the economy, when the self-help of the workers and their free associations are not sufficient. The Social-Politiker on the other hand – I mean those, who are seriously concerned about with the unemployed – place more emphasis on positive interventions of the state, all the more since they believe that the majority of the legislation of earlier ages which favored the propertied classes over the poor and weak has already been eliminated” (Menger 1890/1935: 234, my translation).



was more progressive. Rudolf looked with great admiration to France, and especially the ideals of the French revolution. In Menger he found a mentor who could nourish these liberal sympathies but also dampen them somewhat. Menger attempted to instill in the Crown Prince the ideals of the Scottish Enlightenment, more than those of the French. He even took Rudolf on a study trip to Glasgow and Edinburgh to show him where Hume and Smith had worked.

The tutorship of Menger developed into a relationship of mutual trust, and Menger became the personal confidant of the Crown Prince. Through Menger Rudolf also came into contact with founder and editor of the popular liberal newspaper "Neuen Wiener Tagblatts", Moritz Szeps. The daughter of Moritz Szeps, Bertha has written about this first meeting in her diary (28<sup>th</sup> of October, 1880): "Today, while we were sitting in Father's Library after lunch, the butler announced Professor Carl Menger. He has often been to the house before, and has spoken to my father about Crown Prince Rudolf, whose tutor and friend he is. He said the Crown Prince had sent him, to ask him to arrange an interview between him and my father" (Szeps, 1938: 25). Moritz Szeps would provide the outlet for various anonymously published articles throughout the 1880's by the crown-prince. The most influential of these articles was 'Der Österreichse Adel und sein konstitutioneller Beruf' (The Austrian nobility and its constitutional vocation). In this article, which was most likely co-authored by Carl Menger, Rudolf was critical about the life-style of the nobility in his time. He believed them to be lazy, unproductive and concerned with obscurities. He argued that they instead should strive to be industrious, curious for knowledge and productive. Rudolf argued that the nobility had the obligation, the social duty, to lead by example: to be the moral leader to the working classes,

to promote cultural progress and to support the 'Bildung' of its own sons and daughters and that of other classes. One could say that Rudolf argued for an enlightened leadership by the nobility which would help emancipate the masses. With regard to the virtues to be promoted he agreed largely with Max Menger: autonomy, self-control, industry and thrift (Hamann, 1979: 19).

Both Menger brothers, Carl and Max were promoting the process of civilization. Max believed that this could best be done bottom-up, or at least he was doing so, while the crown-prince under the tutorship of Carl Menger emphasized the importance of moral leadership by the upper strata of society. Both realized that this would be a slow process, and that suffrage could only be extended slowly (see M. Menger, 1873 and Streissler, 1994). They hoped that the emancipated and civilized individuals would come to support the new (liberal) constitution of 1861. This constitution was of great political and symbolic value, especially since it limited the influence of the Emperor and increased the power of parliament. Carl and Rudolf had written about the 'constitutional' role of the nobility. And Max Menger had written enthusiastically about 'Verfassungsleben', which can be translated as a kind of 'constitutional life', which he hoped would characterize the lifestyle of those individuals with the right to vote in the Empire. Such dreams however would soon shatter. Rudolf, who committed suicide under mysterious circumstances in 1889, would never succeed his father, whose conservative rule would last until 1916. The liberals failed to secure a prolonged majority in parliament. The stock market crash of 1873 practically meant the end of their influence, and politically the Empire would be under control of Christian-conservative coalitions. In fact such optimistic liberal dreams had always been somewhat tainted.

### ***3. Liberal frustrations***

The new constitution of 1861 was liberal in spirit, but the 'Ausgleich' of 1867 did not only reverse some of these developments, it had also split the Empire into two parts. Hungary dominated by the Magyars was granted a large degree of autonomy. Except for the Emperor who still reigned over the entire Empire, the political unity between Austria and Hungary was lost. More importantly, many of the other peoples of the Empire, there were more than a dozen significant ethnic minorities, demanded similar privileges and at the very minimum a more federalist state. The German liberals in Austria, however, favored a centralist system in which their universal principles could dominate and in which parties were not based around regional or national issues, but around universal issues, such as the social and economic order<sup>28</sup>. As Mises summed up just after WWI the German liberals had been mistaken in their hopes for emancipation:

“They [the Germans] were far from wanting to Germanize all non-Germans compulsorily, but they thought that this would take place on its own. They believed that every Czech and South Slav would try, even in his own interest, to adopt German culture. That these peoples also could develop independent cultures and independent literatures, that from their midst they could also bring forth independent national characters— they did not think of that at all.”

(Mises, 1919/1983: 44-5)

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<sup>28</sup> Spiegel even suggests that Carl Menger was aiming for an economic theory which stressed the common element to all humanity to overcome the nationalistic sentiments in the Empire: “The Austrian School did not start out to rebut Marx, as some students of doctrinal history have surmised, but to fortify the multinational empire of the Habsburgs” (Spiegel, 1983: 532).

This meant that to secure the constitutional life effectively came to mean to secure a German majority in the parliament. It was difficult however to defend this on purely liberal grounds. Nonetheless Max Menger tried to do so. He argued that for stability and order a German majority was needed. The Germans would be able to prevent the Empire from falling apart. The German peoples had played an important historical role in Austria and they surpassed all the other peoples of Austria in “number, Bildung, wealth and entrepreneurial spirit” (Menger, 1873: 39). This advantage gave them a natural prominent role in the government of Austria according to Max. He also argued that the other peoples had not progressed far enough in terms of civilization and they could only be given an equal place in parliament if: “the Czechs, the Poles and the Slovenes would found a political party, which does not completely ignore the current situation in the world and the political ideas which rule this modern world” (Menger, 1873: 41). A cynic might say that Max Menger was willing to grant these peoples political rights if they would become more liberal and centralist.

To illustrate this tension further, one could also point towards the most liberal and respectable paper in Vienna the ‘Neue Freie Presse’, which remained, even during this period of liberal dominance, rather conservative. On democracy it commented in 1866 (so after the liberal constitution came into place): “Parliamentarianism, which twenty years ago still called to rule the world in the spirit of the educated (Gebildeten), has cleared the field for universal suffrage. The result is that like violence deforms the law, so the raw instincts of the masses

terrorize intelligence” (quoted in Franz, 1955: 387-8)<sup>29</sup>. Even one of the most prominent liberal politicians of the age Ernst von Plener had doubts about liberal democracy. In his ‘Erinnerungen’ he argues that John Stuart Mill in his ‘On Liberty’ should have been more aware that the masses were trapped in ignorance and lacked an independent will (Plener, 1911: 380-1). A series of articles in the ‘Neue Freie Presse’ gives us another unique insight into the way in which liberals around 1910 looked back on the developments since the revolutionary years of 1848 and 1861. Friedrich von Wieser reflects in a series of articles on these developments. It is safe to say he did so with much frustration, and this frustration ultimately led him and fellow intellectuals to rethink the role of the individual.

For Wieser the ‘golden age’ of liberalism in Austria was the period between 1861, when the first liberal constitution had come into place, and 1867 when the Ausgleich broke the Empire in half. Only seven years, hardly an age indeed. He argues that afterwards social and nationalistic questions had come to dominate politics and those led to both confusion and partisanship, while the unity within the Empire and within the liberal movement was lost (Wieser, 1907a, 1907b). During this golden era there was a progressive unity among the liberals. In parliament the different powers in society were rightfully represented. This meant in practice that the German minority and the aristocracy were overrepresented relative to their shares of the total population. The landowners still had great power in parliament, but they were willing to support the lead of the liberals in their moderate reform

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<sup>29</sup> My translation, in German: "Der Parlamentarismus, vor zwanzig Jahren noch berufen, die Welt durch Geist der Gebildeten zu beherrschen, hat den allgemeinen Stimmrecht das Feld geräumt, und wie die Gewalt das Recht gebeugt, so terrorisiert der roh Instinkt der Masse die Intelligenz."

proposals and there seemed to be a consensus about the national interest of Austria. Moreover this golden age of liberalism was the only moment in which parliament had the full power to form the cabinet, which traditionally had been done by the Emperor; a privilege that the Emperor regained after the Ausgleich in 1867.

Wieser is aware that this golden age had to come to an end, for it rested on outdated foundations, especially since an increasing amount of taxpayers were not represented in parliament at all. An electoral reform which extended voting rights to a larger share of taxpayers had to take place eventually. This also meant that the number of seats in parliament would be increased. The new situation turned out unfavorable for the German liberals, and for the country according to Wieser. It led to the formation of many factions and new mass parties such as the Christian socialists and various parties along ethnic or nationalistic lines. This was the first great liberal dilemma in the Empire: while the liberals sought to extend the 'political nation' gradually and broaden the civilized and enlightened middle-class, they came to realize that the majority of these to-be enfranchised people would not vote for the liberals.

This however was not the only problem. The new parties that entered parliament, refused to do so on the terms the liberals were expecting of them. They did not primarily seek to promote the general interest, but formed factions around particular class or group interests. It became consequently harder to form stable majorities within parliament. Wieser argues that these new parties were 'regierungsunfähig', unready for and incapable of governing. They did not support the unity of the Empire, in a time when this was much needed. The liberals in Austria found it very hard to deal with these interest groups, who flat out denied the liberal rhetoric and belief that

politicians should attempt to pursue the general interest of the country. And thus Wieser concludes that the Austrian liberal constitution has failed. It had not succeeded in gradually emancipating the middle classes and shaping them into stable supporters of the liberal constitution and the general interest. Instead it had caused the country to become fragmented and to lose its sense of direction, a sense of progress. The Empire and its society had not been ready for the liberal constitution and the extension of franchise. Moreover the newly enfranchised group had lacked the moral leaders who could guide and shape into good liberal citizens<sup>30</sup>.

Wieser concludes that the hopes of the optimistic early generation had not been fulfilled. The working classes had failed to emancipate themselves, and their leaders had also been unable to emancipate them. Part of this was due to mistaken beliefs according to Wieser. Too much had been expected from a parliamentary system:

“However even in the freest democracy, [a] group of leaders has to exist, for otherwise the modern constitution cannot find the social foundation it needs to stay upright. In an aristocratic republic the exclusionary ‘political nation’ directly forms this leading group of the masses, in a democratic constitution in which the ‘political nation’ extends amongst the entire breadth and depth of the people, a special political institution is indispensable, this special political institution is needed to direct and empower the masses.”

(Wieser, 1907c: 3)<sup>31</sup>

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<sup>30</sup> For a very similar analysis written by a non-liberal see Fuchs (1949: 5-39).

<sup>31</sup> My translation, in German: “[Das Königtum erhebt sich in einem einzigen Gipfel über die Massen, eine Aristokratie bildet einen breiteren Gebirgsstock, die Führungsschicht

Where the Menger brothers had hoped that individuals could be emancipated by the right moral examples, by acquiring the right virtues, and the extension of knowledge, Wieser is more skeptical. He argues that the masses (not individuals) will always need leaders to direct and empower them. Wieser is clearly frustrated with the developments since 1848. In fact, instead of a gradual emancipation, he witnesses a radical break, which left the masses without leadership, without guidance, and therefore without a sense of direction. Wieser gives up the hope that the masses will be emancipated any time soon, and he emphasizes that only patience, lots of patience and gradual development can bring these important changes about. Beneath Wieser's analysis lays a conception of liberalism and the constitution which needs to be affirmed time and time again, rather than laying the groundwork once and for all. Just as Max Menger had spoken of a 'constitutional life', Wieser argues that the constitution is a kind of process, which has to be constantly affirmed and organically improved during this process. The constitution is not a procedural prescription; it is a living and continued moral commitment to certain norms and values. Upholding it, cultivating it, therefore requires continued active support by the members of society.

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der modernen Verfassung ist mitunter wiederum nur der alte Ständisch Adel, sie breitet sich aber, je demokratischer das Volk ist, um so mehr aus, sie ist dann um so minder auffällig über die Menge erhöht, sie wird um so leichter durch neue Erhebungen des Volksbodens erweitert], aber selbst in der freiesten Demokratie darf sie niemals fehlen, oder die Rechtsform der modernen Verfassung fände die gesellschaftlichen Grundlage nicht, die sie braucht um aufrecht bestehen zu können. In einer aristokratischen Republik ist die eng geschlossene ‚Politische Nation‘ zugleich das Führungsorgan für die die verfassungsmäßig rechtlose Mass, in einer demokratischen Verfassung ist innerhalb der ‚Politische Nation‘, die nun in die ganze Tiefe und Breite des Volkes ausgedehnt ist, ein besonderes politisches Organ unentbehrlich, um die ganze große Masse handlungsfähig zu machen."



#### ***4. Social forces and elites***

In Wieser's next work, six lectures on freedom, the law and power, those themes are further developed (Wieser, 1910). In the first lecture on external and internal powers he argues that contrary to popular belief it are not the external powers (punishment and armed force) which are the most powerful, but that internal forces are much more important. Wieser argues that customs, traditions and the governing morality (Sitte in German) are the most powerful force in society. These anonymous forces are at the heart of our culture. And this moral constitution, if appropriate, is what really upholds our written constitution (Wieser, 1910: 8). The limits set by the law only become important if they are shared in a certain morality, and in traditions. This is also how Wieser praises the economic theorists of the eighteenth century. They started from individuals who maximized their utility, as far as they were "not constrained by the law or customs and morality" (Wieser, 1910: 17)<sup>32</sup>. But at the same time Wieser feels that there is a tension between the idea of an individual constrained by an inner morality, and the freely acting autonomous individual at the heart of modern economic theory.

At some point Wieser wonders: "Isn't it anachronistic that in the age of the psychological novel economic science still presents a caricature?" (Wieser, 1910: 18). Every single individual in the classical theory is able to break habits, to act against the dominant morality and most of all to invent better ways to produce things. These characteristics Wieser argues are only true for a very select few, the leaders in the society. Only the leaders are able to pave new ways, to experiment, to act against moral standards and to invent new things and modes of

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<sup>32</sup> In German "soweit er nicht durch Recht und Sitte beschränkt ist".

productions. These leaders set an example to the masses. Economic and social processes are thus not characterized by freely moving individuals for but rather by elites, followed by the masses.

That these considerations contained a fundamental dilemma about freedom and liberalism was perfectly clear to Wieser. His last lecture which is devoted to freedom ends with a personal confession in which the dilemma he and his fellow liberals face at the start of the twentieth century is central. The inner, moral problem for Wieser is best expressed by the most important writers of the age such as Tolstoy, Nietzsche and Ibsen. Just as the liberal hero Schiller had written about the dreams of freedom of classical liberalism, these three authors are seeking what it means it to be free around 1900, argues Wieser. This modern ideal of freedom is no longer the external political freedom that the old liberals were fighting for; these modern authors are seeking an inner freedom. They are analyzing what freedom means when most individuals have become absorbed in groups, associations or parties. The opposite of their freedom is no longer political oppression or power as Wieser calls it; the opposite of freedom for these modern authors is the social, the group. The classic liberals had fought against political oppression, but these modern authors are fighting against social and moral oppression.

In his analysis of Nietzsche's work, Wieser concludes that Zarathustra represents individuality, precisely the kind of *Übermensch* who does not care about the opinions of others but seeks its own individual way. But Nietzsche, according to Wieser, understands perfectly well that this path can only be trodden by the few, a small elite endowed with the mental capacities and courage to live such a life. Tolstoy praises the simple, agrarian life; he worships the common

people and their physical life, which contrasts so sharply with his psychic life. But this intellectual life distinguishes Tolstoy at the same time from the people, according to Wieser; it elevates him above the common people, and he becomes their natural leader (Wieser, 1910: 152). Even in the most progressive of these authors, Ibsen, Wieser finds evidence that ultimately Ibsen does not truly believe in the power of the common people. The true belief in the power of morality, the power of Bildung and thus the belief in freedom for all is lost, he concludes melancholically (Wieser, 1910: 153).

The Viennese liberals whom Wieser represents are deeply disappointed about politics and their old ideals. They had truly believed that the masses could be elevated out of their poverty and mental backwardness, that they could learn to be responsible and autonomous individuals. This project failed, and Wieser has little suggestions where to go. His final hope is that the leaders will not turn away from the masses and they will not give up completely. “He, who feels like an Übermensch, does not need to turn away from the masses. He could perform a superhuman task, when he raises the masses, like the prophets have always done” (Wieser, 1910: 154)<sup>33</sup>.

This is also the context from which we should understand the theory of economic development of Wieser’s pupil Joseph Schumpeter. Schumpeter argues that change in the economy is similarly brought about by an elite of industrial leaders, the captains of industry, who dare to go where no-one had gone before. They would be the famous entrepreneurs, who in the economic domain would be the counterpart

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<sup>33</sup> My translation, in German: “Wer sich als Übermensch fühlt, braucht sich nicht von der Masse abzuwenden. Er kann ein übermenschliches Werk tun, indem er die Masse erhebt, wie es die Propheten immer getan haben.”

to the strong political leaders whom Wieser found so necessary in the political domain. This is not the usual way we understand Schumpeter, but if one reads the original German 'Theorie der wirtschaftlichen Entwicklung' the links with Wieser's analysis of the political domain are obvious. Schumpeter argues that only the elite are able to set the economy in motion, to change it. The majority of people lack the mental strength and energy to change their ways, they: "practice what they have learned, carry on inherited ways, in short they do what everybody else does" (Schumpeter, 1912: 125)<sup>34</sup>. Or later: "The effort to stay upright takes up all their energy and eliminates any desire to look further. They simply do not want to go under; they just want to earn their bread in the usual manner. They lack any inclination to try something new" (Schumpeter, 1912: 162)<sup>35</sup>. The entrepreneur or the 'Mann der Tat' as Schumpeter calls him in the original version of his 'Theory of economic development' is completely different:

"In the economic sphere also Der Mann der Tat acts on foreign ground with the same determination and the same vigor as on well-known ground. The fact, that something is not yet done, is no reason for him to hesitate. He does not feel those impediments, which otherwise determine the behavior of economic subjects."

(Schumpeter, 1912: 132)<sup>36</sup>

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<sup>34</sup> My translation, in German: "Das Anwenden dessen, was man gelernt hat, das Arbeiten auf den überkommen Grundlagen, das Tun dessen, was alle tun".

<sup>35</sup> My translation, in German: "Das Bestreben sich aufrechtzuhalten nimmt ihre Kraft in Anspruch und erstickt alle Lust nach weitem Ausblicken. Sie wollen einfach nicht untergehen, das tägliche Brot erwerben in der erprobten Weise".

<sup>36</sup> My translation, in German: "Der Mann der Tat handelt auch auf wirtschaftlichen Gebiete außerhalb der gegebenen Bahn mit derselben Entschlossenheit und demselben Nachdruck wie innerhalb des erfahrungsgemäß Gegebenen. Die Tatsache, daß etwas noch nicht getan wurde, wird von ihm nicht als Gegengrund empfunden. Jene

And Schumpeter makes it clear that this special class of individuals should lead the economy and wider society: “Not just economically, socially as well the entrepreneur should be at the top of the social pyramid” (Schumpeter, 1912: 525)<sup>37</sup>.

At this point it is crucial to realize how far we have strayed from the widely accepted image of the Austrian school of economics, as an individualist school of thought. The social analysis of Wieser is no longer about individuals, but about a small group of individuals, the elites who empower the masses, and who are responsible for change in society. This development does not so much reflect methodological considerations, although both Wieser and Schumpeter are aware of these, but they are influenced by social developments within the Empire. It reflects a belief that many humans are not accurately described as rational individuals, even if these are the individuals described by Menger, prone to make mistakes due to a lack of knowledge or uncertainty about the future.

Now one can, and should, wonder whether Wieser (and Schumpeter) perhaps represent a deviating current within Viennese economic thought, and whether things will be set back ‘in order’ by others. Within the Austrian school there is indeed a tendency to place Schumpeter and the later work by Wieser outside the school, but I believe wrongly so. Instead of rejecting this current, both Mises and Hayek build on it and develop it further (I will postpone a discussion of Mises until the next chapter). What they do not follow, and neither will I,

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Hemmungen, die für die Wirtschaftssubjekte sonst fest Schranken ihres Verhaltens bilden, fühlt er nicht“.

<sup>37</sup> My translation, in German: “Nicht nur wirtschaftlich, auch sozial muß der Unternehmer an der Spitze der gesellschaftlichen Pyramide stehen“.

is Wieser's development of these theories in an increasingly nationalistic German direction.

The critical response to Wieser's theories, however, follows quite quickly. In 'Macht oder ökonomisches Gesetz' Böhm-Bawerk poses the question whether social powers could change the course of the economy (Böhm-Bawerk, 1914/1924). He contrasts economic laws which he compares to natural laws, to the belief that trade unions, capitalists and governments control the economy. Böhm-Bawerk concludes that while such powers could temporarily alter economic outcomes, he especially focuses on the power of trade unions to alter wages, they cannot permanently do so. In the long run the economic laws, especially the force of competition, would be too strong. Böhm-Bawerk too, however, is forced to recognize that external powers can have all sorts of influences on the economy, especially when property rights are altered.

What however stands out most in the response of Böhm-Bawerk to those who claim that social powers can alter economic laws and outcomes, is that he resorts to a dichotomy between nature and conscious human interventions. Where in Wieser's work we find a strong emphasis on social norms and customs, Böhm-Bawerk merely contrasts economic laws (eternal and ever-present) with human attempts to overcome these. One could say that Hayek, inspired by the Scottish enlightenment, combines these two elements. On the one hand he recognizes the strength of economic forces, but on the other hand he recognizes that they can only function when they are supported by norms and customs conducive to a society in which the market is prominent. Wieser claims that the constitution, and political leadership, can only be effective if it is supported by the values of the people, and Hayek extends that theory to the market.

## ***5. Civilization and restraint***

Hayek's great achievement in the rethinking of the individual within the Austrian tradition is to show the importance of civilization as a check on the individual. While he shares much of the analysis of Wieser on the importance of morality and traditions, he is more skeptical of the desire, and even the desirability, of some individuals breaking free from such constraints. Where Wieser's analysis exhibits a longing for change, for an ability to break free from certain traditions<sup>38</sup>, Hayek's analysis is characterized by renewed appreciation for these traditions. But before we delve into the differences let us focus on how much they share.

Like Wieser Hayek refutes the idea of 'economic man'. He argues that it rests on a false rationalistic psychology and that it is only through: "the force of circumstances that he could be made to behave economically or carefully to adjust his means to his ends" (Hayek, 1948: 11)<sup>39</sup>. In the same essay on individualism he credits Adam Smith for focusing not on what man might achieve when at his best, but with finding the circumstances under which he could do least harm. While Menger was still optimistic about the extension of human knowledge and the consequent spread of prudent behavior, Hayek is more concerned with the limits of human freedom. In contrast to Menger's hope for more extensive knowledge, Hayek emphasizes the limits of human knowledge. Instead of assuming rationality to show the efficiency of the market, Hayek believes things to be the other way

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<sup>38</sup> This longing for change is also very strong amongst the entrepreneurs who are at the heart of Schumpeter's theory of economic development; see especially the original German version of his 'Theory of economic development' (Schumpeter, 1912).

<sup>39</sup> Hayek first gave his lecture 'Individualism: True and False' in 1945, it was soon thereafter reprinted in 'Individualism and the Economic Order' (Hayek, 1948).

around. He argues that man is limited in both his concerns and his knowledge:

“This is the constitutional limitation of man's knowledge and interests, the fact that he cannot know more than a tiny part of the whole of society and that therefore all that can enter into his motives are the immediate effects which his actions will have in the sphere he knows.” (Hayek, 1948: 14)

These limitations are overcome by social institutions which enable the individual to do more than he would be able to do alone. They enable him to communicate, to choose, to learn about the value of various means and ends, and to pursue his own goals within a somewhat broader domain. Institutions such as social norms, laws, language, the law and markets enable the individual to act, to act reasonably. Or as Hayek put it later in life: “Man did not adopt new rules of conduct because he was intelligent. He became intelligent by submitting to new rules of conduct” (Hayek, 1982: 163)<sup>40</sup>. Market processes are not made possible because man is rational or possesses all the relevant knowledge, but markets make rational behavior possible and knowledge available. This means that individuals have to accept these institutions and the norms associated with them, even though they frequently do not fully understand their function. More importantly markets are

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<sup>40</sup> Much of this analysis can also be found in chapter 14 of the ‘Road to Serfdom’ where Hayek argues that in the past man more easily submitted to impersonal rules to which he is now more likely to protest and revolt. Individuals often crave for a rational justification for such impersonal rules, but: “But there are fields where this craving for intelligibility cannot be fully satisfied and where at the same time a refusal to submit to anything we cannot understand must lead to the destruction of our civilization” (Hayek, 1944: 204).



institutions, cultural institutions, which enable the individual to act meaningfully. Human agency is made possible through these cultural institutions.

If we think back to our first section in which we argued that Menger and Schäffle changed the start and end-point of economics, we recognize that in Hayek the individual is not the starting point anymore. What is perhaps even more surprising, he is also not the end point. Hayek argues that the submission to constraints is the only way that the individual can contribute to something which is 'greater than himself' (Hayek, 1948: 8). That which is bigger than himself is the civilization of which he is a part. For Hayek it is civilization that enables individual autonomy, and through his actions the individual contributes to that civilization. In no straightforward way can this be called methodological individualism anymore. It also means that Hayek thus responds critically to Böhm-Bawerk. Böhm-Bawerk sketched a dichotomy between power and economic laws, or economic laws and artificial interventions, or the market and the government. But Hayek argues that the most important processes happen in between: they are cultural processes. Economic laws are no longer natural; they are cultural or civilizational processes. They are the (unintended) outcomes of human interaction on markets.

Freedom for the Viennese students of civilization, and especially for Hayek, is not the absence of constraints. Freedom for them is enabled by traditions, morality and institutions to which the individual must submit so that he can be free. This view is already present in Menger, although he is much more optimistic about the amount of individual freedom that the development of civilization will allow to everyone. Wieser makes a distinction between elites and masses. The elites are

able to move freely, free from constraints, and are able to lead the masses. Hayek on the other hand is very skeptical about the role of (especially political) elites who attempt to shape society. He has experienced during the interwar period that this might lead to the destruction of the very foundation on which civilization is built, a theme that will occupy us in the next chapter. He argues that human freedom is necessarily limited by economic, cultural and social forces outside our control (following Böhm-Bawerk). He recognizes that such norms are highly dependent on the support of important parts of society: “we shall never build up a successful free society without that pressure of praise and blame” (Hayek, 1962: 48) (following Wieser). What remains constant is the idea that for markets, or laws (the constitution) to function continued support and submission to these institutions is needed. Max Menger’s phrase ‘constitutional life’ captures this continued affirmation and cultivation beautifully.

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Development, civilization and progress, which had seemed to go hand in hand in the nineteenth century, did not do so any longer at the turn of the century and in the first half of the twentieth. Both intellectual elites and the masses were turning against civilization, and liberalism. Or at least so it seemed to the students of civilization we have been discussing here. That ‘revolt against civilization’ will be at the heart of the next chapter. I believe that this revolt, first analyzed by Wieser, drives the research of both Mises and Hayek, well beyond the interwar years. They sought to understand how the ideals they, and their predecessors, cherished so much could have become so unpopular. When Mises’ wrote

in the 1930's about economic theory he no longer wrote about what it claimed, but rather about why there was some much resistance against it (Mises, 1931). And when Hayek gave his inaugural lecture at the London School of Economics he was concerned with trend of economic thinking, rather than with problems of economic theory (Hayek, 1933). This he would expand into a project about the use and abuse of reason, which sought to understand how the intellectual currents had turned against the institutions which had enabled cultural and intellectual life to foster in the first place. It is to those themes that we will now turn.

## Chapter 3 – The Market: Civilizing or Disciplinary Force?

*On the role of markets in the civilizing process*

*Man is not born free. He is born to a new freedom  
which he can only achieve by taking up the chains of  
tradition and using them, for paradoxically,  
these very chains are the instruments of freedom*  
— Bronislaw Malinowski, *Freedom and Civilization*, 1947

We usually think of the market as a sphere where buyers and sellers come together to trade goods and services. It is, however, well known that within the Viennese tradition the market has also been conceptualized as a sphere where knowledge which is dispersed in society becomes available to other market participants. What however has received far less attention is the fact that the Viennese students of civilization also think of the market in cultural and moral terms. In the previous chapter we have seen that the Menger brothers believed that the market could stimulate certain virtues, and in this chapter we will see how Böhm-Bawerk thinks that the existence of interest promotes not only thrift, but more generally temperance. The idea that the market has moral effects is also prominent in the work of Hayek. This chapter partly takes its cue from the essay by Hirschman who wondered whether the market was civilizing, destructive or feeble (Hirschman, 1982, see also McCloskey, 2006). For the Viennese students of civilization, however, the question is slightly different from that asked by Hirschman. They more or less agree that the market has some civilizing effects, but they live in a society in which the market is

criticized from various sides. Those on the left frequently complain about the irrationality of market processes, and they wish to replace them by more rational economic planning. Those on the romantic right criticize the market process for its un-heroic nature, for lacking a soul and promoting the superficial.

The Viennese students of civilization, however, do not seek to put all the blame on these critical strands. They also critically look at their own tradition and the failure of this tradition both intellectually and politically. They argue that the Viennese liberal tradition had lost intellectual (and political) leadership due to its own passivity and a lack of political ideals to strive for once the constitution of 1861 had come into place. Looking back on the period Hayek concludes: "liberal thinkers turned to problems of detail and tended to neglect the development of the general philosophy of liberalism, which in consequence ceased to be a live issue offering scope for general speculation" (Hayek, 1949: 428).

Another famous Viennese analyst, Karl Polanyi, famously drew the conclusion that society had come to revolt against the free market and that society should once again take control of this market (Polanyi, 1945). The analysis of the Viennese students of civilization is not much different; they also observe a social revolt against the market society. But contrary to Polanyi they seek to resist this revolt; they argue that the market is a fundamental cultural institution of our modern society, an institution which is indispensable for informed decision making, to restrain individuals, and to civilize (or discipline) these individuals. So from this social crisis they seek to uncover the various functions of the market and they show that the market is an essential part of our civilization.

## ***1. Socialism and the social engineers***

As sketched in the introduction of this chapter, the group of intellectuals we are studying operated in a hostile environment during the interwar period. The intellectual atmosphere at the university was dominated by the German-Romanticist Othmar Spann, Wieser's successor Hans Mayer was unable to be a serious counterweight (see also Craver, 1986). More importantly, the intellectual and political sphere breathed socialism. The Viennese students of civilization, sympathetic to liberalism, started to wonder whether this would ever change. They wondered why liberalism had never attracted mass support in Austria, and how socialism had been able to do so.

Both Mises and Hayek argued that socialism had been successful mainly because it had provided a Utopian alternative to the present world, full of suffering. The promise to relieve this worldly suffering had attracted many to socialism. In fact putting an end to such worldly suffering was often the motivation for economic inquiry in the first place. Hayek approvingly quotes Pigou to that extent: "It is not wonder, but the social enthusiasm which revolts from the sordidness of mean streets and the joylessness of withered lives that is the beginning of economic science" (Pigou, quoted in Hayek, 1933: 123). To continue somewhat exaggerated perhaps: "It is probably no exaggeration to say that economics developed mainly as the outcome of the investigation and refutation of successive Utopian proposals" (Hayek, 1933: 123).

What is interesting for our present concerns is that Hayek starts to develop a more general critique of the mindset represented by these Utopian proposals. In the work of Wieser we already find caution about

what is to be expected of the social scientist: “The engineer scoffs at those, who expect from him the miraculous power to lift a weight, without having the necessary power available; that is also how the sociologist should scoff at the oft-repeated plans to create the largest social changes, before the necessary historically-prepared powers of sufficient power are available” (Wieser, 1910: 144)<sup>41</sup>. Along these lines Hayek starts to develop a criticism of what he calls ‘scientism’: “the mechanical and uncritical application of habits of thought to fields different from those in which they have been formed” (Hayek, 1952: 16)<sup>42</sup>. This ‘scientific’ mindset is the mindset of the engineer who wishes to construct markets or other types of social order, in the same way that the engineer would construct a bridge<sup>43</sup>. In Vienna this type of scientism was perhaps best represented by Otto Neurath, member of the ‘Wiener Kreis’. During the 1920’s he developed various projects which aimed at the improvement of social housing conditions and the education of the public. In his scholarly work he argued that progress in the social science could be used for a type of social engineering. His idea was that the extension and spread of social knowledge would lead to an increasing rationalization of society and the spread of ‘scientific’ view of the world (Hahn, Neurath & Carnap, 1929).

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<sup>41</sup> This is discussed in more detail in chapter five. My translation, in German: „Der technischen Fachmann spottet über den Laien, der von ihm das Wunder verlangt, eine Last zu heben, ohne die nötige Kraft parat zu haben; so muß auch der Soziologe über die immer wiederholten Vorschläge spotten, welche die größten gesellschaftlichen Wirkungen hervorbringen wollen, ohne geschichtlich vorbereitete Mächte von genügender Stärke zur Verfügung zu haben.“

<sup>42</sup> Hayek publishes these views in a series of articles during the 1940’s, but they are published in book form in 1952.

<sup>43</sup> That Hayek opposes the idea of constructing markets marks a clear difference between him and later neo-liberals, on constructing markets see also Zuidhof (2011).

The belief that social orders can be planned and constructed in a similar manner to technology rests according to Hayek on two fundamentally flawed assumptions. The first of these assumptions is that knowledge about society is of the same type as knowledge about the natural world. From this false assumption it is often concluded that the methods of natural science can be applied to the study of society. Hayek argues on the contrary that since social behavior is purposeful behavior, and human beings act upon their own subjective knowledge (rather than objective knowledge). This subjective knowledge is the primary material of the social scientist. The other assumption is that every type of order in society must be the result of some form of organization. Or as Hayek states, following the formulation by Mises: “we refuse to recognize that society is an organism and not an organization [and that this organism or system], without our knowledge, and long before we tried to understand it, solved problems the existence of which we did not even recognize” (Hayek, 1933: 130).

It is this type of spontaneous organization which Hayek will redefine as civilization in his later work. The essential building blocks for this theory are already in place during his work on the ‘Counter-Revolution of Science’. It is during this period that Hayek increasingly starts to emphasize that many economic institutions and the very order existent in the economy is *not* planned, *not* constructed, or even willed by any single mind (Hayek, 1933: 130). His argument, and that is more important here, also contains grounds for believing that such spontaneous or unorganized order is much harder to understand and hence control than other types of order (he will later call such orders complex orders). This means consequently that economic knowledge does not infrequently lead to the conclusion that nothing can be done



about the evil in the world, or that we do not yet know how anything can be done. Hayek argues that this quickly frustrates the laymen, who expect practical solutions from the economist. The sincere economist therefore faces the difficult task of demonstrating the: “inconsistencies in a kind of ordinary reasoning which everybody employs and the validity of which no one would ever doubt” (Hayek, 1933: 128). The economist will have good reason to disagree with almost every proposal: “which spring most readily and regularly to the lay mind” (Hayek, 1933: 133).

Mises had already shown this with a practical example about the dangers of capital consumption: “To see the weakness of a policy which raises the consumption of the masses at the cost of existing capital wealth, and thus sacrifices the future to the present, and to recognize the nature of this policy, requires deeper insight than that vouchsafed to statesmen and politicians or to the masses who have put them into power” (Mises, 1922/1951: 458)<sup>44</sup>. This means that laymen and political movements alike are prone to revolt against economic knowledge. And this is what is happening in Vienna during the interwar years according to Hayek and Mises<sup>45</sup>.

Schumpeter, in his ‘Capitalism, Socialism, and Democracy’ also examines the growing hostility towards capitalism. In Schumpeter’s analysis which is clearly influenced by the theories of Wieser, there is a sharp distinction between the masses and the elite: “the mass of the people never develops definite opinions on its own initiative (...) that

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<sup>44</sup> Mises esteem of the masses, like that of Wieser and Schumpeter, is rather low: “It is true that the masses do not think. But just for this reason they follow those who do think. The intellectual guidance of humanity belongs to the very few who think for themselves” (Mises, 1922/1951: 508).

<sup>45</sup> See also Michael Polanyi’s essays collected in ‘Contempt of Freedom’, a fellow Viennese with interests closer to the natural sciences.

case [in favor of capitalism] could never be made simple. People at large would have to be possessed of an insight and power of analysis which are altogether beyond them" (Schumpeter, 1943/1976: 144).

Schumpeter argues that the root of the problem does not lie with the masses (passive as they are). To foster the growing resentments there has to be a social group with an active interest to work up and organize these masses. This group according to Schumpeter is the intellectual class. Mises and Hayek would similarly write derogatory essays about the influence of intellectuals, those 'second-hand dealers in ideas', which have helped to promote socialist ideas. This elitism, the resentment against the masses and their 'intellectual' leaders, should be understood in its Viennese context, in which it already emerged in Wieser's work in response to developments around the turn of the century. The social and political developments in Vienna during the interwar years lead to further distrust.

The Viennese students of civilization argued that the success of socialism could be explained on two grounds. Firstly the socialists were successful because they promised to improve the social world significantly; their Utopian ideals were able to attract large groups of followers. And secondly recent successful technological developments had made it particularly tempting to believe that such progress could also be made in society. The liberals on the other hand were hampered by the difficulty of laying out the case for capitalism. Hayek would transform this criticism of lay understanding, to a larger argument about a general tendency to overestimate the powers of the human mind. This belief in the rationalism of the individual or the expert, and his capability to improve the world around him would lead to proposals to plan the economy and to improve our morality. Such a belief is for Hayek

nothing short of hubris. It overestimates how much the human mind could do, and underestimates how much we rely on norms and interpersonal interaction. In short it underestimated the importance of cultural institutions, such as the market.

## ***2. The return of natural instincts***

The political scene of the interwar period was not just dominated by socialism and the belief in scientific social programs of these social engineers, although they were definitely the dominant force during the 1920's. During WWI and the 1930's, the periods surrounding the 1920's, the force of romantic and nationalistic politics was at least as strong. This other intellectual and political current would provide a kind of opposite pole to socialism in Hayek's theory of civilization and markets. He would once again be able to build on the analysis of earlier Viennese students of civilization.

The irrational nature of war and its strong nationalistic sentiments were hard to grasp for the liberals, who had promoted a measured outlook on life. And the total war waged between what appeared to be civilized nations were almost beyond their understanding. Did countries and individuals not have much more to gain from cooperation and trade with one another? And then there were even some German intellectuals who glorified the experience at the front, the 'Fronterlebnis'. Famous in the German speaking-world are the accounts by Ernst Jünger which glorified the values of war: the bravery, the courage and the sacrifice. The war for Jünger had shown what had been lost during the rise of a soulless capitalism, and he preached a

politics which would seek a return to these values<sup>46</sup>. Finding a response to these sentiments proved very difficult for the liberals in Vienna, and perhaps all across Europe. Ludwig von Mises, who had served as an officer in the Habsburg army, attempt to reflect on WWI in 1919. But in the preface of 'Nation, Staat und Wirtschaft' he cautions the reader that: "it exceeds human capacity to treat vital questions of one's time without anger and partiality" (Mises, 1919/1983: vii)<sup>47</sup>. Much of his book can be read as an attempt to come to grips with nationalist sentiments within a more or less rationalistic framework. At times Mises is quite perceptive of previous flaws in liberal beliefs, but overall he struggles to make sense of irrational, nationalistic and militaristic tendencies of so many people all over Europe. The only explanation that Mises offers is that the romantic longing central to imperialist and aggressive war politics might have been caused by the fact that the liberal age had increased material welfare, but it had not enriched inner life; it might have even impoverished it. This might explain some of romantic sentiments, but they would not satisfy those same sentiments: "The romantic longing for wild adventures, for quarreling and freedom from external restraint, is itself only a sign of inner emptiness; it clings to the superficial and does not strive for depth (Mises, 1919/1983: 248-9). Only to observe a little

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<sup>46</sup> The socialists interpreted the war rather as a late stage of capitalism. And some of them already noted tendencies towards the order of the future. The true violent nature of capitalism had been exposed by the War they argued, just as the war had shown the inevitable rise of planning. During the war central planning had been brought to a new level by Walther Rathenau in Germany, who was not only the president of the prestigious AEG company, but who had also planned the German raw materials and labor supplies during the war, when both became increasingly scarce because of a naval-blockade. He was a hero to many after the war and he would inspire the Viennese economist Otto Neurath to develop a similar type of planning for the Habsburg army. Neurath, among many others, was convinced that war-time planning would provide a kind of bridge from capitalism to a fully planned peace-time economy (Neurath 1916/2004, 1917/2004)

<sup>47</sup> The 1983 translation of this book by Leland B. Yeager is used.

later that: “Warlike activity assures a man of that deep satisfaction aroused by the highest straining of all forces in resistance to external dangers (...) in his feelings man is always an imperialist” (Mises, 1919/1983: 249-50). Mises argues that a society should try to use these feelings in a productive and creative way. At the same time he shows very little sympathy for such feelings. This is clear, when after the admission that they might give some satisfaction, he immediately claims that: “Reason forbids giving free rein to feelings. To want to beat the world to ruins to let a romantic longing exhaust itself contradicts the simplest deliberation so much that no word need be wasted on it” (Mises, 1919/1983: 248-9).

Mises continues to struggle with the enormous power of these sentiments. At times he is very gloomy: “It was the fate of civilization that it was unable to keep the external means that it had created out of the hands of those who had remained estranged from its spirit” (Mises, 1919/1983: 252). The only grain of hope for Mises was that he believed imperialism and socialism were of a predatory nature; they could only exist because of the success of the liberal civilization. They would be able to live off these successes for a while, but would ultimately destroy themselves.

Schumpeter’s analysis of the war is strikingly similar, although arguably much clearer. He argues that imperialism and its associated instincts of conquest and domination have been carried over from previous times. They are atavistic sentiments, cultural remains of earlier levels of civilization, which have lost their utility (Schumpeter,

1919/1951: 82-3)<sup>48</sup>. These sentiments were kept alive by certain ruling classes and groups in society who stood to gain from war. Schumpeter is much more optimistic than Mises that such sentiments will disappear over time: “It [imperialism] tends to disappear as a structural element (...) it tends to disappear as an element of habitual emotional reaction, because of progressive rationalization of life and mind” (Schumpeter, 1919/51: 85). This allows Schumpeter to show that imperialism is not an essential part, or as the socialists claimed a (final) phase of capitalism, but rather a remnant of earlier times.

For Schumpeter the emerging nationalism is thus also a late manifestation of such sentiments: “In conservatives, nationalism in general is understandable as an inherited orientation, as a mutation of the battle instincts of the medieval knights, and finally as a political stalking horse on the domestic scene” (Schumpeter, 1919/1951: 125). Such progressive optimism is more in line with nineteenth century liberalism, or the optimism of the socialist about the rationalization of our life. During the first half of the twentieth century it seems strangely out of place. Schumpeter’s analysis seems unable to account for the enormous scale of World War I. Moreover the outburst of imperialism in Germany was often considered the outcome of a period of progress and the very successful second industrial revolution, rather than a counter-reaction to it. His analysis surely has little predictive power for the aggressive nationalism which would dominate the politics of the 1930’s. Mises clearly disagrees with Schumpeter on this point; he does not want to write off these sentiments as mere cultural atavisms. He writes in

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<sup>48</sup> Schumpeter’s essay from this period have been collected and translated by Heinz Norden and Paul M. Sweezy, I use their translation from 1951 here.

seemingly direct response to Schumpeter, whose very wording he adopts:

“Warlike activity assures a man of that deep satisfaction aroused by the highest straining of all forces in resistance to external dangers. That is no mere atavistic reawakening of impulses and instincts that have lost their utility in changed circumstances. The inner feeling of happiness aroused not by victory and revenge but rather by struggle and danger originates in the vivid perception that exigency compels the person to the highest deployment of forces of which he is capable and that it makes everything that lies within him become effective.” (Mises, 1919/83: 249)

This deep satisfaction is created by the ‘enrapturing experience of the deed’, according to Mises<sup>49</sup>. In Hayek’s analysis we will see that he does not believe that such sentiments or instincts will disappear. In agreement with Mises he argues that the restraint of such instincts and sentiments is crucial for the development of civilization.

Hayek himself never wrote extensively on imperialism and the sentiments underlying it. Nonetheless he was sensitive to the importance of instincts and their importance in politics. He discusses such sentiments mainly in relation to his discussions with Freudians in Vienna during the 1920’s. According to Hayek, Freud argued that we

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<sup>49</sup> If one examines Schumpeter’s theory of the entrepreneur in its original German version one cannot but conclude that Schumpeter is aware of the continued presence of such sentiments. The motivation of the entrepreneur in his theory of economic development seems also to lie in the will to create and dominate. Schumpeter’s praises the will-power of the entrepreneurial spirits and claims that: “[T]he joy of creation, of giving new forms to the economic things rests on the same basis as the creative acts of the artist” (Schumpeter, 1919/2006: 142). My translation, in German: „Die Freude am Neugestalten, am Schaffen neuer Formen der wirtschaftlichen Dinge ruht auf ganz denselben Grundlagen wie das schöpferische Tun des Künstlers“.

should get rid of most of the existing morality since it merely repressed our instincts and would eventually give rise to psychological problems. Or in Hayek's much more forceful words: "his [Freud's] basic aim of undoing the culturally acquired repressions and freeing the natural drives, has opened the most fatal attack on the basis of all civilization" (Hayek, 1982: 174). His experience is that Freud's students claimed that we should get rid of the artificial cultural constraints, which repressed the individual. The main problem with this analysis is that, as Hayek sometimes reluctantly acknowledges, it runs contrary to Freud most important work on the subject 'Civilization and its Discontents'. Consider for example this fragment from one of the interviews Hayek gave late in his life:

"Hayek: Man was civilized very much against his wishes. It's really the innate instincts which are coming out. (laughter)

Leo Rosten: That's a very Freudian statement.

Hayek: In a way. Well, it's Freudian and anti-Freudian, because Freud, of course, wanted to relieve us of these repressions, and my argument is that by these repressions we became civilized.

Rosten: His whole point is that civilization is the repression of guilt, and that without that you can't have--

Hayek: In his old age, of course.

Rosten: --and the repression of aggression, of the hostility.

Hayek: When he wrote 'Civilization and Its Discontents', he was already getting upset by what his pupils were making of his original ideas." (Hayek, 1979: 75-76)

In the book by Freud 'Civilization and its Discontents', as Rosten attempts to point out to Hayek, Freud argues very much in line with



Hayek's argument that civilization means constraining ourselves. Freud argues that morality works through a sense of guilt, and that restraint and hence civilization is created and upheld by this sense of guilt. As civilization progresses this sense of guilt has to be intensified or heightened. Hayek's ideas of Freud's position are most likely inspired by his discussion with students of Freud during the 1920's (Hayek, 1979: 74). And the more general idea that we should rid ourselves of the (bourgeois) morality of previous generations had of course other origins than just Freud. One could think of Nietzsche who wrote extensively on the paradoxes and repression caused by civilization and more generally about the revolt against the modern world<sup>50</sup>. Nietzsche wrote about man as the 'sick animal', made sick by the cultural restraints and sanctions forced on him, to make him civilized (Nietzsche, 1887/2006: 70-1). So even though Hayek might be attributing some views to Freud, which Freud perhaps never really held, the intellectual currents which he was opposing were real.

### ***3. Markets and the civilizing process***

Why has it been so important to sketch out these two competing poles between which Hayek would develop his moral theory of the market? Well, Hayek placed himself between these two opposite views, opposite views of human nature and the origins of values to be cultivated. The romantic tradition portrayed man as he was, or at least how he had been before the advent of civilization. Nietzsche and other romantic authors argued that these instinctual, these animal inclinations should be

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<sup>50</sup> See also the essays collected by Sternhell (1996), especially the essay by Wistrich in that volume.

cultivated. The socialists on the other hand were concerned with how man could be under ideal circumstances. They praised the rationality of human beings and argued that moral values should be rationally founded or deduced. Hayek argued that cultural constraints were neither natural, nor artificial, but that they emerged through human interaction. He was neither concerned with human beings at their worst (uncivilized), but also not with them at their best (fully rational), he was concerned with what they might achieve if the appropriate restraints and institutions would be in place, if they were more or less civilized<sup>51</sup>.

The market, Hayek argued, was precisely such an institution which restrained individuals so that they could achieve more. In his

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<sup>51</sup> It is an interesting side issue when this view developed in Hayek's intellectual journey. It would be too much of a digression into Hayek scholarship to consider now completely how early these ideas formed. The place where Hayek most extensively discusses them is in the lecture 'Three Sources of Value', reprinted in the third volume of 'Law, Legislation and Liberty' (1982). But a combined reading of his 'The Trend of Economic Thinking' (1933) and his work on the 'Counterrevolution in Science' (1952), the essay 'Individualism: True and False' (1948) and certain passages in 'The Road to Serfdom' (1944) (the last three were originally conceived as a project called 'The Use and Abuse of Reason') have convinced me that Hayek must already have been quite close to the position expounded in this lecture relatively early in his career. Although not all elements might have had their definite place yet, he was clearly already thinking along the lines developed in the values essay. Hennecke, in his German biography of Hayek, observes that Hayek starts connecting his economic work to themes of the constitution and civilization in writing as early as 1931 (Hennecke, 2000: 85-91). Another piece of evidence which convinces me that Hayek must already have been quite close to this position around say 1945 is that his position is congruent with the Austrian tradition of thought in which he grew up. The central claim of his lecture is that: "We owe our freedom to restraints of freedom" (Hayek, 1982: 163). An idea which is captured in the poem by the Austrian poet Grillparzer in the epigraph of the previous chapter. But the analysis as mentioned before has much in common with the analysis of Freud in 'Civilization and its Discontents' (1930), although the conclusions differ somewhat. The similarity with another work from that same intellectual environment, 'Civilization and Freedom' (1947) by anthropologist Bronisław Malinowski, both in purpose and in actual analysis is striking. And one could also point to the similarity of both Hayek's purpose and analysis with fellow Viennese thinker Karl Popper especially with his work in 'The Open Society and its Enemies' (1945). Similarities further pursued in chapter six.

lecture on 'Three sources of values', he first discusses the various sources of values. He then distinguishes three sources: the innate values, which are genetically determined, values which are the product of rational thought, and values which are the result of cultural evolution. Hayek argues that innate instincts can never explain differences between societies and especially the change of values associated with different types of societies, while it is simply not true that culture has come about through rational design: "culture is neither natural nor artificial, neither genetically transmitted nor rationally designed" (Hayek, 1982: 155). Man did not design culture, but culture developed as a result of repeated human interaction, as an unintended consequence thereof. Successful practices and values were imitated and passed on, in a process of cultural evolution. Such cultural rules and norms are usually restraints on our innate instincts: "Civilization has largely been made possible by subjugating the innate animal instincts to the non-rational customs" (Hayek, 1982: 155). Such an analysis is also present in the work of Mises: "Men who create peace and standards of conduct are only concerned to provide for the needs of the coming hours, days, years; that they are, at the same time, working to build a great structure like human society, escapes their notice (Mises, 1922/1951: 513)<sup>52</sup>.

Hayek argues that these values and norms are cultivated and developed in all sorts of human interactions: in the family, in civil society, in the church or indeed on the market. These values are non-

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<sup>52</sup> Hayek has at other times criticized Mises for his rationalism, and indeed in the same book 'Socialism' one can find statements which suggest that cultural norms were designed by human beings: "Human society is an issue of the mind. Social co-operation must first be conceived, then willed, then realized in action" (Mises, 1921/51: 509). See also the foreword by Hayek to the Liberty Fund re-issue of Mises's *Socialism* (Hayek, 1981).

rational in the sense that they are not consciously implemented or designed by anyone, but they were unconsciously introduced and adopted by members of groups. Like the sociologists of their age the Viennese students of civilization were aware that many traditional sources of such values were losing their importance. Adherence to such values was previously stimulated within the family and the church, associations and other communities. These institutions, which had previously stimulated and cultivated values such as temperance, responsibility, co-operation and competition, were now losing ground or worse disappearing. Religion no longer had the status it once had, traditional hierarchies were no longer respected, and the older liberal philosophy of responsibility was clearly losing ground, family life was no longer as prominent as it had been.

One could point to many instances where Viennese liberals discuss such matters. Take for example Schumpeter, who points to the family rather than religion as a source of values which is losing its importance: "family life and parenthood mean less than they meant before and hence are less powerful molders of behavior; the rebellious son or daughter who professes contempt for 'Victorian' standards is, however incorrectly, expressing an undeniable truth" (Schumpeter, 1943/1976: 157). The analysis of Schumpeter follows closely the development of the 'Buddenbrooks' family, Thomas Mann's novel about the family of industrial entrepreneurs with the same name. In that novel we see how values such as prudence, temperance, industriousness erode over three generations. Not surprisingly the novel was often read as a story about modern society, rather than just a family history. This novel was also discussed in the meeting of the *Geistkreis* of which Hayek was a prominent member (Engel-Janosi, 1974: 126). Hayek pays most

attention to the role of religion in society. In the interesting interviews with Hayek late in his life, he was repeatedly asked whether his call for a moral framework necessary for a free society had any connection to religion. In his answers an interesting tension emerges. He says on the one hand that he is not a Christian, and was brought up in a more or less non-religious family. On the other hand he realizes that his call for a, to some extent, uncritical belief in moral principles can be thought of as a religious belief (Hayek, 1979: 240). He furthermore argues that religion might be crucial to instill certain values in people: "I've never publicly argued against religion because I agree that probably most people need it. It is probably the only way in which certain things, certain traditions, can be maintained which are essential" (Hayek, 1979: 487). Even though religion lost much of legitimacy in the modern world, it does promote the right values to sustain civilization.

If various traditional sources of values are losing their importance, what sources are still left? Basically Hayek offers two such sources for a modern liberal society, the market and the law. I will not examine his account of the role of the law in detail here; I hope that somebody with more legal knowledge will once analyze that issue (Hayek discusses it most extensively in 'Law, Legislation and Liberty', but also in 'The Constitution of Liberty'). Instead I will focus on the market. The market for Hayek is a cultural institution which promotes certain norms and values. That markets have such cultural and moral effects is easy to see. The market process punishes inefficient and irresponsible behavior. Markets tend to reward those who are industrious, those who save money to increase their future wealth. Markets also tend to reward those who work hard, markets make sure that profitable and beneficial projects survive and evolve, while

unprofitable and harmful projects disappear. We should not forget Hayek's famous argument that markets allow individuals to act based on their own knowledge of time and place, and that through the market this knowledge spreads through society. Market transactions also make people realize that they can't have it all at the same time, that choices are an essential part of human life. The discipline of the market is learning to understand that making one choice, means abstaining from another. If individuals wish to be successful on markets they have to produce goods or services that other people value. The market process also allows individuals to be entrepreneurial and try new things. If such new projects are too costly or not valuable enough for others, these entrepreneurs will incur losses. In the same manner the market process punishes entrepreneurs who do not adapt quick enough, or make wrong investment decisions. Markets also punish those governments or individuals who have borrowed too much with higher interest rates. Via the same process, those who have failed to pay back loans in the past pay higher interest rates in the future.

Not fully convinced? Consider what Hayek has to say on the gold standard as a disciplinary process for governments. Governments are in Hayek's philosophy even less prone to discipline than individuals: "Government has always destroyed the monetary systems. It was tolerable so long as government was under the discipline of the gold standard, which prevented it from doing too much harm; but now the gold standard has irrevocably been destroyed, because, in part, I admit, it depended on certain superstitions which you cannot restore" (Hayek, 1982: 156). The gold standard, part of the international monetary markets in the nineteenth century, secured discipline. This discipline

restricted governments in their spending and artificial creation of money. The problem with the gold standard was that on purely rational grounds it did not hold up. It was based on the arbitrary choice of gold, as a privileged metal. Like other widely shared beliefs in the nineteenth century it collapsed when it came under rational scrutiny. The only solution to restore discipline is through the market, and thus Hayek continues: "I don't think there's any chance of getting good money again unless we take the monopoly of issuing money from government and hand it over to competitive private industry" (Hayek, 1982: 156-7). Competition is supposed to instill the values previously taught, shared and cultivated. Competition will discipline individuals and governments, where this was previously done by widely shared fictitious beliefs. An interesting analogy is that the Viennese students of civilization believed that something similar was true about the conclusions of the classical economists. Hayek and Mises, as well as their teacher Wieser argued that the conclusions of the classical school were sound, but they had been based on fictions (Hayek, 1933; Wieser, 1910; Mises, 1922/51).

Another prime example of this line of reasoning can be found in the work of Mises. He discusses property and argues that in the metaphysical natural law tradition property was always believed to be sacred. Mises argues that liberalism has destroyed this belief, it has: "debased property into a utilitarian worldly matter" (Mises, 1922/51: 513). Something which was once divine is now shattered, and is now only a means. "What was once certain becomes uncertain; right and wrong, good and evil", traditional distinctions become uncertain. And for Mises it was now up the liberals to show the importance of the respect of property. If the examples just given and the case-studies in box I and II highlight which values are promoted by the market, we might still ask

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how this is done. To understand this it is important how important responsibility and choice are for Hayek: "It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to further growth, and to earn moral merit" (Hayek, 1962: 45). The market is not only important because it promotes particular values, but also because it provides the scope for the individual to form valuations, to test these valuations, and to develop new values. It is at this point that I think we arrive at a tension in Hayek's thinking about civilization and the role of the market. On the one hand Hayek uses the language of cultivating and developing values in his work, but on the other hand he uses the language of discipline. Compare for example the quote above on responsibility with: "he [man] had to shed many sentiments that were good for the small band, and to submit to the sacrifices which the discipline of freedom demands but which he hates" (Hayek, 1982: 167-8). This tension can more generally be found in the difference between the language in 'The Constitution of Liberty' in which he speaks of the creative powers of a free civilization and the language of discipline and norms to which the individual must submit in 'Three Sources of Value'.



### **Box I: The moral effects of markets, the case of interest**

Someone we have not yet discussed much, but who was a central figure within Austrian economics was Eugen Von Böhm-Bawerk. Economically he is known as an early critic of Marx analysis of the capitalist economy and for his theory of interest. This theory of interest combined three different explanations for the existence of interest, but his new contribution was that interest had psychological origins. The issue of interest and profit had been the main bone of contention between the socialist authors such as Marx, Lassalle and Rodbertus, who had all argued in various guises that interest and profit originated from exploitation and should really accrue to the workers. Even closer to home, Carl Menger's brother Anton had argued precisely this in a book during the 1880's (Menger, 1886). Böhm-Bawerk and other liberal authors of the period were thus concerned with showing that interest formed a natural part of every economy and society, and was not the result of capitalist exploitation as the socialist claimed.

Böhm-Bawerk offered two psychological reasons for the existence of interest. These psychological reasons, according to him, would hold in any type of society, whether capitalist, feudal or communistic. The first reason is that people are generally situated in poorer circumstances today than they are in the future, and therefore they value present goods higher than future goods. Böhm-Bawerk himself does not fail to point out that this might not be true for all people at all times. Later critics especially concerned with the existence of interest in an economy operating at a constant level of output, therefore generally disregarded this explanation. Within the older Austrian framework of advancing civilizations however it makes more sense.

The second reason according to Böhm-Bawerk is that: "we systematically underestimate our future wants and the means serving for their satisfaction". He in turn gives three reasons for this underestimation: weakness of the will, our incomplete imagination of future wants and the shortness and uncertainty of life (Böhm-Bawerk, 1891: 254-5). This explanation has been criticized for various reasons, for example because it seems to be an irrational explanation. One would expect that an economizing individual would learn that he should not systematically underestimate future wants. If we, however, think of the tension Hayek describes between restraining ourselves and our innate instincts, interest has a clear function. The existence of interest directs our wants away from immediate satisfaction to more long-term goals. On the other hand one could say that human nature is such that it wants things as soon as possible, and that abstaining from these wants comes at a price. As such interest is the reward for abstinence.

This is precisely what later theorists, most prominently Mises would argue. He formulated what has come to be called a time-preference theory of interest in which the preference of the individual, as consumer, for present goods over future goods is central. A popular description of this theory is that interest is a compensation for waiting; it is a compensation for abstaining from present consumption. A relatively low interest rate can then be interpreted as a sign that people are relatively easily motivated to abstain, and the Viennese students of civilization did not hesitate to consider low interest rate as a sign of an advanced civilization.

When Hayek talks about the discipline of civilization, of tempering, or even taming our animal spirits he has transformed what a civilization process is. It is no longer the process of *Bildung* (character formation), deliberation and emancipation which we identified in the previous chapter as a characteristic of optimistic Austrian liberals in the 1860's and 70's. It has instead become a disciplinary process, in which the market imposes certain type of behavior on individuals. The civilizing process is no longer a natural process in the advancement of history and human beings. The civilizing process of the market has become a necessary feature to preserve markets.

This pessimistic conclusion is best understood in its interwar context, in which the Viennese liberals felt that civilization they cherished was coming to an end. As Mises once lamented when he walked on Vienna's wonderful Ringstrasse: "Grass will grow right here where we are standing" (quoted in Kurrild-Klitgaard, 2003: 55)<sup>53</sup>. What

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<sup>53</sup> A remark somewhat ironic, because the Ringstrasse had previously been the (grassy) site of a military camp for the defense of the city. The most visible achievement of the Viennese liberals had been to banish the army from the city, and to replace it with liberal buildings of pride such as the parliament, the university and the theater (see

the Viennese liberals were attempting to formulate was a self-sustaining liberalism for an advanced civilization. They believed, Schumpeter most famously so, that market societies as existed during their time were destroying themselves, or that they were at the very least on the losing hand. The initial optimistic liberalism of the 1860's and 1870's had slowly but surely faded away. Liberalism and the emancipation initially associated with it were no longer conceived as ideals, but liberalism had become in the words of John Gray a 'modus-vivendi', the best alternative for living peacefully together.

### **Box 2: Markets as civilizing process, the socialist-calculation debate revisited**

The most important contribution of the Viennese students of civilization of the interwar years is usually considered to be the criticism of economic calculation under socialism, first by Mises and later by Hayek (see Lavoie, 1985). In this debate Mises first argued that socialists would lack the necessary information to make production decisions. By getting rid of markets the socialists would also get rid of the knowledge captured by market prices. This would for example cause problems in choices of the appropriate production methods. Should processes which were labor-intensive or which were capital-intensive be chosen? How would one make such a decision without information about the relative prices of labor and capital? Mises was especially worried that socialists would implement policies which would raise consumption in the short run, at the expense of investments in future production (Menger's higher order goods). Mises was afraid that without prices, and in this case without knowledge about the interest rate, socialists would give in to our basic instincts to satisfy our wants now, instead of restraining our present consumption in favor of long-term progress.

Socialist engineers were impressed by the objections raised. Oskar Lange even, somewhat cynically, responded that Mises deserved a statue for showing what would be necessary for central planning. The central solution he along with various others proposed was to simulate markets to obtain the necessary information or to look at markets which still existed to obtain these prices. Hayek in turn responded by pointing out that markets did not only provide information about prices, but that they were

also Schorske, 1980). That grass would once again grow there was thus highly symbolic of the demise of the liberal civilization.

information processing systems, which processed information much more efficiently than any central planner would be able to do.

Now one might impatiently ask what this debate has to do with civilization. I think this debate is best understood through Hayek's claim that man did not intelligently design civilization or its institutions, but that man: "became intelligent by submitting to new rules of conduct" (Hayek, 1982: 163). This holds for markets similarly, markets enable individuals to become intelligent, to make well-informed decisions. And not the other way around. We should thus understand Hayek's and Mises objections as expressions of this belief. By getting rid of markets, we are getting rid of some of the most advanced products of our civilization, and hence we are getting rid of one of the most important instruments which make us intelligent. In his essay 'Knowledge and Society' Hayek argues that we do need to know the supply conditions and all those other types of knowledge relevant to our decision, but we only need to know how much the prices rises or falls (Hayek, 1945: 525). What Hayek is in fact claiming is that rational behavior is impossible without markets. If we were to eliminate markets we would eliminate our primary means of valuation and rationality itself would become meaningless. We would become 'blind' as Menger had put it much earlier.

The other underlying element of their criticism is that markets, just as civilization is best understood as a process of change and adaptation. If we eliminate these processes we also lose sight of the effects of these changes, and we consequently do not adapt to such changes. Planners think of production decisions as being made at one point, but the Viennese show the importance of processes, such as market processes, which are an essential part of the civilizing process.

#### ***4. The Price of the civilizing process***

The Viennese students of civilization had become increasingly skeptical about ideals of emancipation and increasingly relied on markets to instill discipline. Hayek sees the market as a disciplinary process, which rather than truly instilling the right values, disciplines individual behavior in an appropriate manner. I believe this is the final and perhaps most important step in the transformation in Viennese liberal

thinking about the market. Rather than seeing the market as a sphere where individuals can emancipate themselves away from dependence and superstitions, the market becomes a process which disciplines individuals (sometimes against their will). And the surprising thing is perhaps that Hayek frankly says so. In 'The Road to Serfdom' he for example argues that: "It was men's submission to the impersonal forces of the market that in the past has made possible the growth of a civilization which without this could not have developed; it is by thus submitting that we are every day helping to build something that is greater than anyone of us can fully comprehend" (Hayek, 1944: 204).

This submission as we have seen had in the past often relied on religious norms or an overblown respect for authority. We moderns, however, must submit out of free will. With a certain nostalgia Hayek observes that: "They [members of an exchange society] held an ethos that esteemed the prudent man, the good husbandman and provider who looked after the future of his family and his business by building up capital, guided less by the desire to be able to consume much than by the wish to be regarded as successful by his fellows" (Hayek, 1982: 165). Our society is no longer that exchange society, it no longer esteems those values, and therefore we need, according to Hayek, some other institution to instill these values. The crucial word here is *submission*. In certain passages he even transforms the previous emphasis on restraints to an emphasis on discipline: "Freedom was made possible by the gradual evolution of the discipline of civilization which is at the same time the discipline of freedom" (Hayek, 1982: 163). According to Hayek this is the only type of freedom which is feasible, because only with sufficient discipline are individuals capable of living together in a free and open society.

This leads Hayek to a surprising conclusion, especially with our modern view of freedom as the lack of restraints for the individual. Freedom according to Hayek is only possible in a civilized world (an idea which also according to himself distinguishes him from anarchists). Hayek aware of a certain paradox contained within this idea of freedom: “Man has been civilized very much against his wishes” (Hayek, 1982: 168, emphasis in original). Civilization, in fact freedom itself, comes at a price, the price of submitting ourselves to customs, traditions and values which we cannot rationally understand. As Hayek stresses time and again, his concept of freedom defends the individual from the arbitrary will of others, but it does not defend him from social norms, a governing morality or the acceptance of not-fully understood and hence incompletely justified values. It is thus a rather limited or constrained idea of freedom, more limited than the type of freedom Wieser and Schumpeter reserved for the elite, and much more limited than the freedom of life-style which John Stuart Mill promotes in his famous essay ‘On Liberty’. Hayek argues that these constraints are worth the price, because: “Man did not adopt new rules of conduct because he was intelligent. He became intelligent by submitting to new rules of conduct” (Hayek, 1982: 163). Our own limitations, our limited rationality and intelligence are the reason for accepting these restraints.

This analysis has much in common with that of Karl Popper in his ‘Open Society and its enemies’ (1945). In that book Popper coins the term: ‘the strain of civilization’. Popper first comes to speak of the concept in his discussion of Plato who according to Popper: “found that his contemporaries were suffering under a severe strain, and that this strain was due to the social revolution which had begun with the rise of democracy and individualism” (Popper, 1945: 150). The individual

responsibility associated with civilization and progress was experienced as a strain by many individuals. Plato, similar to socialist or romantic politicians and intellectuals during the twentieth century, promised to relieve this strain, not realizing that this would destroy that very civilization. Popper believes that Plato was mistaken, like the romantic thinkers of the interwar period: “he erred in his fundamental claim that by leading them back to tribalism he could restore their happiness, and lessen the strain” (Popper, 1945: 151).

Popper makes a distinction between tribal forms of living together and higher levels of civilization, the culmination of which he calls humanitarianism, and which was first achieved by the Greeks. Such a society is an open society, where there is space for discussion, while the tribal forms of societies are closed societies. As soon as Greek society, or our society, moves away from being a closed society towards an open society the strain of civilization will be felt: “It is the strain of the demand that we should be rational, look after ourselves, and take immense responsibilities. It is the price we have to pay for being human” (Popper, 1945: 154). Hayek and Popper both argue that civilization and freedom come at a price. Hayek primarily sees that price as the submission to traditions and values we do not fully understand, while Popper argues that the price consists mainly of the responsibility for our own actions and the justification of these individual choices<sup>54</sup>. They both demand from the individual that he takes responsibilities for his actions that he is open to criticism and willing to accept his own limitations. Popper further emphasizes that an open society also means contact with

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<sup>54</sup> On this price see also Elias: “In some cases they [these constraints] lead to perpetual restlessness and dissatisfaction, precisely because the person affected can only gratify a part of his or her inclinations (...) it [the civilizing process] is never a process entirely without pain; it always leaves scars” (Elias, 1939/2000: 376-7).

other people, it means migration and it means that individuals have to accept differences.

At this point it is perhaps good to show, how close they both are to the analysis of Freud. Freud argues: "If civilization is an inevitable course of development from the group of the family to the group of humanity as a whole, then an intensification of the sense of guilt (...) will be inextricably bound up with it, until perhaps the sense of guilt may swell to a magnitude that individuals can hardly support" (Freud, 1930: 122). Replace guilt with responsibility and there is hardly any difference left, except that Freud seems to be suggesting that a very advanced civilization might be associated with too much guilt, too much responsibility for the individual to bear. He concludes empathically toward those who can hardly bear the load: "it is vouchsafed to a few, with hardly an effort, to salve from the whirlpool of their own emotions the deepest truths, to which we others have to force our way, ceaselessly groping amid torturing uncertainties" (Freud, 1930: 122).

The central idea about civilization which develops amongst the Viennese students of civilization, and more widely in Central-European culture during the interwar period, is that civilization is not a natural process. It is a cultural process with both negative and positive effects. The students of civilization move away from an older belief about natural progress and development. Civilization is no longer a natural process unfolding itself throughout history, but rather a cultural process subject to cultural forces, and hence vulnerable. Civilization and freedom, and in Hayek's account even intelligence become features of culture, of human traditions. This also means that they reject the belief that there is anything natural or inevitable about the process of civilization and freedom. The process of civilization can be, and is in



danger of, being undone. It, however, can also be advanced, and we human beings are responsible for these developments (although our powers in this respect are rather limited, and never direct).

For Hayek and Popper it is just as important to show what civilization is not. It is not a natural process or the product of human design or rationalism (although Popper leans more to this view than Hayek). And it is not limiting some original freedom. Civilization is an unintended consequence of human interaction, which evolved gradually in norms and institutions which resulted from human interaction. Institutions such as money, language, the law and markets are some of the central achievements of civilization. Civilization they argue does not come about through rational planning, its importance can perhaps not even be rationally proven, and it can certainly not be designed as the social engineers claim. It is a middle ground between human nature and human design. This middle ground is the distinguishing feature of the Viennese students of civilization. It is at the same time a thin line to walk on, since the views of civilization as a natural process, or as an artifice are always close.

Markets consequently are cultural institutions with moral effects, or rather cultural effects. Markets are not natural as is sometimes believed, nor designed as we have attempted frequently during the past decades, they are rather the unconscious result of human interaction. Markets do not work because individuals are rational, but markets allow individuals to make rational choices (see box 2). This means that civilization and human rationality are vulnerable. That means, hence Popper's title 'The Open Society and its Enemies', that our civilization has to be protected in times during which it is under attack.

A final insight follows from this analysis. The defense of markets is the defense of civilization itself for Hayek and Mises. This means that the defense of markets, given their idea of civilization as constraints, is moral. But moral here is perhaps not the right word, for it suggests that they are engaged in a political project and that is certainly not how they thought of it themselves. They are genuinely concerned about civilization; this concern is a continuous element in the Viennese tradition of thought. It is present in Carl Menger's work whose idea of higher order goods was clearly linked to higher levels of civilization, and it is true for Mises and Hayek who thought markets are the central elements of our civilization, both as products of civilization, and as means to preserve that civilization. Now one could call that moral, for them it was their task as students of civilization. A task at which they often felt they were failing, or as Mises put it during one of the most pessimistic moments of his life during WWII: "I have come to realize that my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline" (Mises, 1942/1978: 115).

### ***5. Conclusion – discipline and civilization***

There is another important lesson to draw from this chapter. We have witnessed in the analysis of civilization, mainly during the interwar years, the confrontation of a group of 'economists' with the central problems of modernity. Today it are usually sociologists who are occupied with this problem, but that only shows how ill our professional disciplines sometimes fit the intellectual concerns of our predecessors. For if one thinks of the group of thinkers analyzed here as students of

civilization, it makes perfect sense that they would confront the problems of modernity. The social problem of old communities and sources of values which are breaking up and being superseded by modern, more impersonal communities and forms of human interaction is a central concern to them. This means that habits and traditions which had appeared natural are being unmasked as fictions (or otherwise lose their legitimacy). This process has made Hayek aware that civilization is not a natural process (as it might appear during more stable periods)<sup>55</sup>, but it is a cultural process, which is indirectly influenced by our actions (especially in the long run). This leads him to argue that markets, as advanced forms of human exchange, are part of human civilization, human culture, and that they have an important enabling function. They enable well-informed and balanced choices to be made within the framework of cultural restraints.

Their view of the market as a disciplinary process is today (at least implicitly) widely accepted. It was for example generally expected that economic integration in Europe would lead to more discipline in the south-European economies. Or even more basically the disciplinary force of competition forces business every day to improve their production methods, and products. What I have added to that view here is not only that I have shown the origins of this view, but I have also attempted to show that there is a strong moral element to this view of markets and competition as disciplinary processes. Various authors including the historian Burgin have argued that the market is believed to be a morally neutral arbiter by Hayek, but we have seen above here that such a view cannot be upheld (Burgin, 2012: 188). I have also pointed

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<sup>55</sup> Norbert Elias has developed very interesting thoughts on this subject; see the Postscript to his 'Civilizing Process' (1939/2000).

out that the word 'moral' is not really appropriate in the framework of Austrian liberal thought. Within that tradition the study of civilization is not neatly split-up between moral and non-moral elements. The scholars we have been discussing here are better understood as students of civilization, and whatever is part of that civilization falls within their scope.

Their interwar experiences had shown them how vulnerable civilization can be and hence they sought ways to protect it. They came to be convinced that there was a price to be paid for civilization, the 'strain of civilization'. This strain could also explain the widespread revolt against civilization they saw around them. Hayek concluded from this that individuals should submit to impersonal rules which they cannot fully rationally justify or understand. A skeptic might say that such submission requires a kind of Kierkegaardian 'leap-of-faith', in which the individual willingly accepts this submission, for the greater good it will bring. Both Popper and Hayek, however, believed that in reality there's no real choice. They agree that this strain is part of what it means to be human, and that submission to such restraints is necessary. We can only, to quote Popper: "keep on carrying the cross of being human".



## Chapter 4 – Instincts, Civilization and Communities

*The conversation about the individual and civilization continued*

I would like to continue the previous two chapters with some suggestions as to how this reconsideration of the Viennese legacy might further our conversation about human civilization. What are some of the questions which emerge from their analysis? And not unimportantly what are some other scholars who have worked on similar themes, sometimes even explicitly connected to the Viennese tradition? It is thus explicitly not my aim here to settle issues definitely, or to conclude, but instead to explore possible ways forward.

To do so I will explore three themes which I believe have prominently come up during the previous two chapters. The first is the role of instincts, or natural inclinations in the economy, and to what extent they can and should be tamed. And the second relates to the cultural norms and institutions. How do these cultural norms evolve and what supports them? We have seen that Hayek and others grew skeptical that such support would be widespread during the twentieth century, and that they attempted to conceptualize the market as self-sustaining. On the one hand they saw it as one of the most important cultural institutions, but at the same time it had to generate the support for itself and other cultural institutions. Is that perhaps too much to ask? Which leads to the third issue, do we perhaps need more to sustain such cultural norms and institutions? In Hayek's account of cultural evolution

norms and institutions are imitated within particular groups and communities. Which leads to the question what ties these groups together, what unites them, and what are the integrative institutions of such groups.

To do so I will draw on various sources, some economic and some non-economic, but I will try to stick most closely to those that I perceive to be working roughly in the same tradition as the Viennese students of civilization. They will mostly be social theorists with breadth of vision (economic, social and cultural) who have reflected on an analytical as well as practical level on developments of their own and other times.

### ***1. Taming the instincts?***

We have seen that the literature which emerged around the middle of the twentieth-century from scholars with their roots in Central Europe emphasized the importance of restraining our instincts, and the importance of norms, institutions and traditions to discipline the individual. This is however certainly not the only way to conceptualize the relation between instincts and cultural restraints. In this section I would like to discuss three competing accounts of this relation. The first account is a short summary of the account we have been analyzing in the two previous chapters, with some relations to other authors. The second account is represented by the perhaps odd pairing of Keynes and Schumpeter who have argued that human instincts are an important life-source of capitalism, and that capitalism cannot do without these instincts. The final account, which draws heavily on Hirschman's work 'The Passions and the Interests', argues instead that man can be left relatively free in the economic domain because there the passions

cannot do much harm. This account is somewhat critical of the process of civilization; it argues that we should give up attempting to restrain our passions, and that we instead should find specific 'safe' outlets for them.

Before I start describing these accounts it is perhaps good to spend a few words on why this issue is so important. It is clear that in our contemporary society individuals depend on a great many others, very few of whom they ever get to know. Or as Adam Smith put it: "In civilized society [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons" (Smith, 1776/1975: 18). The question that follows from this fact is: which institutions enable this cooperation, which institutions allow the individual to benefit from the efforts of others, with whom he is not in direct contact? Or to reverse it, how do we prevent individuals coming into conflict with one another and how do we prevent predatory behavior? The market and the division of labor occupy such an important place in Smith's book, because he believes them to be institutions which allow individuals to benefit from the effort and skills of one another, without caring directly about one another, or even knowing one another. This is why Hayek places the market as a culturally developed institution next to language and law which also developed through human interaction, and which also foster mutually beneficial human interaction<sup>56</sup>. The question we are interested in answering is therefore not one about human rationality, efficient markets or economic growth, although such concerns might come up, but primarily about more or less peaceful and

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<sup>56</sup> In his 'Law, Legislation and Liberty' distinguishes between organically grown rules or norms (laws) and planned or imposed rules and laws (legislation).



mutually beneficial human interaction and the institutions which enable this type of interaction. I will confront later in this chapter whether posing the question this way opens us up to particular criticisms.

We have seen that in Hayek's account, especially, there was a lot of emphasis on taming the instincts, on restraint. Such restraints could take many forms: self-restraint, social restraints, cultural restraints or economic restraints (imposed by markets). Hayek argued that individual freedom was possible, but only if individuals were willing to submit to market forces, social norms and cultural traditions. The acceptance of these norms would allow them to beneficially interact with others, and within these constraints they would be able to pursue their own ends. Hayek is rightly famous for his emphasis on the dangers of the intrusion of the state into various cultural institutions (especially the market) which enable mutually beneficial human interaction. In the previous chapter we have, however, seen that he considers social or intellectual currents, at least potentially, just as dangerous to civilization. Given his experiences with war, mass political movements and fascism it is not surprising that he sketches a civilization which is very fragile. While that civilization used to be supported in various ways through civil society, via institutions such as the family, church, associations and even political parties, this support had largely waned during the first half of the twentieth century. Society and political movements revolted against civilization<sup>57</sup>. Or rather they revolted against certain aspects of it they particularly disliked, putting civilization as a whole at risk, according to the Viennese students of civilization. The

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<sup>57</sup> I have pointed earlier to interesting parallels with the analysis of Karl Polanyi (1945), who on the contrary believes that this revolt is justified.

Viennese consequently emphasized the need for discipline and restraint, in politics as well as in society.

Someone who was intellectually close to Hayek had argued that the restraint and especially the discipline associated with modern society would ultimately kill the life-force that was still left in capitalism. Joseph Schumpeter famously argued that the entrepreneur has a very important role in the process of economic development. The entrepreneur is the individual who introduces new things to the market, conquers new markets or improves the production process. Especially in the German version of his work on economic development Schumpeter explores the psychology of the entrepreneur. The entrepreneur is the “economic leader, a truly, not merely apparent leader, as is the shopkeeper” (Schumpeter, 1912: 172)<sup>58</sup>. This man, no he is never a woman, knows no psychological opposition, and by virtue of being a leader is able to shape the world around him, instead of adjusting to it. It is worth quoting Schumpeter at some length here:

“They will create the new and destroy the old, they will initiate and execute courageous plans of various kinds, whose originality will surpass the conceivable. They will dominate their fellow citizens, perhaps influence national politics and organizations, they will alter the ‘natural’ course of the economy by lawful and unlawful means, but never through mere exchange.”

(Schumpeter 1912: 157)<sup>59</sup>

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<sup>58</sup> My translation, in German: „Er ist der wirtschaftliche Führer, ein wirklicher, nicht bloß scheinbarer Leiter, wie der statische Wirt.“

<sup>59</sup> My translation, in German: „Sie werden neues schaffen und Altes zerstören, kühne Pläne irgendwelcher Art konzipieren und durchführen, deren Originalität aller Erfassung zu spotten scheint, ihre Mitbürger ihrer Herrschaft unterwerfen, vielleicht die nationale Politik und Organisation beeinflussen, den ‘natürlichen’ Gang der

These entrepreneurs distinguish themselves from the masses by their energy, their will to action. This comes out most clearly in Schumpeter's comparison of what he calls the hedonic or static man and the 'Mann der Tat'. The static man is the *homo economicus*, we know so well from standard economic theory, optimizing under constraints. The 'Mann der Tat', on the contrary, has an irrepressible will to get things done, to create new things. He does not accept constraints or pre-determined goals: "The achievement of self-defined goals and coming up with new things belongs to a much greater extent in a healthy mental life of those powerful individuals than simple pleasure seeking" (Schumpeter, 1912: 145)<sup>60</sup>. Such individuals want to follow through with new plans all the time and they find satisfaction in the act itself. What the energetic type wants is ever more deeds, ever more victories (Schumpeter, 1912: 146). The energetic type is driven by a sort of intuition, an inner willpower and it is therefore, Schumpeter claims, that we should not emphasize the wider horizon, or the new ideas of der Mann der Tat, but the energy of the actual actions. Schumpeter clearly considered the actual execution of the new plans and ideas much more important than the ideas themselves (Swedberg, 2007: 11).

In his 'Capitalism, Socialism and Democracy' Schumpeter integrates his theory of entrepreneurship into a wider social analysis. He shows that the entrepreneurial function is becoming defunct, and that in an increasingly rationalized and bureaucratized world there is no space

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Wirtschaft durch gesetzliche und ungesetzliche Mittel und jedenfalls anders als durch Tausch abändern."

<sup>60</sup> My translation, in German: „Das Erreichen selbstgesetzter Ziele und das Ins-Auge-fassen neuer gehört ja in viel höhern Maße zu einem gesunden psychischen Leben kräftiger Naturen als einfaches Genußstreben.“

for entrepreneurs anymore. His energy is being smothered by the rise of big governments and big firms in which in the introduction of new products and methods becomes a routine (Schumpeter, 1943/1976: 131-4). The entrepreneur, the man of action, has no place in a highly advanced civilization according to Schumpeter. His inner will and motivation have been important in the process of development of our modern society, but have lost their place and even their function. This issue is also on the mind of Keynes, in what Schumpeter has once described as Keynes': "intuitive diagnosis of England's aging capitalism: the arteriosclerotic economy whose opportunities for rejuvenating venture decline" (Schumpeter, 1954: 1171).

In that analysis Keynes discusses the animal spirits which cause much of the instability in economic life:

"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic. Most [...] of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits —of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."

(Keynes, 1936: 161)

Like Schumpeter Keynes contrasts this urge toward action with the calculation based on risk and expected costs and revenues associated

with rational economic action. Perhaps surprisingly Keynes does not seem to think of them negatively at all, for he continues: “Thus if the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing more but a mathematical expectation, enterprise will fade and die” (Keynes, 1936: 162). It is in this respect that Schumpeter and Keynes are quite close to one another. They both believe that without some scope for these animal spirits, for spontaneous actions, capitalism will come to a halt, or rather reach a kind of steady-state. Cold calculation would not warrant many of the actions undertaken by entrepreneurs, but they are led to them anyway by their natural instincts. The fact that cold calculation will usually not lead to investment is due to the great uncertainty associated with especially long-run projects, and thus Keynes concludes: “If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation” (Keynes, 1936: 150)<sup>61</sup>. For both Keynes and Schumpeter the animal spirits, the spontaneous urge to action, the energy of the entrepreneurs keep our economy in development. Both are however acutely aware that such animal spirits can also cause instability, through unwarranted optimism (bubbles) or irrational fears about the future.

One might wonder to which extent this is actually different from Hayek’s emphasis on restraint. Is there no room for entrepreneurship and reckless initiative in Hayek’s analysis? If we study Hayek’s theory of the entrepreneur we indeed find that there are important differences with the analysis of Schumpeter and Keynes. Hayek’s theory focuses on

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<sup>61</sup> The Keynes quotations used here all come from chapter 12 of his ‘General Theory’, a chapter which is widely praised but easily integrated into his general theory.

the dispersion of knowledge throughout society, and entrepreneurship is primarily considered as a process of search and discovery information and consequently acting upon these additional pieces of knowledge, rather than on spontaneous action (Ebner, 2005). The market process induces individuals to search for additional information according to Hayek. Schumpeter and Keynes argue that innate instincts, an urge to action and (unfounded) optimism have an important role to play in economic development. And certainly the romantic heroism which is present in Schumpeter's theory of the entrepreneur is completely absent from Hayek's account. In his obituary Smithies explains that Schumpeter was attracted by the rigor and logic of the Walrasian system, but admitted that it lacked 'glamor and passion', something which he instead found in Marx, whom he could never wholeheartedly embrace as an analyst (Smithies, 1951: 17)<sup>62</sup>. A similar desire for glamor and passion can surely be found in Keynes, but is wholly absent from the sober analysis of Hayek.

The third position on the relation between our instincts and the market could be considered a combination of the previous two. In his book 'The Passions and the Interests' (1977) Albert Hirschman argues that during the seventeenth and the eighteenth century capitalism was mainly envisioned to channel the passions away from politics, religion and other spheres of life. Hirschman argues that the authors during this period were well aware that it would be nearly impossible to truly restrain, let alone extinguish these passions, and therefore their main goal instead was to canalize them. As Keynes, shifting his perspective

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<sup>62</sup> In the Viennese novel *par excellence* 'Die Mann ohne Eigenschaften', Musil reserves much praise for the character Dr. Arnheim who is able to unite the spirit and the economy (Seele und Wirtschaft). This combination was not too far from the aspirations of Schumpeter.

somewhat, would put it: “Dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunity for money-making and private wealth, which, if they cannot be satisfied in this way may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandizement” (Keynes, quoted in Hirschman, 1977: 134)<sup>63</sup>. The economic sphere in this view is not the domain where restraint is promoted as Hayek would argue, but rather a sphere where the passions can exist relatively harmlessly. The passions of one individual are counterbalanced by another through competition, and the passionate pursuit of profits could lead to social benefits.

Hirschman argues that this view resulted from a period of great political upheaval, during which a need was felt to steer these passions into a different direction. One might argue that the period which we have been talking about, the interwar period, is similarly a period during which the passions have been let loose in the political and military spheres. Passionate ideological debates, violent conflict, and deep political oppositions were the order of the day during the tumultuous first half of the twentieth century in Europe. It would therefore not be surprising if intellectuals became critical of such passions or sought alternative outlets for them. It is therefore not surprising that Hayek not only thought of the economic sphere as a sphere which would restrain the passions, but also one of the only spheres where human beings could be left relatively free.

Some commentators have been puzzled by the anti-democratic strand in Hayek’s thought, and the Viennese tradition more generally.

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<sup>63</sup> This Keynes quote is also taken from his ‘General Theory’ (Keynes, 1936: 374).

Given the context of Hirschman's conclusions we can now perhaps understand why the economic sphere is different from these other spheres in their framework. Hayek makes clear in his criticism of democracy that he believes that 'unlimited democracy' lacks the necessary restraints, and will therefore lead to restrictions of individual freedom or worse. A democratic system (often) does not have the restraining features which characterize a competitive market system. So instead of merely reading Hayek's famous blueprint for a free society 'The Constitution of Liberty' as a kind of utopia (which it undoubtedly is), one should perhaps also be reading it as a framework which grants as much freedom to individuals as Hayek believes is reasonably possible. Since the political sphere, especially if there is a democracy *without* a strong constitution, lacks the necessary restraints human freedom should be limited there. Such freedom, on the contrary, can be more safely granted within the economic sphere. This clearly distinguishes it from the ideal state sketched in for example 'Anarchy, State and Utopia' (1974) by Nozick, in which unrestrained freedom is the ideal.

This leaves the question open whether it is true that the passions can relatively safely be canalized into the economic sphere. I think Hirschman is rightfully critical of the idea that passions can best be canalized to the economic sphere, where they will do least harm, or will even be beneficial. In fact in a time of an economic crisis caused by a financial crisis, with severe global consequences, it seems strange to think of economic activity as 'comparatively harmless', as Keynes put it. In fact it should have sounded just as strange when Keynes wrote this, in the aftermath of the Great Depression, which at least in the public opinion (if not unanimously among economists) was caused by passionate economic activity. Nonetheless I think we should take it



historically serious that the economic domain was believed to be an attractive alternative outlet for human passions, after the highly politicized atmosphere, especially on the European continent, of the interwar years. A similar sentiment was more recently expressed by the Hungarian author György Konrád, living in a similar highly politicized state, in his 'Antipolitics' (1984). He argues that too much passion and effort have been poured into the political domain leading only to deeper conflicts. Directing these passions into the economic sphere would be liberating he argues.

This discussion hopefully makes us aware that in discussing the pursuit of self-interest and its limits merely talking about rationality and its limits, is equivalent to adopting an impoverished language. A language that, before our discussions circled around the rationality concept, was much richer. And it would hopefully also help in overcoming the overly simplistic market-state dichotomy (where the market fails the state has to step in, or the other way around). In the previous chapters I have demonstrated that cultural and social forces can sometimes just as well tame self-interest<sup>64</sup>. This also opens discussion about the wider culture needed to support this market society (Storr, 2013). And the cultural and moral effects of markets on that culture (Hirschman, 1982). It might even make us rethink whether the so-called economic laws are really as inevitable as term 'law' suggest, or whether they are also shaped culturally? (Nelson, 2006). Or to take another starting point, to take seriously the argument by McCloskey that especially capitalist middle classes are endowed with

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<sup>64</sup> A recent book by Steven Medema subtitled 'Taming Self-Interest in the History of Economic Ideas' (2009) does unfortunately fall back on the classic dichotomy market and state, and the consequent conclusion that self-interest can only be tamed by the state.

excellent virtues for the development of the economy and society (McCloskey, 2006). At the other end of the spectrum one might think of authors such as Michael Sandel who argue that markets might cultivate vices instead of virtues (Sandel, 2012).

An issue which I think has been less explored, certainly by economists, is the balancing act between instincts and drives on the one hand, and our reasonable and more temperate inclinations on the other hand. As Thomas Sedlacek argues: “humans may have left the wild and moved into civilized and more predictable cities, which seem under control, but wildness has not left us. It has moved to cities with us; it is in us” (Sedlacek, 2011: 276). Economists are frequently fond of quoting Smith about the human propensity to truck, barter and exchange, but certainly that is not the only human propensity. There is a wide variety of human propensities which are less benevolent, and which are best restrained if we would like to stimulate peaceful and mutually beneficial human interaction. Economists should be aware of the importance of institutions, norms and cultures which support such interaction. An associated concern to which we will now turn is which sources might promote the type of behavior needed to advance civilization?

## ***2. Sources of civilization***

In the discussion about the support for the norms and traditions associated with a market society the Viennese students of civilization somewhat somberly concluded that support was no longer provided by traditional institutions such as the family, the church or civil society, and that it could perhaps only be cultivated by the market itself. High expectations were placed on markets by the Viennese, not only was the

market the main cultural institution which needed support, but it was also the institution which should provide this support. It even seemed that Hayek fell here into a kind of economic thinking, by reducing human interaction to market interactions, something which Hayek attempts to avoid at other points in his work. We might consequently wonder what other types of human interaction might breed some of the values and norms which he believes are so vital to our market society? What other institutions or practices might be part of the civilizing process.

To start that discussion I'd like to start with the work of Johan Huizinga, who not only was a contemporary of the later generation of the Viennese students of civilization, but who also shared their pessimism about the development of European culture during the first half of the twentieth century. His book 'Homo Ludens' which originally appeared in Dutch in 1938 opens characteristically: "we humans turned out not to be as rational as a joyful century of worshipping Reason had made it seem" (Huizinga, 1938: vii)<sup>65</sup>. As the title of his work suggests Huizinga then introduces the importance of play for human culture. He argues that culture often starts out as play. Various activities, including the more basic ones, are often acted out as play. An aspect of Huizinga's work which is especially interesting for us is that Huizinga argues that play has an important civilizing function. It confronts individuals with situations of uncertainty, in which they have to perform certain tasks within a given set of rules. Huizinga especially emphasizes elements of

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<sup>65</sup> My translation, in Dutch: "(Toen) wij menschen niet zo verstandig bleken als een blijder eeuw in haar vereering van de Rede ons gewaand had". For some reason the English translator has rather messed up the first few sentences. He has also miraculously decided that this century of worshipping Reason was the eighteenth century for which no indication is present in the Dutch version.

competition in analyzing play. Competition, he argues, is especially interesting if it is not a mere game of luck, but if it requires the players to exercise dexterity, skill, agility, courage or power (Huizinga, 1949: 46-49). Huizinga even argues that competitive play can be at the heart of community life: "The contest as one of the chief elements of social life has always been associated in our minds with the idea of Greek civilization" (Huizinga, 1949: 71). Huizinga, however, does wonder whether such play-elements will slowly disappear with modern societies. He argues that what play is left in our modern culture is mostly an atavism from earlier periods.

I think one might question the disappearance of play in our culture. Contests are still very important in the art and sports world. In fact Frank Knight has argued that business life, especially in the higher regions, is perhaps better understood as a competitive game rather than as a system of want-satisfaction. At least it seems that many of the 'players' are more interested in gains internal to the game: "It seems evident that most of the ends which are actually striven after in the daily lives of modern peoples are primarily of this character; they are like the cards and checker-men, worthless (at best) in themselves, but the objects of the game" (Knight, 1923: 612). Knight himself is quite skeptical of such pursuits, preferring instead the pursuit of higher values. What is nonetheless interesting for us here is that he also points to the character-forming, or civilizing force of such competitive processes. Knight makes it clear that there might be rather close similarities between market processes and games. They are both competitive, constrained by certain rules, and they involve a combination of luck, effort and skill. The rules of the game, like cultural norms, are not fixed forever and always, but some stability and

observance of them is necessary for the game or the market process to function. Like Hayek, Huizinga emphasizes that such rules emerge from human interaction. They do not merely civilize by teaching the importance of rule-abiding behavior or the process of competition, but also because rules and norms of for example 'fair-play' emerge in the process<sup>66</sup>.

If we think of the importance of rule-abiding it is inevitable to also think of the law (a subject which Huizinga also discusses in relation to play). Hayek argues that laws come about in processes of human interaction, and that there is an important role for the state to punish violations of these rules. In fact the early liberal constitution in Vienna during the 1860's, Wieser's plea for a constitutional life and Hayek's attempt to formulate a constitution of liberty are all part of the same tradition. A tradition in which some rules are so important for human interaction that they should be fixed in a constitution, but this argument is not grounded in human rights as in many other accounts. Such a constitution instead will create a framework in which peaceful human interaction becomes possible. The defense is also not directly utilitarian, not all rules will be beneficial to every individual at every single instance. They are instead justified because they provide a clear framework for human interaction. As Wieser makes clear, if these rules are not reaffirmed in society they will be of little value. In fact Wieser is skeptical that armed force will be very effective in maintaining rules which are not widely shared. The law and the armed forces which

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<sup>66</sup> A connection with the work of Huizinga and Knight is also suggested in Appendix E of the 'Fatal Conceit' (Hayek, 1991). The emphasis on play might also make us think of game theory, but even though the initial game theorists were inspired by actual game playing, game theory assumes rationality rather than attempting to explain it.

protect it might therefore be considered more of a disciplining than a civilizing force.

The civilizing process does not merely consist of rule-abiding. We saw in the previous chapters that Menger as well as Mises and Hayek stressed the importance of valuation. In Menger this was most closely related to planning for the future and extending our time horizon. Or one could say by increasingly valuing our future needs and wants over our present ones. In Hayek and Mises this came out most clearly in their criticism of central planning without markets. They argued that without the valuation process occurring at the market individuals (and consequently also the central planners) would miss essential knowledge to make reasonable decisions. In terms of the civilizing process one might also say that the individual, in the absence of markets, would not learn to plan and value means and ends. The feedback process which characterizes market interactions would not occur. Or as some commentators have argued about education and health care in the Netherlands, people do not value or use it in the 'right' quantities because the prices of these goods are so distorted. At the same time I believe it to be somewhat economistic to think that valuation and evaluation with a feedback mechanism only takes place in the market sphere. Scholars, for example, continually engage in the valuation of the work of others: when they decide what to read, who to cite, what literature to use in courses, or when they review article or books from their colleagues. Matters are no different in the arts, sports and the culinary world. Valuation takes place in everyday conversations, and more organized discourses. Contributions to those conversations are not without consequence; those whose contributions are valued by others will be regarded highly, they will receive applause, praise and status.

Frequently as in the arts, sports, or restaurants we tend to regard such valuations as more important than the information which comes from the market. We do not only want to view the most expensive artwork, watch the most well-paid sports players, or eat in the most expensive restaurants. Of course high praise and good evaluations of art, sports players or chefs will usually lead, but not necessarily, to high prices. In conversations about these subjects we, nonetheless, almost invariably distinguish between artistic merit, athletic ability, skill, or more generally quality on the one hand and price on the other. This is especially important to recognize since there has over the past few decades been a strong trend to create markets with prices, which would supposedly measure merit (whether metaphorically or real). Looking at valuation more broadly should make us realize that it takes place not just in market processes but in many other domains of human life as well.

This realization also brings us back to Max Menger's observation about the co-operatives in which he argued that individuals would learn the skills of deliberation and to subsume their personal interest under the general interest. The associations in a society, often called civil society, are often believed to be a civilizing factor in society. Hayek laments the centralization associated with our time, which tends to destroy this civil society and tends towards the central planning and rationalization of these domains where civil society used to be prevalent. He praises De Tocqueville and Lord Acton for attempting to resist this tendency towards centralization (Hayek, 1948: 28). This civil society is hardly ever part of our study of the economy, but it can play an important role in this civilizing and valuation process or in setting up the type of institutions which restrain individuals. The work of Elinor

Ostrom is one of the few exceptions to this trend; she has studied how civil society provides public goods and deals with common resources (Ostrom, 1990).

I would like to end this section with a few observations. I have shown how various spheres might support the institutions of our civilization, and markets more specifically, but little was said on how this might precisely work. It is one thing to claim that market processes discipline or restrain individuals, it is another thing to show how they do so. The Viennese students of civilization do not write much on this issue. Hayek does observe that individuals working in large corporations might experience little of the discipline of the market (1982: 165). One could also think of Coase's observation that corporations are islands of conscious power in otherwise competitive processes (Coase, 1934: 388). Such casual observations, however, are only hints toward a more serious study of how markets and other institutions cultivate certain values and how they might erode others. So there is certainly a lot of work left to show how markets might restrain and discipline behavior, and what specific values they instill.

Secondly, we have presuming that there was a positive, civilizing effect from the various sources we have discussed. The Viennese students of civilization, however, were working during a period in which the majority of the intellectuals, of civil society and of political movements were endangering those institutions. This led especially Hayek to study how this revolt against civilization could be explained and prevented. I think much of his work from the mid 1930's onward must be understood as an attempt to understand and prevent such a revolt in the future. He looked for models of our institutions which would restrain individuals and he sought an intellectual position that



would guard against the rationalistic hubris which he felt dominated modern thought. That work should at least make us aware that the institutions discussed here do not necessarily cultivate support for the existing institutions. To give but one example, it is well established that the managers and entrepreneurs within relatively successful firms frequently seek to preserve a current status quo and therefore often plea for policies designed to protect this status quo.

### ***3. A shared culture***

It is clear that in the work of Hayek and other Viennese concerned about civilization during the interwar period and during WWII there is a sense that there is something to be defended, a culture and a set of values which are endangered, although they deserve to be upheld. As Mises, Schumpeter and Hayek analyzed, the acceptance of such traditional beliefs and norms was declining, and the authorities which supported them were losing ground. Hayek most clearly sought for alternative sources for the cultivation of such values, and praised especially the market as such an alternative source. Above I have already pointed out that I am skeptical whether the market can truly generate its own support. In the previous chapter we have seen that this doubt was widely shared during the interwar period, in which market societies came under severe criticism. There is I believe an element of the problem that we have so far been ignoring. Implicitly at least we have relied on the idea that if the superiority of something could be demonstrated, it would also be accepted.

Take restraint. The Viennese students of civilization all agreed that restraint was an important value, within the economy but also

within politics. Max Menger early on argued that individuals would learn to restrain themselves within cooperatives and Wieser lamented how various new political parties were unwilling to compromise and restrain their group interests. Böhm-Bawerk praised the role of interest in restraining our tendency to value our current wants higher than our future wants, and for Mises it is even what makes us human:

“Man is not a being who cannot help yielding to the impulse that most urgently asks for satisfaction. Man is a being capable of subduing his instincts, emotions, and impulses, he renounces the satisfaction of a burning impulse in order to satisfy other desires. He is not a puppet of his appetites.” (Mises, 1949/2007: 16)

Would this mean that human beings would also restrain themselves? How would this value of restraint be cultivated? In the previous section we saw how it might be cultivated or instilled by market processes, but could restraint also become an ideal, something which unites people, a shared value?

There are religious communities in which restraint, as in fasting or a complete disregard for material possessions, is practiced and held up as an ideal. This is however surely not what the Viennese students of civilization are after; they are not seeking to promote asceticism. Even on restraint, there should be restraint. It seems however that such a restrained restraint is hardly a value which will unite people. Its practical value can be demonstrated, we can agree that it is not always realized, but it is hardly an ideal which will unite us. Even stronger, in ‘Three sources of Value’ Hayek even argues that restraint and a submission to the values which make up civilization might come at the

expense of the individuals involved. Individuals are asked to submit themselves to these values in the name of civilization, but why would they do so? Wieser faced a similar problem around the turn of the century. He observed that the Austrian liberals had failed to develop ideals after the constitution of 1861 was realized. Wieser suggested that a continual reaffirmation of this constitution might provide the liberals with a kind of identity. This continued affirmation of the constitution is done with some success in the United States, but elsewhere the constitution does not seem to have the power to serve as a continued ideal.

Kenneth Boulding suggests that these issues point to a deeper problem for economists. They have always suffered from a neglect of what he calls 'integrative relationships'. Economists have paid excessive attention to exchange relationships, but they have largely ignored other types of relationships (Boulding, 1963)<sup>67</sup>. Market relationships are usually (but not exclusively) exchange relationships, but integrative relationships usually take place outside the market in families, associations, clubs, universities and politics<sup>68</sup>. Considered as such we can understand Hayek's attempt to argue how the market might cultivate its own support as an argument that market relationships can also be integrative relationships. We all know this to be true to some extent,

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<sup>67</sup> He also considers threat-relationships, which I will not discuss here.

<sup>68</sup> I believe it is also possible to develop from Boulding's recognition of integrative relationship a separate category of goods, which comes about mainly in such integrative relationships instead of exchange relationships. Goods such as a conversation, a music festival, a dinner party, choir practice, sports matches or more generally games are created in integrative relationships, not in exchange relationships. Of course metaphorically we can say that in a conversation we exchange stories, anecdotes, arguments and attention, but what really happens is probably better described as co-production. This is also why many of these goods cannot be bought (or traded) on the market; nonetheless they are very important in our lives. Klammer has suggested calling such goods social or shared goods.

integrative relationships take place within firms between colleagues, between customers and shopkeepers, or more generally between two parties who trade frequently. But, as Boulding points out:

“It has been the precise weakness of the institutions that we think primarily of as economic, that is, associated with exchange [...], as Schumpeter pointed out, that they easily lose their legitimacy if they are not supported by other elements and institutions in the society which can sustain them as integral parts of a larger community.”  
(Boulding, 1969: 10)

In other words a market society needs integrative relationships or institutions which sustain the economic relationships. The strength of the cultural analysis of the Viennese students of civilization is that they recognize that markets cannot be taken for granted, they are not natural phenomena. Markets are cultural phenomenon and they need a shared culture which sustains them. There is so to say ‘a commons’, without which a market society cannot continue to exist. This gives rise to two questions: what do cultures in which the market is prominent share, and how can that be sustained?

Both questions cannot be fully answered here, but it is important to realize how different the Viennese tradition is from that of, say, mainstream economics. There the questions of whether something ‘common’, a shared culture, is necessary for the operation or existence of markets is never posed. Within the Viennese tradition it becomes a central issue to find out how market societies can be sustained. The Viennese too, however, only partially pursue this issue. They do not really consider what integrates a community and what sustains a shared

culture. Surely Max Menger's and Wieser's call for a 'Verfassungsleben' can be understood as an attempt to form a liberal community, but in their wider analysis such issues are not given much prominence. They realize that a market society needs a market culture, or liberal culture if you like, but they hardly consider seriously how such a community would come about, or how it would be sustained. They do not explore what such a community would share, what type of identity it would provide for the individuals.

Hayek does not completely ignore such issues, in his late work he does focus on the evolution of social norms within groups, but he mainly approaches that topic from an evolutionary angle and he does not consider issues of identity-formation. This is perhaps all the more surprising since the issue of national identities had been so prominent a problem within the Habsburg Empire. We have seen in chapter two how the Viennese liberals were frustrated with the fact that newly enfranchised or emancipated groups did not develop into liberal, patriotic citizens. These groups instead developed a variety of other identities, most prominently religious and ethnic. Even closer to home the early Viennese students of civilization must have remembered or would have been told that the liberal movement in Vienna had started around the celebration of German cultural heroes such as Goethe or Schiller (Franz, 1954: 116). Communities could never be sustained without a shared identity.

Kenneth Boulding points economists in the direction in which they are perhaps most reluctant to go. He points them towards a consideration of identity, to discard their idea *homo economicus* as identity-less individual, devoid of birth-place or even life-span. He asks them to consider actions, even economic actions, as resulting not from

cost-benefit analysis, but from a sense of identity<sup>69</sup>. The parents caring for their child, because it is *their child*, the soldier willing to risk his life for his country, because he is a *soldier* and it is his *country*, the economist seeking the truth, for he is a *scientist*. This is not to say that parents, soldiers, or economists would never act otherwise, but rather that such actions arise from their identity rather than a cost-benefit analysis. Boulding is aware that the idea of identity is not only neglected by economists, but that is also at odds with much of what economists argue. He believes that the strongest criticism of the idea of reasonable decision-making comes from those who attach more importance to their identity. He contrasts what he calls the heroic ethic with the reasonableness and prudence emphasized by economists or more broadly by liberals: “we have to recognize that there is in the world another type of decision-making, in which the decision-maker elects something, not because of the effects that it will have, but because of what he ‘is’, that is, how he perceives his own identity” (Boulding, 1969: 9).

Boulding is quite right to argue that we need both the heroic and the reasonable in our life. Or in his eloquent way of putting things: “Economic man is a clod, heroic man is a fool, but somewhere between the clod and the fool, human man, if the expression may be pardoned, steers his tottering way” (Boulding, 1969: 10). Hayek is not blind for the need of a shared identity, consider for example what he writes about Germany after WWII: “nothing will be more conspicuous than the powerlessness of good intentions without the uniting element of those

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<sup>69</sup> Needless to say that such a conceptualization of identity would be quite different from the recent work by Akerlof and Kranton (2010) and possibly more along the lines explored by Davis (2011).

common moral and political traditions which we take for granted” (Hayek, 1944/1992: 202). The tension, between the heroic and the reasonable ethic, was very evident when we analyzed the reaction of Schumpeter and Mises to WWI. We witnessed how they struggled to come to grips with the heroic ethic. Mises attempted to reason it away, while Schumpeter believed that as civilization progresses this atavistic element would disappear<sup>70</sup>. In fact Schumpeter’s analysis of the entrepreneur suggests that the entrepreneur might be the only one with a heroic ethic left in an advanced capitalist society, and even the entrepreneur would gradually lose his prominence<sup>71</sup>. In Wieser we could also find the struggle to accept the rise of national minorities and the failure of the Viennese liberals to incorporate the newly enfranchised groups. Historian of economics Spiegel has even suggested that Menger’s universal economics devoid of identity was an attempt to overcome the struggle between different nationalities within the Habsburg Empire (Spiegel, 1983: 532).

The Viennese students of civilization faced the problem of integration, or rather disintegration, time and again, but they seemed unwilling, or unable, to come to grips with it. Time and again they reasoned it away, instead of accepting it as a fundamental human trait. More than merely an animal spirit, or an atavistic element of our culture,

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<sup>70</sup> Boulding expresses the hope that the heroic ethic will fade, although I doubt he really hoped that: “My personal view is that, especially at his present stage of development, man requires both heroic and economic elements in his institutions, in his learning processes and in his decision-making and the problem of maintaining them in proper balance and tension is one of the major problems of maturation, both of the individual person and of societies” (Boulding, 1969: 10).

<sup>71</sup> One could also think of the character Arnheim in Robert Musil’s Viennese novel ‘Der Mann ohne Eigenschaften’ (The Man without Qualities). One of the chapters about Arnheim is not without a Musil’s characteristic irony titled ‘The union of soul and economics. The man who can accomplish this can enjoy the Baroque charm of Old Austrian Culture’.

this need for an identity, and thus to be part of a shared culture seems to be fundamental. And indeed to think of markets, language and the law, and various other institutions as forming a culture, a civilization, means thinking of them as something we have in common, something which shapes our identity. While market societies might stimulate human interaction, economic development, peace, they should also seek to find a way to maintain this common culture, and be strong enough to inspire a sense of belonging, of pride in the individuals who make up such a culture.





## Chapter 5 - Therapeutic Nihilism or the Humility of the student

*On the limitations of the student of the civilization*

*No person can escape death; yet the recognition of this necessity certainly does not force us to bring about death as quickly as possible*  
Ludwig von Mises, 1919

*Though we cannot see in the dark, we must be able to trace the limits of the dark areas*  
Hayek, 1960

The next three chapters will deal with the position of the student of civilization vis-à-vis his or her civilization. This relation, in the form of the social scientist vis-à-vis society, has been conceptualized in different ways over time. Especially influential has been the idea that the social scientist studies society as objectively as possible. He or she formulates factual statements and theories about the object of his studies, from which predictions can be derived. These theories and the knowledge of relationships between different variables allow him to give policy advice to the policy maker, who sets the ends of these policies. Mark Blaug has compared the role of the economist in this perspective to that of the technocrat, a technocrat that free of personal values can give scientific policy advice, based on objective knowledge (Blaug, 1992: 128-9). The technocrat, in this view which emerged in the first half of the twentieth century, passively accepts the goals of the policy maker and provides advice on the most efficient way to achieve these ends. In this manner the technocrat will help increase efficiency and consequently the welfare

in a given society. An even stronger variant has held that social engineers would be able to rationally manage society towards society's desired goals. This view in which society can be engineered can be found such disparate thinkers as Otto Neurath, Thorstein Veblen and Ragnar Frisch and Jan Tinbergen, and has become the standard view within economics. More recently Alvin Roth has even argued that the economist should act as an engineer when designing markets (Roth, 2002).

A variation of this position can be found in Pigou's introduction to his famous 'Economics of Welfare' (1921). There he compares economics to human physiology, a science whose main interest lies much more in bearing-fruit, than in bearing light: "there will, I think, be general agreement that in the sciences of human society, be their appeal as bearers of light never so high, it is the promise of fruit and not of light that chiefly merits our regard" (Pigou, 1921: 4)<sup>72</sup>. While Pigou is well aware that such cures will never result in the precisely desired outcomes, he does believe that economics primary use lies in improving the welfare of society. Therefore he compares the economist to the doctor who is able to improve the health of the individual. Pigou is neither the first nor the last to compare the economist to the doctor, or the economy to a patient, there is a longer tradition of thinking of the economist as a doctor<sup>73</sup>. Typical is an argument such as relatively recently made by Romer, who compares the economist to the doctor: "You can let the pastor, the legislator, the family and the philosopher struggle with the moral question of whether to actually stop the treatment, but what you want from a doctor is correct scientific

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<sup>72</sup> Bearing fruit and bearing light are also the two goals Samuelson identifies in the introduction to his classic 'Economics' textbook.

<sup>73</sup> Peter Groenewegen has examined various economists who were trained and/or worked as physicians (Groenewegen, 2001).

statements about what will happen if” (cited in Uchitelle, 1999)<sup>74</sup>. For Romer too, the economist is primarily a neutral observer who based on expert knowledge can advise on the effects of various treatments. The goals of such treatments will be put left to the pastor, the legislator, the family or the philosopher, although the comparison with the doctor suggests that deciding on such goals will be pretty straightforward. Or take the title of a paper by Hahn ‘Economic Prescriptions for Environmental Problems: How the Patient followed the Doctor’s Orders’ (1989). Just like the doctor is supposed to cure the patient, so the economist is supposed to heal the economy, or at least to be able to predict the effect of various cures. Keynes even dreamt of economists as dentists: “If economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid” (Keynes, 1930/1963: 373). To sum up a comparison of the economist to an engineer or doctor seems to lead easily to the corollary that the economist can prescribe the appropriate policies or cures for the economy<sup>75</sup>.

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<sup>74</sup> Or to use another example from an interview in the New Yorker by John Cassidy with John Cochrane: “The other reason I’ve been against the stimulus: it’s pretty clear what the problem with the economy was. For once, we know why stock prices went down, we know why we had a recession. We had a panic. We had a freeze of short-term debt. If somebody falls down with a heart attack, you know he has a clogged artery. A shot of cappuccino is not what he needs right now. What he needs is to unclog the artery. And the Fed was doing some remarkably interesting things about unclogging arteries. Even if (the stimulus) was the solution, it’s the solution to the wrong problem” (Cassidy, 2010).

<sup>75</sup> In the essay quoted above Roth shares such optimistic sentiments: “Just as chemical engineers are called upon not merely to understand the principles that govern chemical plants, but to design them, and just as physicians aim not merely to understand the biological causes of disease, but their treatment and prevention, a measure of the success of microeconomics will be the extent to which it becomes the source of practical advice, solidly grounded in well tested theory, on designing institutions through which we interact with one another” (Roth, quoted in Roth, 2002).

This chapter will challenge that view. I will argue that although the medical metaphor was popular among the Viennese students of civilization, they adopt a different professional position. Rather than believing that they were able to heal the patient, they preferred to study the patient (the economy), and to focus on the limits of their healing powers. More broadly the Viennese students of civilization challenged the view that society could be engineered (by the technocrat) or healed through interventions (by the doctor). Instead they emphasized the autonomous and inevitable development of the economy and society, and they preached the importance of acceptance of such developments. Rather than providing cures, the student of society would only be able to help us understand the forces around us. Or to continue the medical metaphor, they argued that before we can heal a sick body, we must learn to understand why such a complex organism functions in the first place (Hennecke, 2000: 135). To develop this perspective they could build on a wider Viennese tradition in which the doctor or more broadly the intellectual was mainly engaged in understanding, rather than curing. A medical and intellectual perspective sometimes negatively referred to as ‘therapeutic nihilism’. As one cultural historian of Vienna has described it as a wider intellectual phenomenon, therapeutic nihilism is: “diagnosing social ills without prescribing remedies for them” (Janik, 1985: 49)<sup>76</sup>.

In the Viennese perspective the forces of society move (almost) completely beyond our control, and the social scientist is consequently not the master of such forces but merely its student. This perspective in

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<sup>76</sup> I am aware of one other author who makes the link between therapeutic nihilism and the Viennese economists (Müller, 1998). He however does not make clear what the term means for him, nor does he make the connection between the phenomenon in medicine and in economics.

which the powers of the social scientist are virtually nil would come under serious criticism during the late 1930's, even within the Viennese tradition. Both Hayek and Popper would identify such a perspective as too deterministic. They would come to reject the fatalism they associated with it and would conceptualize civilization and its development as cultural phenomena, for which we bear a shared responsibility. To do so they had to refute the older Viennese perspective which we will examine in this chapter.

### ***1. Therapeutic nihilism in medicine***

The Medical Faculty of the University of Vienna enjoyed great prestige during the majority of the nineteenth century, and it attracted students from all over Europe. Ignaz Semmelweis developed his theories on child-bed fever there, and the discipline of pathological anatomy was greatly advanced there, especially under the leadership of Karl von Rokitansky (1804-1878). Rokitansky, alongside his close colleagues Joseph Dietl (1804-1878) and Josef Skoda (1805-1881), is most commonly associated with therapeutic nihilism<sup>77</sup>. In an increasingly professionalizing field these men wanted to found a scientific study of medicine, which would replace the individualistic and sometimes idiosyncratic methods which had prevailed under the old system. To this end a group of doctors had recently founded “der k. und k. Gesellschaft der Ärzte in Wien”, which enjoyed some independence from the Medical Faculty at the university. The major outlet of this society was their periodical and it was in the second issue of this journal that Dietl

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<sup>77</sup> For a full discussion of the second Viennese Medical School see Lesky (1976).

published the article, which led others to accuse him of therapeutic nihilism.

In the article Dietl argues that instead of focusing on finding practical cures, doctors should start to focus on knowledge. Medicine according to him is a 'filia ante matrem', a daughter without a mother, a field where cures have come before knowledge. This development of cures without a theory of either medicine or the human body has been misguided according to Dietl. The main goal of a doctor should be not to find practical cures, but to study the forces of nature, just as natural scientists do: "Why do we not ask from the astronomer, that he turns day into night, from the physicist that he turns winter-cold into summer-heat, from the chemist that he turns water into wine? Because it is impossible. That is, it is not possible according to the laws of his science" (Dietl, 1845: 14)<sup>78</sup>. The doctor and the natural scientist are thus in a similar position according to Dietl. The role of the doctor is not to be a healing artist, but he should be a student of nature. From a close study of these forces of nature, one can then perhaps suggest some cures, but the primary aim is *understanding* not healing. This was a head-on challenge to his colleagues and especially to the practical doctors who in 1845 still dominated the medical profession in Vienna and most of Europe.

According to Dietl this change of goals would have important consequences for the claims doctors could make. They would have to stop pretending to possess powers they did not have, and to acknowledge what they did not know: "Let us avow openly the limits of

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<sup>78</sup> My translation, in German: "Warum verlangt man nicht vom Astronomen, dass er Tag in Nacht, vom Physiker, dass er Winterkalte in Sommerhitze, vom Chemiker, dass er Wasser in Wein umwandle? Weil es unmöglich, d.i. weil es nicht im Principe seiner Wissenschaft begründet ist.". The similarity with the position of Wieser discussed in previous chapters is striking.

our sphere of influence, which precisely therefore, that this sphere is based on the principles of science is fully justified” (Dietl, 1845: 12)<sup>79</sup>. This would, according to Dietl, consequently also mean that a doctor is judged not on his success rates in healing, but rather on the amount of knowledge he possesses. This means that instead of being compared to the healing artist, the doctor should be compared to the natural scientist. The doctor should be judged on his knowledge of nature and whether he acts according to this knowledge, not on his success rate in healing. For whether a patient ultimately heals depends on nature, and not on the treatment. And while the doctor often lacks the courage to admit this, it is only nature which has healing powers: “Whether a treated illness finally cures, is not dependent on the treatment of the doctor, rather it is dependent on the relevant forces of nature which determine the outcome of the illness” (Dietl, 1845: 15)<sup>80</sup>. Dietl makes clear to his colleagues that just as the natural scientist cannot bend the laws of nature, but can only tell us how to make use of these laws, so the doctor cannot heal incurable diseases, he can only diagnose which forces of nature are at work.

The strong emphasis on knowledge instead of healing, combined with the conviction that the healing powers of the doctor were limited by the laws of nature, have led many critics of Dietl to call him a ‘therapeutic nihilist’ or somewhat more positively a ‘therapeutic skeptic’. They specifically criticized Dietl and his associates for adopting too much of a hands-off approach at the bedside and for taking a far too

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<sup>79</sup> My translation, in German: “Bekennen wir vielmehr offenherzig die Beschränktheit unseres Wirkungskreises, die eben darum, weil sie im Principe der Wissenschaft begründet ist, ihre volle Rechtfertigung findet.”

<sup>80</sup> My translation, in German: “Ob die behandelte Krankheit in Genesung übergehe oder nicht, liegt nicht an der Behandlung des Arztes, sondern an bestimmten Naturgesetzen, welche den Ausgang der Krankheit bedingen.”



fatalist attitude towards illness. The critics argued that Dietl and his allies should not call themselves doctors since they merely wrote “meditations on death” (Risse, 1997: 64). The response to such charges is telling, Clarke who promoted the Viennese perspective in the United States responded: “But, if the men that are fond of the phrase therapeutic nihilism, mean by it that our creed is that of *laissez faire*, that our attitude by the bedside is one of folded hands, that, in short, we are willing waiters and not workers, we may well plead to the indictment” (Clarke, 1888: 199). The group around Dietl, Rokitansky and Skoda preferred the term ‘Naturheilkunde’. For according to Dietl it is Nature which ultimately does the healing, not the doctor or the treatment. Their proposal of ‘Naturheilkunde’ sounds strange to the modern ear. And a modern dictionary will quickly equate it with homeopathy, a so-called *unscientific* healing method. It is, however, important to realize that Dietl and his colleagues were arguing for exactly the opposite, a more scientific study of medicine.

The dispute was not merely about knowledge and methods, but also about the relation between the doctor and his patients. Dietl was after a change of attitude among his colleagues, a goal we will also find in the work of the Viennese students of civilization. Dietl, in one of his later books ‘Der Aderlass in der Lungenentzündung’ (1849), explains that the minimum prerequisite for any treatment should always be that it does no harm, or at least that it does more good than it does harm. And by the end of the book he has sharpened this into the aphorism that modern medicine turns the doctor into wise advisors who: “if they

cannot help, at least do no harm” (Dietl, 1849: 113)<sup>81</sup>. This went directly against the motto of his colleagues who preferred the maxim: “it doesn’t hurt to try”<sup>82</sup>. Courage for Dietl meant the mental strength to admit one’s limitations and be frank about them. To be able to say no to a patient, and to admit the limits of one’s knowledge and one’s healing powers. Courage for many of his colleagues had always meant the courage to try new methods and to experiment on the patient.

The final aspect of Dietl’s position to which we should pay attention here is his reverence for nature. Dietl does not only expect that most of the healing will be done by nature, he calls it the highest of all healing powers. He also argues that wherever nature can perform the healing process, we should let nature run its course. Even stronger he argues that the primary task of the doctor is to study the healing powers of nature, and its limits. Only when those limits are reached is there a role to play for the doctor and medicine. And he calls for a study of Nature in its “entire meaningful greatness” (Dietl, 1845: 19)<sup>83</sup>. This reverence for nature and the skepticism that much can be done about the course of its development will be a prominent feature when we will examine this type of attitude amongst the Viennese students of civilization. Take for example Hayek who *marveled* at the wonders performed by the market: “I have deliberately used the word ‘marvel’ to shock the reader out of the complacency with which we often take the

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<sup>81</sup> My translation, in German: “[der] wenn er nicht nützen kann, wenigstens nie schadet.“

<sup>82</sup> A plaque above Freud’s desk would later read : ‘En cas de doute, abstiens-toi’, (In case of doubt, don’t), a phrase commonly attributed to St. Augustine (Francis & Stacey, 1985: 93).

<sup>83</sup> In German: “[der Natur in seiner] ganzen bedeutungsvollen Grösse [zu beobachten].“

working of this mechanism [the market] for granted” (Hayek, 1945: 527).

For clarity’s sake let us sum up what the position of Dietl entails in five important elements: new criteria for knowledge, a strong belief in the healing powers of nature, an emphasis on the limits of human knowledge and consequently of our healing capacities, a reverence for nature and its healing powers, and finally a redefinition of professional courage: from experimenting with new treatments, towards admitting our own limitations in knowledge and healing powers.

## ***2. Therapeutic nihilism as a cultural phenomenon***

The best way to introduce therapeutic nihilism as a cultural phenomenon in Vienna is perhaps with a quote from the Viennese novelist Joseph Roth’s novel ‘The Radetzky March’:

“The district captain himself was never sick. Getting sick meant dying. Sickness was merely nature’s way of getting people accustomed to death. Epidemics—cholera had still been feared in Herr von Trotta’s youth—could be overcome by some people. But when diseases simply came sneaking along, striking only one person, he was bound to succumb—no matter how many different names were applied to those complaints. The doctors, whom the district captain called medics, pretended that they could heal patients—but only to avoid starving” (Roth, 1932/1996: 140)<sup>84</sup>

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<sup>84</sup> Translation by Joachim Neugroschel, 1995.

As a description of the therapeutic nihilist stance this is about as concise as one can get: the prominence of nature's will, the futility of fighting diseases and the depiction of doctors as quacks, only after money. It is hardly a description of a cultural phenomenon however. Nonetheless Roth's purpose of this passage is best understood as a kind of allegory on the fate of the Habsburg Empire, which is the central theme of the novel. Roth describes three generations of Trotta's; the district captain referred to in this passage is of the second generation, still firm and never sick. His father, the first generation Trotta, is well known as the hero of the Solferino, because he saved the life of the Emperor, and with it the Empire. The son of the district captain on the other hand is constantly suffering from ill-health, growing alcoholism and a lack of purpose. The story of these three generations is symbolic for the fate of the Empire, as one of the characters in the novel puts it: "This empire is doomed. The instant the Kaiser shuts his eyes, we'll crumble into a hundred pieces". And indeed at the end of the novel both the district captain and the Emperor pass away, and hence symbolically the Empire itself.

This theme of an Empire in decline, and a loss of values, is also captured by Hermann Broch, novelist and critic of Viennese culture. He has labeled the period leading up to WWI the gay apocalypse, a combination of decline and a value vacuum, but one which was taken lightly by nearly all intellectuals. In *fin-de-siècle* Vienna Broch senses a loss of the older values, and a withering belief in progress. Whereas the therapeutic nihilism of the doctors had still been associated with a belief in the healing powers of nature, and a moderate belief in the advancement of knowledge, Broch describes an intellectual atmosphere in which this belief in progress is withering away. Therapeutic nihilism

in his work is no longer a passive belief that Nature will ultimately heal, but rather the belief that the Empire is suffering from an incurable disease, while the Viennese intelligentsia are nothing more than passive onlookers. The lack any inclination at healing, they however rejoice in diagnosis. Just as the autopsy on dead patients became a favored method at the Viennese Medical School, so the intellectuals in Vienna engaged in what can be called a kind of cultural autopsy. The Empire, while still in existence, was in fact dead, and the intellectuals could ponder over the causes of death. Indeed Broch compares Vienna at the time to a kind of museum, a dead city and the Viennese citizens to the spectators in this museum, or rather to the spectators in their beloved Viennese theaters (Broch, 1948/2002: 178-83).

Prominent among them is a couple, which especially through subsequent scholarship have come to embody much of what characterizes Vienna around 1910, Karl Kraus and Ludwig Wittgenstein. Karl Kraus was the most prominent Viennese satirist who would exercise a strong influence on the work and ethic of perhaps *the* philosopher of the twentieth century, Ludwig Wittgenstein. Both thinkers are as much part of Viennese culture as they are critics of it, and especially Kraus excelled in exposing the hypocrisy of his fellow Viennese. For Kraus the Viennese civilization is indeed all but dead, as is exemplified by his most famous play 'The Last Days of Mankind'. In the periodical which he single-handedly published he described the satirist as standing on 'the death-bed of the age' (Kraus quoted in Timms, 1986: 226). That Kraus was as much part of this culture, as he was its critic is best exemplified by Bertolt Brecht's tribute to Kraus: "When the age came to die by its own hand, he was that hand" (Brecht quoted in Timms, 1986: 230). Kraus, one could say, adds another dimension to

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therapeutic nihilism. He is no longer merely the passive onlooker, but he suffers from that same disease. It becomes an acute question for him how to face the moral decline honorably and with integrity.

Janik and Toulmin in their 'Wittgenstein's Vienna' argue that this integrity is the central element in the work of Kraus and Wittgenstein. About Kraus they argue: "He concerned himself with the integrity of the individual writer. It was not a matter of ideology or literary schools; it was always a question of the unity of form and personality" (Janik & Toulmin, 1973: 81). The philosopher or the critic had to be one with his work, he had to live it, and rather than being true to his civilization or an external set of moral values, he had to be true to himself. This gave philosophy an important moral and personal dimension, philosophy was no longer a kind of occupation, but the extension of one's personality. In the value vacuum identified by Broch the philosopher can only be true to himself. This has none of the lightness of the gay apocalypse; it requires the intellectual to look fate straight in the eye, and to face it with integrity and dignity. It is a moral precept with similarities to the moral dimension of Dietl's therapeutic nihilism. His call for the courage to admit what we do not know, the integrity to admit what we cannot achieve is mirrored in the call for integrity of Kraus and Wittgenstein. They require a relentless truthfulness from the intellectual, a perspective in which the limits knowledge are as important as that knowledge itself. Or as Kraus summed up the futility of writing in one of his aphorisms: "Why does a man write? Because he does not possess enough character not to write" (Kraus quoted in Janik & Toulmin, 1973: 201).

Just as Dietl sought to redefine courage as admitting one's limits, Kraus here argues that a man of character and courage does not write at

all. The cowardly doctor would keep prescribing cures, and the cowardly author would keep on publishing his works, despite the fact that both are aware of their own futility. Perhaps the most quoted aphorism by Wittgenstein argues similarly for an explicit awareness of our own limits: “Whereof one cannot speak, thereof one must be silent”. Integrity required of the philosopher to not transcend the boundaries of what can be said, just as the doctor should not transcend the boundaries of what he can do. The doctor could not change nature, only attempt to understand it, and the philosopher could not change the fate of our culture, he can only dissect it.

Just as the therapeutic nihilist doctors have been accused of fatalism, so one could say that Wittgenstein shares this fatalism regarding the power of language. The power of language is strictly limited, and it is the philosopher’s moral task to show these limits. Although Janik & Toulmin do not explicitly connect this element to the wider situation of the Habsburg Empire, I think it should be understood in that context. In an Empire in decline intellectuals are faced with the question, whether this decline can be avoided. They become acutely aware of the superstitions and illusions on which civilization was built. The response of some will be to look for new foundations while maintaining as much as possible of the old civilization. Others, however, adopt openly fatalist positions, accepting the decline of their beloved world, as we will see Schumpeter do later in this chapter.

The most common response was to search for new foundations. Peter Hall argues that the central question to Viennese composer Arnold Schönberg was, whether: “it [was] possible to strip away the traditional props of tonality that had supported music, and still create something with integrity and balance?” (Hall, 1998: 167). I believe that this

question extends to other domains, and indeed Janik & Toulmin argue that Schönberg, Kraus Wittgenstein and Loos were engaged in similar projects in different spheres. They sought to strip away the old props, the old illusions but without giving up the goal of creation, integrity and balance. Kraus sought to eliminate the 'effects' and 'illusions' from theatre, Loos sought to eliminate unnecessary ornaments and facades from architecture. They did so not in attempts to eliminate beauty, but to distinguish clearly between beauty and truth, between aesthetics and function; knowledge of which can be spoken, and that which can only be shown. In chapter three we saw how the Viennese students of civilization similarly felt that they were stripping away the illusions on which classical economics was built, while maintaining most of its important conclusions. They attempted to distinguish between the unnecessary illusions and assumptions, and the truth contained in these older theories.

So what can we conclude about therapeutic nihilism as a cultural phenomenon? Johnston in his extensive analysis of 'the Austrian mind' employs the term to a wide variety of thinkers (Johnston, 1972). By doing so the term becomes rather empty, and as Janik points out, primarily confusing instead of illuminating (Janik, 1981). But I hope to have shown here that the various elements which can be defined by examining its proponents in the Viennese Medical Faculty, can be traced in the cultural criticism of Vienna. The Empire is the patient, the intellectuals instead of trying to reform it, rejoice in picking it apart, and critically analyzing its components. Many of them recognize that the prevention of the decline of the Empire is impossible, the patient is incurably ill. For Wittgenstein and Kraus this means that the intellectual should come to grips with his own futility, with his own limitations. A



slightly more optimistic group of intellectuals attempts to preserve what they can. They attempt to restore the civilization of the Empire, without 'the Emperor', whose authority, they have to admit rested on illusions. We saw an example of such an attempts in Hayek's nostalgia for the discipline of the gold standard. This gold standard he admitted rested on an illusory belief in gold, but the discipline associated with it could perhaps be restored through competitive currencies. In other words the criteria for knowledge change, the powers of the intellectual are very limited, and they should have the courage to admit this. What is different compared with the work of Dietl is that the situation has become more gloomy, the Empire is in decline, and there seems to be nothing which can bring this decline to a halt.

### ***3. Therapeutic nihilism among the Viennese students of civilization***

As in the wider Viennese culture the attitude of therapeutic nihilism only slowly became prominent among the Viennese students of civilization. In fact early on they had been mildly optimistic about the possibilities of improving society. Let us first examine the initial positions to show how this attitude developed.

The most elaborate statements on this issue are to be found in Menger's *Investigations into the Method of the Social Sciences*' (1883/2009), which was written during the *Methodenstreit* with his German colleagues. Much of Menger's discussion is about law, of which economics was then still considered to be a branch. He compares the lawyer or the economist to the farmer or the physician who study the

laws of nature in order to influence the course of things in a beneficial way (or in Pigou's words more fruit than light). The task of the lawyer, Menger warns is not merely to preserve what has come about organically, but to look for gradual improvement of the law. He argues: "But never, and this is the essential point in the matter under review, may science dispense with testing for their suitability those institutions which have come about 'organically'. It must, when careful investigation so requires, change and better them (...). No era may renounce this 'calling'" (Menger, 1883/2009: 234). This statement comes at the end of a discussion in which Menger has compared the historical tradition of Burke and Savigny which he praises for having shown the importance of organically grown institutions. In fact he argues this was a necessary correction to the rationalism of the classical school of Adam Smith: "what characterizes the theories of Smith and his followers is the one-sided rationalistic liberalism, the not infrequently impetuous effort to do away with what exists" (Menger, 1883/2009: 177). So even though Menger argues that the economist or student of law has a calling to improve existing institutions, laws and policies he has to do so with a great sense of moderation, and respect for them since they contain the wisdom of previous generations.

The position of Wieser differs from that of Menger. Critical of the laissez-faire attitude of the classical liberal school, he argues that the: "the liberal economic school has behaved like a doctor, who has recognized the excess of the old therapy, falls into the other extreme and teaches, that Nature must always be left alone, and the doctor should not

intervene" (Wieser, 1910: 141)<sup>85</sup>. Wieser, like Menger, warns against the attitude of natural scientists and technocrats who think that society can be rationally transformed, in words very similar to those of Dietl: "The engineer scoffs at those, who expect from him the miraculous power to lift a weight, without having the necessary power available; that is how the sociologist should scoff at the oft-repeated plans to create the largest social changes, before the necessary historically-prepared powers of sufficient power are available" (Wieser, 1910: 144)<sup>86</sup>. Wieser and Menger seem to differ in their evaluation of the classical school, but they share the concern that the economist should caution for both overtreatment and neglect<sup>87</sup>. Menger believes it is the calling of the economist and the student of law to gradually improve existing institutions, laws and policies, and Wieser warns against an extreme overreaction to earlier mistakes. The practical economist should not conclude from previously failed attempts to improve, that all such attempts are bound to fail. They share a mild therapeutic optimism, rather than a kind of therapeutic nihilism.

Just after, or even during, WWI this changed. There was a widely shared feeling that the war, and wartime planning, had paved the way for the coming of socialism. In Vienna the socialization of the economy had started, while not very far away in Bavaria the revolution had begun with the short-lived experiment of the Bavarian Soviet Republic.

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<sup>85</sup> My translation, in German: "Die liberale wirtschaftliche Schule hat sich benommen wie ein Arzt, der, weil er das Übermass der alten Therapie erkannt hat, in das andere Extrem verfällt und lehrt, man müsse stets die Natur allein wirken lassen, der Arzt dürfe nichts dazu tun".

<sup>86</sup> My translation, see n.38 above.

<sup>87</sup> This could be due to the fact that Wieser is talking more about policy prescriptions which under the influence of the Manchester School was reduced to the well-known "laissez-faire, laissez-passer", while Menger is more concerned with differentiating between a rationalistic basis for policy, versus historically grown institutions.

Consequently both Mises and Schumpeter saw themselves forced into more fatalist positions. It certainly was not because they welcomed the rise of socialism that they saw no other way out, in fact Mises compared what was happening to the fall of the Roman Empire. In his analysis of the situation just after WWI there is little hope left that the coming of socialism can still be prevented:

“Marxism sees the coming of socialism as an inescapable necessity. Even if one were willing to grant the correctness of this opinion, one still would by no means be bound to embrace socialism. It may be that despite everything we cannot escape socialism, yet whoever considers it an evil must not wish it onward for that reason and seek to hasten its arrival; on the contrary, he would have the moral duty to do everything to postpone it as long as possible. No person can escape death; yet the recognition of this necessity certainly does not force us to bring about death as quickly as possible.” (Mises, 1919/1983: 217)

Mises argues that economists who are of the opinion that socialism is coming have a moral duty to oppose socialism, this evil, for as long as possible. Once again we find a kind of medical analogy where the economy, or the civilization is compared to a human being who has a death-wish, Mises however does not want to grant this wish. When there is still life in our world we should not hasten its death<sup>88</sup>.

Schumpeter was actively involved in the socialization of the economy after WWI first in Berlin and later as finance minister in

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<sup>88</sup> Some years later he has regained some hope and argues that: “No one can find a safe way out for himself if society is sweeping towards destruction. Therefore everyone, in his own interests, must thrust himself vigorously into the intellectual battle” (Mises, 1922/1951: 515).

Vienna, and one might thus expect a different response from him to the situation. When he was afterwards asked about his political role in these years, he responded (once again in medical terms): “If somebody wants to commit suicide, it is a good thing if a doctor is present” (Schumpeter, quoted in Allen, 1994: 163). Like Mises Schumpeter clearly considers the socialization process a disaster, an attempt at suicide. His various biographers have pointed out, however, that Schumpeter was not completely negative about these measures; he also saw it as an opportunity to improve inefficient state enterprises. So when Schumpeter compares himself to the doctor he does see some positive role for himself, perhaps to alleviate some of the worst pain. However we look at it, the position of the liberal economist helping to socialize the economy remains a curious one. As Allen writes in his biography, Schumpeter behaved more like a doctor “handing a pistol to the potential suicide”, than like a doctor trying to alleviate the worst pains (Allen, 1994: 163). Another way to understand Schumpeter’s ambivalence is to realize that he genuinely believed that the coming of socialization was inevitable. He therefore was assisting in an inevitable process. The inevitable coming of socialism is a thesis to which Schumpeter returns repeatedly in his work. He does so in an article which explains the policies which he wants to pursue as finance minister, ‘Die Krise des Steuerstaats’ which is based on a lecture he gives in 1919 (Schumpeter, 1919/1950). And he does so much more extensively in his ‘Capitalism, Socialism and Democracy’(1943/1976). In this book he clearly explains that he admires the capitalist system, but that it will inevitably have to make way for socialism<sup>89</sup>. He argues that

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<sup>89</sup> Schumpeter was to some extent also interested in a genuine attempt at socialism. In

capitalism eradicates the social support for its system and it will ultimately have to stand trial: “before judges who have the sentence of death in their pockets”. He no longer believes that this lamentable situation can be cured and continues: “They are going to pass it, whatever the defense may hear” (Schumpeter, 1943/1976: 144). Schumpeter adopts a truly fatalist position, even though he does so in a book which according to some commentators contains the best defense of capitalism ever written<sup>90</sup>. Schumpeter himself saw no future for capitalism, or the liberal civilization. He became a doctor, who could do nothing but wait for the patient to die. It might look cowardly to some, but for Schumpeter it was a matter of dignity and integrity. He had to accept what he could not change.

This was certainly not the attitude which over time developed in the circle around Mises during the 1920's. Mises and his fellow intellectuals sought to find a response to socialism, and especially how to prevent the coming of socialism and the destruction of civilization which they associated with it. The first thesis which came out of these discussions was the idea that any type of interference with the free market system, would via a logic of interventionism inevitably lead to socialism. This idea is also suggested by the title of Hayek's book 'Road to Serfdom' (although less so by its actual content). According to Mises once the government starts to intervene the shortages or surpluses this

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his recent biography McCraw describes a conversation between Max Weber and Schumpeter about the Russian Revolution. “Schumpeter said: ‘but it will be a good laboratory to test our theories’. ‘A laboratory heaped with human corpses!’ said Weber. ‘Every anatomy class is the same thing’, replied Schumpeter” (McCraw, 2007: 94). An interesting conversation, especially because of the reference to the anatomy class, which had also been so prominent within the Viennese Medical School. But in the light of this conversation one might explain Schumpeter's role as minister of finance as an experiment on a body (economy or civilization) which was already dead.

<sup>90</sup> See for example, McCloskey (2006).

will create will create a call for more interventions: “either capitalism or socialism; there is no middle of the road” (Mises, 1926/1977: 26). And the analysis of monetary policy for which the Austrian school has become famous in contemporary debates shows clearly how they believed that government cures would only lead to more serious problems. When the central bank lowers the interest rate, or otherwise expands the money supply, this would lead to (artificially) cheap investments. Such investments would be undertaken by entrepreneurs, but when interest rates would return to their normal level, these entrepreneurs would realize that their investments were not profitable enough to justify the investment, and they would incur losses. This could only be prevented by keeping interest rates at their artificially low levels, i.e. more interventions. If the economy is considered as the patient in this analysis, than we can certainly speak of overtreatment, in fact the patient becomes addicted to the drug of cheap money. Or as Hayek would put it some decades later: “there is, indeed, more than a mere superficial similarity between inflation and drug-taking” (Hayek, 1960: 330).

Mises returned to a strong belief in the healing forces of nature, with which the government and the economist should not intervene. Just as Max Menger, Carl’s brother, had argued during the 1860’s that socialist plans would not work since they did not respect the laws of nature, so Mises now argued that any type of interference with these competitive forces would make the economy sick instead of healing it. This passive, hands-off attitude, and its associated resignation is what ultimately unites Schumpeter, Mises and other Viennese intellectuals. While Mises might have been slightly more optimistic during certain short periods in the Interwar period, there are also periods when he is

devoid of any hope, and can only opt for resignation. For example when in his recollections, written during the early years of WWII, he writes:

“Occasionally I entertained the hope that my writings would bear practical *fruit* and show the way for policy [...]. But I have never allowed myself to be deceived. I have come to realize that my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline.” (Mises, 1942/1978: 115)

In one sweep Mises sums up the argument of this chapter: from an initial optimism to an unwilling acceptance of the futility of his work. From an initial calling to improve policy to the realization that social scientists are powerless in steering the development of a civilization. There are, however, some elements of Dietl’s work which are more easily found in Hayek’s work of this period than in that of Mises or Schumpeter. While Mises is aware of the limits of human knowledge, Hayek develops this insight in more detail. And even though Mises and Schumpeter pay attention to the role of the economist, it is Hayek, to whom we will turn in the next section, who most clearly identifies the moral dilemma of the economist: offering tentative treatments, or admitting his limitations<sup>91</sup>.

#### ***4. The limits of economic knowledge***

Hayek begins to develop his views on policy, at least in print, during the early 1930’s. Of special interest is his address at the LSE ‘The Trend of

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<sup>91</sup> Historian of Vienna and Austria, Edward Crankshaw suggests that resignation is typical of Vienna: “The gaiety of Vienna is, indeed, a peculiar mixture of fact and myth. Nowhere is found more resignation and nowhere less self-pity” (Crankshaw: 1938: 48).



Economic Thinking' (1933). He challenges Pigou and his emphasis on bearing fruit head on. Hayek's essay contains a very similar structure to that of Dietl from 1845. Hayek, too, first explains how economists are very prone to jump from the investigation of causal relationships to practical conclusions, and policy proposals. He then continues to demonstrate that the economic process is much more complex than was believed by earlier economists. Hayek shows that the economist should marvel at the processes of the market which solve so many practical problems. In a similar vein Dietl had claimed we should have great respect for the healing powers of nature. The economist, just like the doctor is quickly criticized if he does not show how such knowledge (light) could bear practical solutions (fruit): "And he [the economist] is bitterly reproached if he does not emphasize, at every stage of his analysis, how much he regrets that his insight into the order of things makes it less easy to change them whenever we please" (Hayek, 1933: 124).

Hayek integrates this (very early on in his career) into what would become his central idea of civilization: restraint of our innate instincts. He argues: "The existence of a body of reasoning which prevented people from following their first impulsive reactions [...] occasioned intense resentment" (Hayek, 1933: 125). From that point in the essay Hayek increasingly adopts the medical metaphor. He explains the attraction of the solutions of the German Historical School was mainly caused by the fact that their conclusions justified 'the treatment of practical problems'. Not much later he compares practical policies which bring short-term solutions, but cause serious long-term harm to 'palliatives and quack remedies'. In this early article Hayek still emphasizes the differences between economic thinking and lay-

thinking, and hence the tension between lay understanding and expert understanding. In his later work on the subject he increasingly contrast the attitude of the social engineer and that of the economist, and hence he focuses on the tensions that every student, scholar or scientist faces.

He picks up this theme again in the essays which would together become 'The Counter-Revolution in Science' (1952). There he argues that the strong faith in the rational powers of human beings, combined with his innate urge to create order according to a plan, has led to a revolution in the social sciences. This revolution in the social sciences has to be countered. The counter-revolution which Hayek proposes is based on the recognition of limits, both in terms of what we can know, and what one individual can achieve:

“The individualist approach, in awareness of the constitutional limitations of the individual mind, attempts to show how man in society is able, by the use of various resultants of the social process, to increase his powers with the help of the knowledge implicit in them and of which he is never aware; it makes us understand that the only ‘reason’ which can in any sense be regarded as superior to individual reason does not exist apart from the inter-individual process in which, by means of impersonal media, the knowledge of successive generations and of millions of people living simultaneously is combined and mutually adjusted.”

(Hayek, 1952: 91)

An excellent example of such knowledge which cannot be known by any one individual but which is communicated via social institutions is the value of a good. Each individual values such a good individually, and by buying the good, or abstaining from this, he makes his valuation known

to others on the market. The price which comes about on the market contains the valuation of all these individuals. This price, however, does not allow us to trace back the precise individual valuations which went into creating it. This shows clearly that the knowledge of any one individual is always limited, but that he becomes more knowledgeable than he would otherwise be through social institutions such as language, markets or education. It should come as no surprise that for both Hayek and Mises the lack of such information, the lack of prices, would cause insurmountable problems for (socialist) central planners. The most important task of the social scientist in a rational age is according to Hayek not to show how the world should be improved. Instead the most important task of a rationalist should lie: "in recognizing the limits of what individual conscious reason can accomplish" (Hayek, 1952: 203).

Where Menger was calling for recognition of the limits of rationalism, but combined this with a call for the improvement of organically grown institutions, Hayek places most emphasis on the former. In an age of 'scientism' the primary purpose of the rationalist lies in showing the limits of rationalism: the limits of what we can know, what we can design and what we can achieve. Rather than attempting to mirror nature in our theories, or worse attempt to shape nature, it is the scholar's task to hold a mirror in front of human beings, of social scientists, and make them recognize their own limitations. Wittgenstein had earlier been calling for recognition of the limits of language, in a similar vein Hayek calls for recognition of the limits of rationalism and human reason. Hayek combines this with an attempt to redefine the role of the economist, just as Dietl was doing. The social scientist has to suppress his instinct to improve, to recognize the limits of his rational

powers. As the medical student Clarke wrote when he defended the therapeutic nihilists in the United States:

“Doubtless there is something captivating in the phrase [therapeutic nihilism] itself for it stands out in evident contrast to the general instinct of humanity, to do something for the sick. Whether to do something is necessary or not, whether it is wise or not, whether it may not be even harmful, we all understand that it is expected of the physician, by common consent, to do something.”  
(Clarke, 1888: 199)

Similarly Hayek demands of the economist to repress his instinct and the social pressure to do something. He should admit that he often lacks the knowledge, and that if he had the knowledge he would often lack the necessary power to improve the situation<sup>92</sup>. This is not an easy task by any means, since improving the world around us is and was an essential element of what it means to be an economist as Hayek points out in his address to the LSE (Hayek, 1933: 122-3). Hayek considers it his task to show his fellow economists that their ‘sphere of influence’ and their sphere of knowledge is limited<sup>93</sup>.

That is not an easy task for the economist (a moral scientist): “It is because the moral sciences tend to show us such limits to our conscious control, while the progress of the natural sciences constantly extends the range of conscious control, that the natural scientist finds himself so frequently in revolt against the teaching of the moral sciences” (Hayek, 1952: 100). The writings of the Viennese therapeutic

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<sup>92</sup> As such the popular term ‘dismal science’ to describe economics is very apt.

<sup>93</sup> This is also the main argument of his Nobel Prize address ‘The Pretence of Knowledge’ (Hayek, 1975).

nihilists do not teach us how to cure the disease. They teach us instead to accept disease as a force of nature, a force to be accepted rather than resisted<sup>94</sup>. This is a very different perspective from the standard economic account, in which the outcomes of markets are central and interventions have definite effects. The Viennese students of civilizations instead argue that interventions will hardly ever result in the predicted or desired effects; in fact often they will not have much effect at all. Such a perspective is at odds with the idea of improving the world through specific interventions, and more generally with the idea that the economist can fully grasp what is happening in markets. The contribution of the Viennese students of civilization is, however, not merely negative. They also show us the power of the forces of society which work to our benefits. Language, markets and laws all make human interaction possible and mutually beneficial, and it is for this reason that Hayek argues that we should ‘marvel’ at the workings of the market.

### ***5. Conclusion – acceptance and courage***

In this chapter I have shown that the attitude of the Viennese students of civilization is perhaps best exemplified by the redefinition of courage which Dietl sought. For Dietl courage meant the ability to know one’s limitations and be frank about them, thus to be able to say no to a patient. Courage for many of his colleagues had always meant the courage to try new methods and to experiment on the patient. Dietl’s adage was ‘if the doctor cannot help, at least he does no harm’, while his colleagues preferred the adage ‘it doesn’t hurt to try’. Both Dietl and the

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<sup>94</sup> One more similarity: competition is not an evil to be fought, but a force of nature to be accepted, and perhaps to be used to our advantage. This argument is already present in Max Menger (1866).

Viennese students of civilization were working in an era full of reformers and idealistic (if not Utopian) plans to improve the world and human well-being. Both Dietl and the Viennese students of civilization believed that these attempts, although often undertaken with the best intentions, would often lead to disasters<sup>95</sup>. Ignaz Semmelweiss, the doctor known as the 'savior of mothers' for his emphasis on the importance of hygiene in obstetrical clinics, would later in life, after a failed career, attempt to convince pregnant women in the street, to give birth at home. Convinced that the doctors and medical institutions in Vienna did more good than harm. In the same spirit various Viennese students of civilization were telling politicians not to listen to social scientists who sought to engineer society. At the same time they were telling their fellow scientists that they should be more aware of their own limitations.

This put them in an odd position, which is well illustrated by the description the Dutch economist Jan Pen gives of them during the 1960's. He calls the later members of the Austrian school of economics sour, and Mises only concerned with what is not possible and how things should not be done. He describes them as full of rancor, about their own frustrated ambitions, and frustrated with the development of society (Pen, 1961). The ironic aspect of his description is that the Viennese students of civilization would agree with most of Pen's characterization. They were indeed reacting (with some frustration) to misguided attempts to improve society. They were indeed concerned with showing what could not be done, and what could not be known. On the other hand Pen fails to understand them completely because he

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<sup>95</sup> This is further exemplified in the emphasis on unintended consequences in Austrian economic thought.

thinks of the economist as someone who should be primarily concerned with bearing fruit. Pen's optimistic view of economics and the possibilities of rationalizing society did not allow him to really understand what the Viennese were after. To continue our metaphor of fruit and light, it was not so much that the Austrians were only concerned with shedding light, instead they were concerned with what could not be illuminated, what could not be known. Or in Hayek's words: "Though we cannot see in the dark, we must be able to trace the limits of the dark areas" (Hayek, 1960: 23). As such their perspective is also very different from a mere call for a focus on positive economics as put forward by their English associate Lionel Robbins.

Robbins argued for positive economics, and objective economists, who would stay away from any discussions about ends. He, however, hardly paid attention to whether economists would be able to provide the accurate assessment of means. In Robbins methodology the economist remained a technocrat (however much Robbins was influenced in other respects by the Viennese). In the 'early' Viennese perspective we examined here the scholar is merely a student of society. The emphasis on unintended consequences and the inexact nature of economic predictions within the economics in the Austrian tradition fit within the perspective in which the economist or social scientist is acutely aware of his own limitations. These limits are threefold, he can never know all the relevant facts, he is unable to foresee the precise effects of various changes (or cures), and he is unable to change the outcomes of market processes much. I have chosen to call this the perspective of the student, to contrast it with that of the technocrat or the doctor prescribing cures. Recently I have come across a similar distinction in the work of Peter Boettke, who distinguishes between the

economist as student and the economist as savior. He too argues that there has been a prominent tradition within economics which thought of the economist as a social engineer: “equipped with the appropriate scientific/engineering tools to right social ills and guide the ship of the state” (Boettke, 2012: 53). Which he contrasts to the economist as: “a student of society, teacher of the knowledge gleaned from his or her study, and at times social critic of existing practice in the citizen capacity” (Boettke, 2012: 53).

As becomes evident from reading economics or any social science, it has proven very hard for any scholar to retain this humble position of the student. That difficulty becomes especially great for the Viennese students of civilization during the 1930s when they increasingly feel that the civilization they so cherish and have studied is about to collapse. The earlier Viennese saw an Empire in decline, and later a civilization under siege, and they were aware of the limited powers of humans to influence these developments. They accepted what was going on; they came to grips with the fact that they could not change such developments. This, however, became an increasingly uncomfortable position for a younger generation of Viennese intellectuals.

Both Hayek and Popper will therefore emphasize the openness of the future, and the responsibility of individuals to shape their own future. More importantly perhaps, they move away from thinking about social and economic forces as natural forces. They increasingly come to think of such forces as cultural, and hence at least partly shaped by human interaction. Without wanting to run ahead of their argument, we can say that they reject (important parts of) the older passive strain of acceptance in Viennese thought, in favor of a more activist stance.



Stronger yet, they realize that support for their ideals is mainly dependent on what they can promise for the future. To fight the Utopian visions of the future of the socialists they develop alternative long-term perspectives, alternative ideals. Instead of accepting the decline of liberalism as Schumpeter does, they decide to fight back.

## Chapter 6 - The student as Defender of Civilization

### *Or Scipio's tears and the fate of a civilization*

*Nichts bringt das Verlorne zurück*  
- Rudolf Sieghart, 1932

*Human reason needs only to will more strongly than fate, and it is fate*  
- Settembrini in Thomas Mann's *Magic Mountain*, 1924

Scipio Aemilianus Africanus minor was the adopted grandson of the Roman general Scipio Africanus maior who had defeated the great warrior Hannibal Barca, the most famous of the Carthages. He was sent by the Roman Senate to finally destroy the city of Carthage, which had already been deprived of its Spanish Empire during the Second Punic War. During the Third Punic War Scipio Aemilianus led the army that would end the civilization of the Carthages. After destroying the city completely and slaughtering most of its citizens, Scipio did not feel victorious, instead he is said to have shed tears. He explained to his friend Polybius, the Greek historian that he wept over the demise of the city. In Appian's 'Roman History' from the second century, the episode is described as follows:

“Scipio, beholding this spectacle, is said to have shed tears and publicly lamented the fortune of the enemy. After meditating by himself a long time and reflecting on the rise and fall of cities, nations, and empires, as well as of individuals, upon the fate of Troy, that once proud city, upon that of the Assyrians, the Medes, and the Persians, greatest of all, and later the splendid Macedonian

empire, either voluntarily or otherwise the words of the poet

[Homer] escaped his lips:

“The day shall come in which our sacred Troy

And Priam, and the people over whom

Spear-bearing Priam rules, shall perish all’

Being asked by Polybius in familiar conversation (for Polybius had been his tutor) what he meant by using these words, he said that he did not hesitate frankly to name his own country, for whose fate he feared when he considered the mutability of human affairs.”

Scipio had shed his tears not only because he had destroyed the city and civilization of the Carthages, but more importantly because he realized that the same fate would one day fall upon his beloved Rome.

Now one might wonder why we start a chapter on Viennese students of civilization, with this tale about the tears of Scipio. I do so, because this comparison is made by Viennese historian, and pupil of Carl Menger, Rudolf Sieghart in his ‘Die letzten Jahrzehnte einer Grossmacht’ (The Final decades of a Great Power’, 1932)<sup>96</sup>. In this book he describes and laments the decline and destruction of the Habsburg Empire. He compares the downfall of the multi-national Empire and civilization of the Habsburgs to the destruction of Carthage. Understandably, Reinhart argues, one sheds a few tears over this destruction, the loss of the work of so many statesmen, of so many generations. And those tears are praiseworthy: “just as we still praise the tears, which Scipio shed on the rubble of Carthage” (Sieghart, 1932: 443). Those tears take on a second meaning, not too different from the double significance of Scipio’s tears. The old Habsburg intellectuals, scholars and historians fear that the

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<sup>96</sup> A recent study of the Austrian School of Economics includes Rudolf Sieghart as one of the students of Menger (Schulak & Unterköfler, 2011: 60).

same fate might befall other parts of the Western World. Or as Hayek writes to his new Anglo-Saxon audience in the introduction of his 'Road to Serfdom': "The following pages are the product of an experience as near as possible to twice living through the same period"<sup>97</sup>.

If not Sieghart than certainly a wider circle of Viennese scholars, after migrating to the United Kingdom or the United States had the feeling of witnessing the same development as they had seen in Austria and previously in the Habsburg Empire. They felt that they were witnessing the decline of a civilization, the end of an era, for a second time. Just as Scipio had realized that the fate of Carthage would one day befall Rome, so the Viennese believed that the decline of their civilization would also befall the rest of the Western world. Amidst the rubble of the Empire they were not only shedding a tear for the deceased Emperor Franz Josef and his destroyed Empire, but also because they realized that this fate would not be limited to the Habsburg Empire. It is in this spirit, that Sieghart concludes that even more important than weeping over the fate of Carthage or our own fate is to seek to prevent this development for other civilizations.

The acuteness of these sentiments was increased by two developments of the 1930's and 40's. The first development is already alluded to in the previous paragraph, the (often forced) migration of intellectuals from Vienna. The students of civilization often ended up in the Anglo-Saxon world, while many of the more socialist-minded Mitteleuropaer often sought refuge in France first. This migration meant that they would be writing for a different audience, in a different

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<sup>97</sup> Hayek also attempted to write a fairy-tale based on his experiences in Austria. This fairy-tale was about an Empire which after a war loses some of its provinces and then drifts into socialism. It was to warn the readers about the dangers of this march into socialism (Hennecke, 2000: 199).

language than they had done so far. It also meant that they came into contact with new groups of scholars and new intellectual currents. The second development was the rise of fascism and the outbreak of WWII. This increased the feeling of a crisis and the potential of an actual destruction of Western civilization enormously. Consequently various Viennese scholars described their intellectual work during that period, as their 'war effort'. For some it brought new successes as well, especially for Hayek and Popper. Both the 'Road to Serfdom' and the 'Open Society and its Enemies' would become cornerstones of post-war political thought and both sold well to their new audiences<sup>98</sup>.

This chapter will explore and analyze a double transformation in the work of the Viennese students of civilization, especially the work of Hayek and Popper. A transformation away from the perspective of therapeutic skepticism we analyzed in the previous chapters. Hayek and Popper both attempt to refute historicist modes of thinking in which the future is (more or less) determined, and argue that the future is open. This means that they also start thinking of the development of civilization as an open process. The development of civilization is no longer a more or less inevitable and natural process. For them it becomes an open and cultural process for which we bear a shared responsibility. They both take on the responsibility to act as shepherds or defenders of their civilization, and decide to write political books in

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<sup>98</sup> Popper is perhaps the odd man out in the sense that he is usually considered to be a philosopher of science, rather than part of the Austrian school of economics. But various scholars have identified the similarity in their work around this period (1940's), and during this period they also corresponded very frequently and Hayek ultimately managed to secure a position for Popper at the London School of Economics. Their solutions to the problem might not always have been identical, but their diagnosis was very similar and as Hennecke expresses it they were working on parallel fronts (Hennecke, 2000: 128).

which they sketch out alternatives for the future. This also means that as 'students' they trespass their sphere of competence, which leads to them ask existential questions about the role of the scholar in a world in decline. They refuse to accept the fate of their civilization as symbolized by Scipio's tears, but they attempt to prevent a similar fate for other civilizations, as Reinhart claimed we should be doing, but they accept this new role reluctantly.

### ***1. Broch and the Power of Literature***

The tension we have just identified between acceptance of social and cultural developments and the moral duty to attempt to steer those in a right direction is one of the central themes of his novel 'The Death of Virgil' (1946b). Broch started writing this novel in 1938 while imprisoned in a German concentration camp, and unsurprisingly the novel is frequently interpreted as an allegory of the period through which Broch was living. The novel describes the final day in the life of Virgil. The book starts when Virgil, the Roman poet, arrives on a ship which has brought him from Athens to Brindisium. Virgil has brought with him the manuscript of his 'Aeneid'. When Virgil arrives in Brindisium, the Roman republic has collapsed, and the first contours of the Roman Empire are just becoming visible; a clear reference to the collapsing European culture, out of which a new civilization had to be formed (Bailes, 2012: 174-5). When Virgil is carried through the city he is struck by: "people's profound capacity for evil in all its ramifications, their possibilities for human degradation in becoming a mob, (...) never had he perceived the savagery of the masses with such immediacy" (Broch, 1946b: 23). These masses, these violent masses, make him doubt

the worth of his poetry, the value of his work. Virgil realizes that these are the people he had glorified in his work, those for whom he has written. He suddenly becomes uncertain about the meaning of his poetry.

In the second part of the book Virgil further reflects on his life. He “laments that he has failed as an artist and that the Aeneid is a product of his vanity and has no use to humanity” (Bailes, 2012: 176). His conscience in fact tells him to burn the Aeneid. This, however, does not happen, mostly because in the third part two old friends and Caesar Augustus attempt to persuade Virgil that the Aeneid is of great value. Especially Augustus is unwilling to let Virgil destroy the manuscript, for he argues: “your poem is the very spirit of Rome, and it is magnificent (...) You have interpreted Rome and therefore your work belongs to the Roman people and the Roman State which you serve” (Broch, 1946b: 314-5). Augustus’ pleas initially make Virgil even more reluctant to hand over the manuscript, he seems doubtful about the Roman people and especially about the real purposes that Augustus has with his work. Broch lets Augustus orate about his relation to the Roman people and their need for discipline and leadership with clear similarities to the 1930’s fascist rhetoric<sup>99</sup>. Virgil finally gives up the manuscript, when Augustus accuses Virgil of jealousy of his position. But Virgil’s real

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<sup>99</sup> There are other, perhaps even stronger, examples of this in the novel, but the discussion about piety between Virgil and Augustus is especially interesting. Virgil argues: “He who is pious, Augustus, is already in awareness; he lives in the memory of the law given by the forefathers (...) Piety is that knowledge by which men escape their inescapable loneliness; piety is seeing to the blind and hearing to the deaf, piety is the perception of the simple”. To which Augustus responds: “Piety and the state are one, to be pious is to serve the state and to coordinate oneself with it; the pious person is one who serves the Roman state with his whole being and the whole of his works (...) I want no other kind of piety; but this one is a duty from which neither you, nor I, nor anyone is excluded” (Broch, 1946b: 375-6). This example is also discussed in the first comprehensive commentary on the novel by Weigand (1947).

motivation for handing over the manuscript remains obscure in the novel. Is it his long friendship with Augustus, or is it fate that is stronger than Virgil? Is he the poet despite himself, as Hannah Arendt described Broch? (Arendt, 1968). This interpretation is also favored by Virgil scholar Thomas, who argues that Broch seems to be speaking as much about himself as about Virgil. Or as Thomas puts it: “Broch effectively becomes Virgil, in a moment of literary brilliance that has the effect of eliding the millennia between the two writers, and eliding the gap between the two Caesars under whom each of them lived” (Thomas, 2004: 262)<sup>100</sup>. Virgil’s reluctance to hand over the manuscript of the Aeneid is thus compared to Broch’s own reluctance in writing ‘The Death of Virgil’.

The concern with the futility, the powerlessness of art is heightened in the face of tyranny, as Broch shows in the novel. This made Broch turn towards science later in life, but he could not resist also working on literary projects. Broch believed that only firm knowledge, science, could be effective in the long run, but he kept returning to literature, or *mythos* as he called it. In fact, passages of the novel suggest that it is only through *mythos* that we can expect any effects (Heizmann, 2003: 189). At other times Broch is unsure whether literature could ever achieve real insight: “literature is only impatience on the part of knowledge” (Broch quoted in Arendt, 1968: 116). Broch’s choice for the story of Virgil itself is interesting, because Virgil and the

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<sup>100</sup> Another compelling interpretation of this episode is offered by Lipking. He argues that Virgil finally decides to give the manuscript when Augustus becomes angry, and thereby human instead of imperial. Giving the manuscript then becomes an act of friendship to ‘Octavian’ rather than a tribute to Augustus and the Roman people (Octavian is the given name of Emperor Augustus, and the name that Virgil in their relationship as friends prefer) (Lipking, 1981: 133).



Aeneid had often been abused by political leaders, including the fascists in Germany.

Broch felt that he wrote at the end of civilization, in fact Broch's novel arose from an attempt to write an essay about 'Die Kunst am Ende einer Kultur' (Art at the end of a civilization) (Heizmann, 2003: 188)<sup>101</sup>. I will argue that in the work of the Viennese students of civilization, especially in that of Hayek and Popper, we can find the same two tensions identified here. The tension between on the one hand the strong conviction of the futility of science or art in the face of tyranny, and on the other hand the feeling that one has the moral duty to do something against this tyranny. A balance between on the one hand the moral duty to fight evil, and on the other hand the futility of such attempts expressed by Virgil:

hoping against his inner conviction that the might of beauty, that the magic of song, would finally bridge the abyss of incommunication and would exalt him, the poet, to the rank of perception-bringer in the restored community of men [...] such vain and presumptuous dreams of grandeur, a flagrant overestimation of poetry!<sup>102</sup> (Broch, 1946a: 134-5)

In other words the tension between our weak-hearted hope that we can make a difference and the acceptance so prominent in the perspective discussed in the previous chapter.

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<sup>101</sup> Broch also wrote an insightful essay on the relation between free-will and historical forces (Broch, 1946a, see also Schlant, 1971).

<sup>102</sup> Bailes argues that: "This passage is autobiographical of Broch's own experience" (Bailes, 2012: 215)

The other tension identified by Broch, the tension between mythos and logos will also occupy a central position. Not, as in Broch's work, as a tension between poetry and objective knowledge, but rather as a tension between the attempt to change the world through political books and the more scholarly work of these authors. We will see that the Viennese students of civilization all apologized for the 'political' nature of their work, which diminished in their view their long-term value. Rather ironically these books have often become the books for which they are remembered most. This tension between writing for one's peers and a wider public can be considered as a special instance of the tension between mythos and logos that Broch describes.

## ***2. Defeatism?***

The charge of defeatism was leveled at the Viennese students of civilization at various moments. A particularly prominent instance was after the publication of Schumpeter's 'Capitalism, Socialism and Democracy' (1943/1976). Readers of his book felt that the combination of his thesis that capitalism was being killed by its own achievements, and that the coming of socialism was inevitable added up to a kind of defeatism. They apparently felt that Schumpeter had given up the hope that socialism could be avoided. Worse yet, it seemed that he had given up the fight against it. Schumpeter himself objects to this interpretation of his work, he argues that a piece of analysis can never be defeatist in itself: "the report that a given ship is sinking is not defeatist". Only our attitude to this conclusion can be defeatist according to Schumpeter, it would be defeatist if: "the crew [would] sit down and drink" (Schumpeter, 1946/1976: 413). It is not beyond imagination however

that readers interpreted the dispassionate analysis of Schumpeter, his vivid dissection of a moribund capitalism, as just that. He might not literally be drinking and cheering while the ship is going down, he is certainly not looking for ways to fix the ship. The ever elusive Schumpeter does not let himself be pinned down too easily though; the final sentences of his defense are (almost) cryptic:

“Defeatist is he who, while giving lip service to Christianity and all the other values of our civilization, yet refuses to rise in their defense –no matter whether he accepts their defeat as a foregone conclusion or deludes himself with futile hopes against hope. For this is one of those situations in which optimism is nothing but a form of defection.” (Schumpeter, 1946/1976: 413)

What are we to make of this defense? Schumpeter’s words could be understood within the framework of the previous chapter. Schumpeter here is the anatomist, the dispassionate analyst, diagnosing capitalism. He is not the doctor healing capitalism. He has diagnosed capitalism as fatally ill, and even though we might rise in its defense, such actions are foolish at best. Deep down we know that we are acting against our best knowledge, that we are fighting fate. In Schumpeter’s words it is hoping against hope. Hoping despite the fact we have given up hope. Or as Broch lets Virgil express it ‘hoping against our inner conviction’. Following the logic of the previous chapter one might say that we are better off accepting those changes and that is probably what Schumpeter would advise us<sup>103</sup>. Optimistic readers, however, might find

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<sup>103</sup> For an interesting discussion of the issue of defeatism and cultural determinism in relation to the theme of civilization, see Leslie A. White (1949). He claims for example:

in the same quote a reluctant call to arms, a call to rise in the defense of our civilization.

A similar tension is evident in the work of Mises, who in 1919 already writes:

“It may be that despite everything we cannot escape socialism, yet whoever considers it an evil must not wish it onward for that reason and seek to hasten its arrival; on the contrary, he would have the moral duty to do everything to postpone it as long as possible. No person can escape death; yet the recognition of this necessity certainly does not force us to bring about death as quickly as possible” (Mises, 1919/1983: 217)

At first it might seem that Mises claims we have a moral duty to do something about the coming of socialism. Upon second reading Mises more than anything identifies the tension described above. He argues we should not hasten the arrival of socialism, but despite everything, its coming might be inevitable. And if we are to do something about it our efforts might be completely futile. During the 1920's Mises is somewhat more optimistic about the future, but during the war he writes his recollections in which he expresses his feelings of defeat: “I have come to realize that my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline” (Mises, 1942/1978: 115). A younger

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“To be sure, understanding culture will not (...) alter its course or change the ‘fate’ that it has in store for us, any more than understanding the tides will change them. But as long as man remains an inquiring primate he will crave understanding (White, 1949: 359).

generation of Viennese, however, is unwilling to accept defeat. Especially Popper and Hayek attempt to find ways around this fatalism.

### ***3. The flaws of historicism***

The major enemy that both Popper and Hayek identify is historicism. Scholars who have written on Popper and Hayek have observed that their tracts against historicism are somewhat curious. The historicism against which they are arguing seems like an elusive, perhaps even a non-existent school of thought. It is thus not directly clear against precisely what they are so opposed. Historicism was a strand of thought earlier criticized by Mises who described it as the methodological belief that there are no universally valid laws, and that each epoch has its own unique laws and regularities. Mises associates it closely with the historical economist Werner Sombart and his predecessors of the German historical school. The main reason for Mises to pay so much attention to historicism is that he thinks that economics is a universal science based on causal laws, independent of time and place. Popper and Hayek are more reluctant to embrace such a strong belief in science, and they are not primarily interested in a criticism of relativism.

This historical relativism, while perhaps dangerous for it might undercut the belief in universal values and truths, is not the main problem with historicism for Popper and Hayek. They both argue that a fundamental tenet of historicism is its prophetic character. For Popper and Hayek historicism is not mainly associated with the German historical school and its aversion to theory, but rather to the Hegelian tradition of universal historical laws, discoverable by the historian. This type of historicism, while it contains a similar type of relativism between

epochs, is much more ambitious. It claims to be able to discover the laws of development of society as a whole, and it has led many historicists to prophetic claims about inevitable developments in the future. Thus Popper defines historicism as consisting of three elements: historical relativism, determinism and holism. Determinism, according to Popper, is that aspect of historicism which stresses that there are inevitable historical developments, that the laws of the development of society are immutable, *and* discoverable by the historian.

The addition of holism to the set of historicist beliefs is particularly crucial for Popper. Popper's own theory of science stresses the need for (refutable) predictions, and at first sight this is precisely what the prophetic theories of historicists seem to do as well. Popper, however, argues that the type of predictions he is looking for are small-scale predictions under controlled circumstances not the holistic prophecies of the historicists, whose prophecies he compares with those of soothsayers.

Popper emphasizes the limits of social knowledge, when he asks rhetorically: "Is it within the power of any social science to make such sweeping historical prophecies?" (Popper, 1945: 3). Hayek is similarly critical of the historicists. When he discusses the errors of Comte and Hegel he argues that they believe that: "the central aim of all study of society must be to construct a universal history of all mankind, understood as a scheme of the necessary development of humanity according to recognizable laws" (Hayek, 1952: 196-7)<sup>104</sup>. Hayek then continues to show that such claims are 'arrogant' and beyond the capabilities of the human mind. And just as Popper, whom he applauds

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<sup>104</sup> While published in 1952 Hayek developed these arguments during WWII, as he describes in the preface to 'The Counter-Revolution in Science' (Hayek, 1952).

for his treatment of historicism, Hayek discusses the fact that for Hegel and Comte history leads to a predetermined, and thus inevitable, goal. This according to Hayek, implies a “thorough fatalism: man cannot change the course of history” (Hayek, 1952: 200). It was this kind of fatalism, this acceptance which we identified as typical of earlier Viennese thought. So in a sense rather than fighting just historicism, Popper and Hayek were also forcing a break with their own tradition<sup>105</sup>. Popper is quite aware of this when in the preface of the *Open Society* he claims we must be outspoken in our criticism of what ‘admittedly is part of our intellectual heritage’<sup>106</sup>. It is this fatalism which Popper and Hayek have recognized, even in some of their close allies, which they seek to overcome. When Popper reads the ‘Road to Serfdom’ he is especially struck by the sense of duty from which Hayek has written it: “I felt that you were driven by fundamentally the same experience which made me write my book” (Popper quoted in Hennecke, 2000: 174).

This does not mean that Hayek and Popper themselves are necessarily immediately very far removed from the historicist position. This overlap or at least very close resemblance between their own position and the position they criticize is also pointed out by some students of Popper. They have pointed out that Popper’s description of open and closed societies and especially the transformation from the closed to the open society contains (more than) a ‘whiff of historicism’ (Watkins, 1999). The study of history however leads both Popper and Hayek to see that historical developments are never smooth or natural.

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<sup>105</sup> The manifesto of the German counterpart to Viennese group, the *Ordo-liberals*, many of whom would later join the *Mont-Pèlerin Society*, starts similarly with an attack on this fatalism (Bohm, Eucken & Grossmann-Doerth, 1936/1989).

<sup>106</sup> The structure of Popper’s argument bears close resemblance to Hayek’s attempt to distinguish between a true and a false individualism, which are both prominent parts of our intellectual heritage.

Both stress the struggle for ideals which were going on in the past, Popper in his study of the Greeks, and Hayek in his study of the history of English liberalism. They come to realize that the advent of liberalism and freedom were neither inevitable nor natural. That is the message they would like to get across to their contemporaries: the fate of our civilization is in our own hands, rather than in the hands of history. As Popper puts it in the preface: "The future depends on ourselves, and we do not depend on any historical necessity" (Popper, 1945: 3). In this respect it is worthwhile to quote the analysis of Hacoen, Popper's biographer, of this part of Popper's work:

"The West could either fulfill that which it was already by definition – rational, humanitarian, cosmopolitan – or decay into the Other, its origin. Popper seemed to discount diverse patterns. This was historicism, but it was innocuous because it was nondeterminist and nontriumphalist. Progress was possible, but regress, given history, more likely. The narrative's major problem was not Western superiority but potential defeatism. Whence hope? From nowhere, said Popper, but we must fight nonetheless."

(Hacoen, 2000: 426)

What immediately stands out is Hacoen's emphasis on defeatism. Popper and Hayek had witnessed the defeatism in many of their contemporaries. They had witnessed it in their intellectual enemies, fascists and socialists, but more importantly they had witnessed it in many of their fellow liberals. Undoubtedly they had experienced it themselves on more pessimistic days. To convince themselves, and their allies that there was still something worth fighting for they had to show



that the future was open, that there was hope, despite despair.

#### ***4. The need for a defense***

The other element that stands out in the description of Hacothen is the emphasis on the fighting spirit present in the work of Popper. This spirit is of course immediately evident from the title of his book 'The Open Society and its Enemies'. Popper and Hayek describe their books from this period as their 'war effort' (Popper, 1976: 115, Caldwell, 1997: 37). Both Hayek and Popper were well aware that they were transcending, or trespassing, the traditional boundaries of scholarly activity.

While Schumpeter still claims that: "this is not a political book and that I did not wish to advocate anything", his fellow Viennese liberal intellectuals do write political books (Schumpeter, 1946/1976: 412-3). And they do not do so implicitly, but they in fact start off their books that way. Hayek: "When a professional student of social affairs writes a political book, his first duty is to plainly say so. This is a political book" (Hayek, 1944: vi). And Popper: "The systematic analysis of historicism aims at something like scientific status. This book does not. Many of the opinions expressed are personal" (Popper, 1945: 3). Or close associate Peter Drucker: "This is a political book. As such it does not lay claim to the detached aloofness of the scholar nor the studied impartiality of the news reporter" (Drucker, 1939: xv). They make clear that they write these books to defend their civilization. Once more Popper: "if we wish our civilization to survive we must break with the habit of deference to great men" (Popper, 1945: v). And Hayek, who argues that we have to take a stand: "When the course of civilization takes an unexpected turn – when, instead of the continuous progress which we have come to expect,

we find ourselves threatened by evils associated by us with past ages of barbarism” (Hayek, 1944: 10). Or fellow Viennese, and chemist by training, Michael Polanyi: “[Between 1935 and 1940] the ideas of liberty, which at the end of the period were to divide the world in a struggle of life and death, were left almost uncultivated” (Polanyi, 1940: v). These scholars write their books with political goals in mind, they hope to steer civilization in a different direction. At the same time they realize that it is unlikely that their books will do much to alter the course of an entire civilization. Hayek expresses that tension beautifully:

“I have every possible reason for *not* writing this book. It is certain to offend many people with whom I wish to live on friendly terms; it has forced me to put aside work for which I feel better qualified and to which I attach greater importance in the long run; and, above all, it is certain to prejudice the reception of the results of the more strictly academic work to which all my inclinations lead me.”  
(Hayek, 1944: vi-vii, emphasis in original)

Hayek makes clear that this book was written despite himself. He becomes a defender of civilization despite thinking of himself as a student. It will damage both his relationships and the reception of his future work. More importantly it seems that he is uncertain of the effects of his work. He put aside more scholarly work which he believes is of more value in the long run. In fact his hope that this work might change the course of events seems idle if we consider what Hayek writes elsewhere around the same time about ‘true’ individualism: “[it] is a product of an acute consciousness of the limitations of the individual mind which induces an attitude of humility toward the impersonal and

anonymous process by which individuals help to create things greater than they know” (Hayek, 1948: 8). Civilization is precisely such a phenomenon which we help to create, but can never completely understood, let alone steer in a particular direction. Polanyi with whom Hayek corresponds at the time seems even more uncertain about the effect of the collection of papers he publishes around the time under the title ‘Contempt of Freedom’ (1940). After he has written about the ideals of Liberty (his capital L) and humanity, and particularly about the anxieties and danger surrounding them, he comes to a humble conclusion: “looking back on these essays with this in mind, I am of course aware of their insignificance” (Polanyi, 1940: vi). Popper is, perhaps characteristically, less modest about the effects he hopes his work might have. But even Popper phrases his hopes with some restraint. He hopes that his work will contribute to the analysis and understanding of totalitarianism, and hopes it will have significance in the ‘perennial fight against it’.

These scholars, these students, nonetheless publish these books; they speak out instead of submitting themselves to these developments. Where does this hope come from?

It should come as no surprise that Popper and Hayek consider the theory of socialism and especially that of Marx to be of the historicist type. In Marxist theory the class struggle would ultimately resolve itself in the rule of the only remaining class, the proletariat. The proletariat would rule the socialist world, which would inevitably follow capitalism. It was this type of theory which was embraced by Schumpeter, although in a modified form (he believed that capitalism would collapse from a lack of social support, rather than expecting a proletarian revolution caused by exploitation). In fact, at certain points, the Viennese students

of civilization were all convinced that while socialism was fundamentally flawed, it was also inevitably coming. What these prophetic theories however did not account for was the rise of fascism. Many socialists at the time attempted to write fascism off as the last phase of capitalism, its last convulsion before its final demise. Popper and Hayek on the contrary saw fascism and socialism as related; they were both collectivist and totalitarian ideologies. More importantly they had seen that various intellectuals had discarded socialism and placed their hopes in fascism. This provided a glimmer of hope for Hayek and Popper.

They realized that fascism, but more importantly socialism, was a cultural force. A very strong force, but nonetheless not a natural development. So Hayek argues that: "If in the long run we are the makers of our own fate, in the short run we are the captives of the ideas we have created" (Hayek, 1944: 2). And Popper: "The responsibility of this tragic and possibly fatal division becomes ours if we hesitate to be outspoken in our criticism" (Popper, 1945: v)<sup>107</sup>. The change is not immediately apparent, but Popper and Hayek transform socialism from an inevitable social development into an ideology, a cultural movement. The rise of fascism makes them realize that they are fighting a cultural ideal, instead of a natural force. In the long run it might be possible, if unlikely, to change that cultural ideal. Instead of passively accepting the inevitable changes of their time, Popper and Hayek argue that it is their personal responsibility as intellectuals to resist these changes and especially the mistaken beliefs underlying them.

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<sup>107</sup> Such sentiments remained the most important driving force behind Popper's work, see especially the introduction to Popper, 1994. There he writes: "*The future depends upon ourselves*. It is we who bear all the responsibility" (Popper, 1994: xiii).

A second cause for renewed hope was undoubtedly their migration to the Anglo-Saxon world. They felt that the harmful developments in the 'new world' had not yet progressed as far as on the continent, and that perhaps the trend could still be reversed in their new home countries. This belief comes out most clearly in the introduction to the Hayek's 'Road to Serfdom' in which he makes clear to his British audience that he has already lived through the development of thought which the Anglo-Saxon world is currently experiencing. He wishes to warn his audience that if they continue on this path, they will ultimately end up in the situation of the European mainland. Hayek argues: "history never quite repeats itself, and just because no development is inevitable, we can in a measure learn from the past" (Hayek, 1944: 1).

If socialism and fascism are cultural developments, and if they are successful because of the utopian images they sketch for the future, they have to be fought on this ground. To the attentive reader this will sound familiar, for this is what Wieser had argued in 1910. In the series of lectures he had called for a new kind of liberalism. He had compared his age to the glorious days of liberal hero Schiller. Back then, he argued, people were working together on a shared project, a shared ideal, the ideal of freedom, under the banner of liberalism. This is in sharp contrast to his own age, in which the economy sure enough unites the working hands, but it at the same fragments the interests. Even modern education, he argues, tends to separate instead of unite the people. Wieser argues that the end of an era has come, and that a new one is beginning: "Politically also a better time will come, with new values, new

hope, and a new belief in freedom” (Wieser, 1910: 154)<sup>108</sup>. In this new era Wieser suggest we might need to get rid of the concept of liberalism, especially since it is surrounded by so much controversy. Even if the word liberalism is given up, however, the wish for and belief in freedom should be kept alive. It is this task that Hayek and Popper now take up.

### ***5. Renewed ideals?***

One of the Viennese liberals who recognized early that new ideals were needed was Peter Drucker. A man now best known for his work in management was trained as an economist and like his fellow Viennese intellectuals he tried to make sense of fascism and socialism in the 1930's. From the introduction of his 'The End of Economic Man' (1939) it becomes clear that he is writing with a similar purpose as Hayek and Popper, to warn the Anglo-Saxon world for the dangers of socialism and especially fascism, hence the first sentence is the typical disclaimer: "this is a political book (...) it has a political purpose to serve: to strengthen the will to maintain freedom against the threat of its abandonment in favor of totalitarianism" (Drucker, 1939: xv). In this book, which is cited twice in a positive way by Hayek in his 'Road to Serfdom', Drucker argues that alternative ideologies were bankrupt at the time when fascism was on the rise. The liberals had given up most of their fundamental beliefs during the Great Depression, while socialism in Central Europe had collapsed. In Russia it had become clear that equality and freedom could not be achieved through socialism. Drucker therefore argues that there is a need for new ideals, in a world of bankrupt

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<sup>108</sup> My translation in German: "Auch politisch wird eine bessere Zeit kommen, mit neuen Werten, mit neuen Hoffnungen, mit neuen Freiheitsglauben".

ideologies. The appeal of fascism can only be countered by offering an alternative positive program.

Drucker argues that both socialism and capitalism were based on the idea of economic man, for whom economic satisfactions alone appear socially important and relevant. In both philosophies: “Economic positions, economic privileges, and economic rights are those for which man works. For these he wages war, and for these he is prepared to die” (Drucker, 1939: 43). This prominence of economic man has led to the dominance of a purely economic logic and purely economic ideals. Neither liberalism nor socialism was able to realize these ideals completely, and there was an increasing dissatisfaction with the emphasis on the economic side of life. Fascism, on the other hand, was successful because it set up non-economic ideals, such as that of the heroic man, the courageous individual willing to sacrifice himself for the greater good. According to Drucker, though, even fascism has trouble explaining what this individual sacrifice is supposed to be for, sacrifice might sound plausible for the individual, but not for society as a whole. Sacrifice always presumes some higher goal, a goal which fascism fails to offer. So he argues the future of Europe depends on whether we are able to come through this crisis to find a new (non-economic) domain in which the fundamental Christian/European values of freedom and equality can be realized<sup>109</sup>.

Hayek is quite critical of this analysis of Drucker. In what I believe to be the most important chapter of the ‘Road to Serfdom’, he responds to Drucker’s thesis. In the chapter on ‘Material Conditions and Ideal

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<sup>109</sup> As with so many of the Viennese thinkers, and this is especially true of their post-war reception, this political dimension of Drucker’s work was largely ignored. But Drucker’s work on organizations after the war was envisaged as a possible solution to such political problems.

Ends' Hayek fiercely attacks the idea that economic ideals could or should be less important: "Economophobia would be a more correct description of this attitude than the doubly misleading 'End of Economic Man', which suggests a change from a state of affairs which has never existed in a direction in which we are not moving" (Hayek, 1944: 203). According to Hayek individuals have always been concerned with wider ideals than mere economic ones, but he is especially critical of the idea that the 'economic' will lose its importance. The denial of basic economic laws and the denial of the importance of material welfare for the realization of our ends are according to him dangerous threats to civilization. Such denials suggest wrongfully that we are able to shape the economy according to our wishes, or that human flourishing can be realized without a flourishing economy. More importantly, still, to Hayek is the fact that the ends of individuals are always varied and heterogeneous, so society should not concern it with the realization of such ends. The deliberation of ends should be left to individuals, for which the economic sphere will provide them the (appropriate) means and freedom, and. Just as he had earlier stressed in the article 'Freedom and the Economic System', the coordination of such individual ends could only occur in a decentralized system, such as the market. If it were attempted in a centralized manner this would inevitably lead to totalitarian control: "individual freedom cannot be reconciled with the supremacy of one single purpose to which the whole society must be entirely subordinated" (Hayek, 1944: 211). He argues that even a goal such as 'full employment' which Drucker suggests, cannot and may not ever be the single or primary goal for which society strives.

Hayek believes that Drucker gives in too easily to the socialist criticism of our civilization. Drucker emphasizes the need to do



something about the 'despair of the masses'. He suggests the need for more (job) security and an enduring peace. Hayek on the other hand approvingly quotes Benjamin Franklin: "Those who would give up essential liberty to purchase a little more temporary safety deserve neither liberty nor safety" (Hayek, 1944: 133). Hayek's 'solution' is problematic to say the least. Hayek, Popper and Drucker all agree that there has been a revolt against civilization. To overcome this revolt Drucker offers practical solutions and ideals.

Popper and Hayek on the other hand believe, as we have seen in chapter three, that this revolt against civilization is caused by the 'strain of civilization'. The uncertainty associated with an open and free society, the burden of individual responsibility, and the unwillingness to accept certain unavoidable ills. Instead of attempting to decrease this strain as Drucker suggest, Hayek argues that we should submit ourselves to: "conventions which are not the result of intelligent design, whose justification in the particular instance may not be recognizable, and which to him will often appear unintelligible and irrational" (Hayek, 1948: 22)<sup>110</sup>. Or in other words we should accept the strain, but for *what* Drucker would reply? What justifies this sacrifice?

Hayek's book does not provide an answer to that pressing question. Many readers of his book are indeed surprised that very few positive ideals are suggested. Hayek finally hopes to remedy this in his 'Constitution of Liberty': "If we are to succeed in the great struggle of ideas that is under way, we must first of all know what to believe"

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<sup>110</sup> This quote is from 'Individualism: True and False', but in chapter 14 of the 'Road to Serfdom' one can find similar arguments: "It was men's submission to the impersonal forces of the market that in the past has made possible the growth of civilization which without this could not have developed; it is by thus submitting that we are every day helping to build something that is greater than any one of us can fully comprehend" (Hayek, 1944: 204).

(Hayek, 1960: 2). And he asked his colleagues at the Mont-Pèlerin Society, to have the “courage to be utopian” (Hayek, quoted in Burgin, 2012: 217). The tension between analysis and political ideals, between science and politics, between mythos and logos, remains present also in his most idealistic book ‘The Constitution of Liberty’. Like ‘The Road to Serfdom’ this book starts with a warning: “This book is not concerned mainly with what science teaches us” (Hayek, 1960: vii). Hayek explains that he wants to sketch an ideal, and how this ideal can be achieved. He seems more optimistic than ever, attempting to indeed develop new ideals. The reader however soon discovers that this is far from easy for the skeptic Hayek. Instead he more cautiously attempts to restate old truths for new generations. He argues that these truths and principles have been almost completely disregarded over the past century. The true novelty of his ‘Constitution of Liberty’ is that Hayek stresses the necessity of a ‘wide consent on certain fundamental values’, or as he also puts it “our ability to rally a sufficiently strong part of the world behind a common ideal” (Hayek, 1960: 2-3). Whereas he earlier had stressed the divergence of individual aims, and values, he now argues that such a divergence can only exist and be fruitful if there is also some overlap in values and ideals. This combination of a lively discussion by those who shared a certain perspective would also be the starting point for the Mont-Pèlerin Society (Hayek, 1947/1967). That society however would similarly run into difficulties whenever it attempted to formulate a positive program for the future, as Burgin has shown recently (Burgin, 2012).

Hayek’s claim for a return to older values raises the question whether this would be at all possible. In chapter three we have seen how Hayek himself was skeptical about this. Once the gold standard had been

unmasked as a fiction it could no longer serve the function it once had. And that was true also of many Christian values. Schumpeter was deeply convinced, as we saw above, that hoping for a return to such values was wrongheaded. Virgil in Broch's novel realizes that the 'Aeneid' promotes republican values, values which belong to the past and values which would be out of place in the new Empire. Virgil concludes from this in the beautiful phrase "No longer and not yet", that his work as poet is futile, because it comes too late and too early at the same time. Too late for it attempts to resurrect a culture which is dead and too early because a new republican moment has not yet come (Lipking, 1981: 132-4).

In that sense Popper is more daring, he offers ideals for the Open Society of the future. He suggests that the adoption of scientific values, such as a critical attitude and cosmopolitanism could inspire a new generation. His ideal of piece-meal social engineering offers an alternative to totalitarianism on the one hand, and laissez-faire on the other. Popper is less reluctant to fill in what the future might look like, even though that is sometimes at odds with his scientific skepticism. In the introduction to his book he suggests that what his work owes to the scientific method is mainly an awareness of the limitations of scientific knowledge (Popper, 1945: 3). At the end of the first volume, however, he offers a program of humanitarianism and faith in reason, and offers the Great Generation of the Greeks as ideals to live up to. At certain points he cautions against the fanatic and feverish urge to improve the world, which should be sufficiently tempered by an awareness of the limits of our knowledge, a sense of individual responsibility, and the acceptance of our own fallibility. At other points he is optimistic that his program for the future of the Open Society offers a constructive and comprehensive program for the post-war world.

Even if they do so in different ways, both Popper and Hayek attempt to point the way forward for our civilization, instead of lamenting its decline. As Popper puts it: “We must go on into the unknown, courageously” (Popper, 1945: 177). This is no longer the courage to admit our ignorance, to know our own limitations; this is once again the courage to hope, the courage to build something new<sup>111</sup>. It is perhaps no coincidence that Broch in the new world devoted most of his time to helping fellow émigrés, and developing a program of universal human rights. Vienna had not left these scholars. Hayek, in the introduction to the ‘Constitution of Liberty’ even explains to his American readers that his mind had been formed in ‘my native Austria’, but they could now use his knowledge of a civilization in decline, to help build one that might be resistant to those forces which had brought it down: a civilization which could defend itself from its enemies.

## ***6. Conclusion - fate and civilization***

The study of the theme of fate is not common in economics, or the history of economics. In sociology it is somewhat more common; Liebersohn for example examines how German sociologists have dealt with the theme of fate between 1870 and 1923. He describes a belief in fate as a “serious conviction that impersonal forces ruled the world” (Liebersohn, 1990: 3). This description makes it instantly clear how central this theme remains in Hayek’s work. In his later work, as in his

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<sup>111</sup> There is a great lack of studies which seriously deal with this migration and its impacts, both negative and positive. The one great exception is Reisch (2005), who examines the migration of the members of the Wiener Kreis. The study by Vaughn ‘Austrian Economics in America’ (1994) does not deal with these years following the migration, but rather with the reception of Austrian economics in the 1980’s.

earlier work, he thinks of the market as a sphere where impersonal forces govern. Popper and Hayek's critique of historicism criticizes the belief that impersonal forces (historical, cultural, economic, or otherwise) determine history, but it does not mean a rejection of impersonal forces altogether. It should rather be seen as a renegotiation between these impersonal forces and the power of humankind to alter such forces. These impersonal forces, or fate if you like, cannot be shaped, designed, and sometimes they cannot even be altered, but they are ultimately shaped by human interaction, they are cultural.

Liebersohn perceptively argues that the recognition of fate, even during the pessimistic first decades of the twentieth century did not always imply a withdrawal from politics<sup>112</sup>. Sometimes it led to action in perceived harmony with those forces, a position to which Schumpeter comes close at times. More generally the emphasis on fate and impersonal forces might be especially strong during periods of decline<sup>113</sup>. In fact when we see the transformation from thinking about civilization and its development as purely determined by impersonal forces, towards a shared responsibility for our civilization in Hayek and Popper this coincides with a period of new hope. New hope caused by on the one hand their (forced) migration, and on the other hand because the coming of socialism did no longer look as inevitable as it once had.

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<sup>112</sup> Schorske in his intellectual history of Vienna emphasizes the process of withdrawal from politics, which we partly highlighted in the previous chapter (Schorske, 1980). But the intellectual development of a figure such as Karl Menger, the son of Carl Menger, described in meticulous detail by Leonard (2011) comes closer to such withdrawal. For mathematical economists it was perhaps also easier to escape into an aestheticism than for the more politically-minded economists we study here. That being said it cannot be denied that there is a tendency towards aestheticism in Mises' major work on praxeology.

<sup>113</sup> For more on the relation between the development of civilization and theorizing about it, see the Postscript in Norbert Elias (2000) especially section VII.

The novel by Broch about Virgil demonstrates the tension for the authors during this transformation. Virgil's wish to burn the Aeneid because it represented the values of a dying civilization is mirrored in the reluctance of a younger generation of Viennese students of civilization to write a political book. On the other hand these authors feel a moral duty to do something about the developments of their time, to alter fate. In that sense the new world is liberating to them, for they could once again contribute to a living civilization. Hence Hayek dedicates his 'Constitution of Liberty' to: "the unknown civilization that is growing in America" (Hayek, 1960). The Viennese students of civilization reconceptualized the future as open, and its course as a shared responsibility for mankind. They felt that they had a responsibility to contribute to this future in a positive manner, although they remained skeptical of the value of their contributions. As Hayek put it: "When we do not dare to hope anymore, there remains that one hope, that our influence, that the academic teacher has on the thought of the next generation, at least can partially make up, what many of our predecessors have so heavily transgressed" (Hayek, quoted in Hennecke, 2000: 119)<sup>114</sup>.

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<sup>114</sup> My translation, in German: "Wen wir schon nicht mehr hoffen dürfen, so bleibt doch immer die eine Hoffnung, daß wir mit dem Einfluß, den der akademische Lehrer auf das Denken der folgenden Generation hat, wenigstens zum Teil das wieder gutmachen können, worin sich manche unserer Vorgänger schwer versündigt haben".



## Chapter 7 - The student of Civilization and his Culture

*On the relationship between the scholar and his object of study*

*He saw the world going under,  
and it was his world  
Joseph Roth – The Radetzky March, 1932*

Grillparzer, the 19th century Austrian poet and playwright whose aphorism on freedom I quoted before, was intrigued by Napoleon. As Claudio Magris explains in his discussion of Grillparzer and Napoleon, Grillparzer thought of Napoleon as the symbol of an age, who had however destroyed the 'religio of tradition'. His subjective hubris of a revolution combined with nationalism disregarded reality and most importantly the importance of tradition. "For Grillparzer, Napoleon, with his assertion that in the modern age politics have replaced destiny, represents totalitarianism, life seen as totally political". This he contrasts with the rule of Joseph II "the loyal servitor of the state, who does his duty with self-abnegation, but who also defines the limits of political interference, defending the distinction between the public and the private spheres" (Magris, 1989: 80). Napoleon's totalitarianism, the pursuit of a single idea for which everything else must be sacrificed, is contrasted by Grillparzer with the Austrian tradition of "the tangible detail, the unique particular, that side of life which cannot be reduced to a system" (Magris, 1989: 80). In his play 'King Ottocar: His Rise and Fall' Grillparzer contrasts these two types of leadership. Ottocar is the leader who attempts to Germanize the regions Bohemia and Moravia, to lead



them forward into the future. Ottocar is too proud, too easily enraged and too concerned with honors and powers (“[He] who even challenged Nature as his foe), while Rudolph is the humble leader who primarily practices patience and prudence. Where Ottocar dreams of greatness, Rudolph merely wishes to contribute to a tradition which is far older and greater than he is (“And we are mindful of our ancient line”)<sup>115</sup>. There is no better way to introduce the difference between the role that the Viennese students of civilization envisioned for themselves and the role they believed that modern social scientists adopted.

The Viennese students of civilization imagined themselves to be like Rudolph, humble with attention for the particular and the unforeseen, and fully aware that they could never fully understand let alone control that land of which they were supposed to be the ruler. They believed that modern social scientists had started to act like Napoleon, subsuming their subjects to a single goal which they would objectively and rationally organize. Not surprisingly in Grillparzer’s play Ottocar fall is caused by his arrogance and hubris. And perhaps also not surprisingly Hayek would trace this transformation of the position of the social scientist back to the spirit of the age of Napoleon, early 19<sup>th</sup> century France: to the thought of Saint-Simon and Comte. His book on the subject is even called the ‘counter-revolution’ to emphasize the relationship he saw between the political project of the French revolution, the intellectual project of positivism in the social sciences and his own project which would serve as a counter-revolution to this French revolution in the social sciences. Below I will explore three important themes which emerge from this counter-revolution: an

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<sup>115</sup> The two quotations are taken from the translation of the play by Arthur Burkhard (Grillparzer, 1823/1962: 14, 113).

alternative type of knowledge, the responsibilities of the student of civilization, and the extent to which the Viennese managed to live up to their own ideals of humility and acceptance.

### ***1. Therapeutic and edifying knowledge***

In the introduction of this book I suggested that what particularly struck me about the Viennese students of civilization were statements that floated somewhere between prudent advice, methodological criticism and moral principles. In his German biography of Hayek Hennecke quotes a typical one by Hayek: “The economist is the Cassandra of the modern world by occupation. His unfortunate, and mostly hopeless, task is, to shatter illusions” (Hayek quoted in Hennecke, 2000: 119)<sup>116</sup>. My question then, as now, was how we are to understand such statements, what type of knowledge is this, does it have any value? I think that they do contain knowledge; I will argue that this knowledge is best understood as therapeutic knowledge. The discussion of Rorty in Klamer’s ‘Speaking of Economics’ inspired me to explore this notion (Klamer, 2006: 75-6).

Rorty like the Viennese students of civilization is intrigued by the relationship between the social scientist and the accumulated body of knowledge, or in his case the relationship between philosophers and philosophy. Rorty explains how he was taught that studying philosophy was equivalent to studying its progress; especially the progress in the philosophical discipline epistemology. But during his studies he hit upon

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<sup>116</sup> My translation, in German: “Der Nationalökonom ist nun einmal die berufsmäßige Kassandra der modernen Welt. Seine unglückliche – und meist hoffnungslose – Aufgabe ist, Illusionen zu zerstören“.

a group of philosophers which did not easily fit into the traditional systems. This other group was, however, at least as useful for him as were the more traditional philosophers. This leads him to distinguish two groups of philosophers, the first group he labels 'systematic' and the second one 'edifying'. He argues that systematic philosophers typically argue: "Now that such-and-such a line of inquiry has had such a stunning success, let us reshape all inquiry and all of culture, on its model" (Rorty, 1979: 376). Rorty associates this view with scientism, in an analysis of that bears striking resemblances to that of Hayek. Systematic philosophers build and add on, edifying philosophers on the other hand: "destroy for the sake of their own generation (...) [they] are reactive and offer satires, parodies, aphorisms. They know their work loses its point when the period they were reacting against is over" (Rorty, 1979: 368-9). One of Rorty's favorite edifying philosophers is Wittgenstein, whom he quotes in the epigraph to his 'Philosophy and the Mirror of Nature': "Philosophy has made no progress? If somebody scratches where it itches, does that count as progress? If not, does that mean it wasn't an authentic scratch? Not an authentic itch?". According to Rorty, the edifying philosopher scratches without necessarily removing the itch.

This idea seems to describe the work of Dietl and some of his close associates rather well. Dietl and his contemporaries were fond of aphorisms and reacted to the overtreatment common in their time. The function which Hayek envisages for himself is not much different. He wants to temper the rationalism of his age, the naïve belief in science, the belief in progress, and the possibilities of politics and planning. These edifying philosophers according to Rorty: "refuse to present themselves as having found out any objective truth" (Rorty, 1979: 370). They rather point to the limits of our current knowledge or aspirations.

As such Hayek's argument should be understood historically (the counter-revolution to the revolution) against certain aspirations present in his time and day. This is also reflected in the working title he had for his great work on knowledge in the 30's and 40's; the first part would be called the 'hubris of reason' (largely covering the 19th century and its influence) and the second period would be characterized by the 'nemesis of the planned society' (Ebenstein, 2003: 112). A period of human presumptions and arrogance about individual knowledge (hubris), would lead to a period of retribution, the failure of the planned society (nemesis).

Rorty puts much emphasis on the fact that this edifying, or therapeutic role as he calls it elsewhere, should not be accompanied with a call for the installment of a new system. I am not convinced that this is not so important, in his early work Wittgenstein was attempting precisely to construct a new system, and as we saw, so is Hayek in his later work. Besides the notion of 'edifying' itself suggest that there is also a positive element to their work, in the way they raise awareness, and make us aware of certain tensions. Or as Rorty puts it: "[Their] work is therapeutic rather than constructive, edifying rather than systematic, designed to make the reader question his own motives for philosophizing rather than to supply him with a new philosophical program" (Rorty, 1979: 5). Rorty argues that edifying knowledge instead of teaching us about the world (description) helps us to cope with the world. Popper's concept of the strain of civilization is not a call to end this pain, but rather to recognize it as a price worth paying for the benefits of civilization. It is not primarily a constructive attempt to improve the world, but to help us to cope with the world, and to recognize what we cannot change. This edifying function of knowledge

helps us to realize what our limits are. They have a moral function similarly to the short prayer, popularly known as the ‘serenity prayer’:

*God, grant me the serenity  
To accept the things I cannot change,  
Courage to change the things I can,  
And wisdom to know the difference<sup>117</sup>*

Not surprisingly Rorty compares the function of edifying knowledge to the function of poetry, as opposed to science. Edifying knowledge helps to become aware, it helps us to pursue attainable goals, rather than giving us a description of the world. Along this line of thought economics is not a dismal science for the descriptions it gives about the world, but because it emphasizes scarcity and the necessity and responsibility associated with making choices. The economist is often forced to take the role of pointing out that resources are scarce, choices costly, or that there is no ‘free lunch’. These insights are part of the therapeutic knowledge of economics. As Rorty also claims they are an essential part of the humanist education, which is not about how the world is (the domain of science), but rather what we can and should pursue. They are as much about us, as human beings, as they are about the world out there.

This edifying and therapeutic is what differentiates the Viennese style of thinking from other styles of thinking within economics, and more generally the social sciences during the twentieth century. Hayek,

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<sup>117</sup> An alternative version in a more medical direction: For every ailment under the sun/ There is a remedy, or there is none / If there be one, try to find it / If there be none, never mind it.

placing a slightly different emphasis, recognizes this, when he describes his own efforts as: “The psycho-analytical treatment of our times. This treatment can help to bring into our consciousness, that which without our knowledge controls our thinking” (Hayek quoted in Hennecke, 2000: 119)<sup>118</sup>. Hayek emphasizes the therapeutic element of this exercise, it helps us to realize unconscious elements of our thought. For both Rorty and Hayek this does not mean that edifying and therapeutic knowledge should somehow replace scientific knowledge, they are both essential parts of human knowledge, more importantly they complement one another. As Rorty points out the therapeutic philosophers, or social scientists, are often parasitic on the traditional scientific knowledge. Like court jesters who exist by virtue of kings, so therapeutic thinkers exist because there is scientific or otherwise privileged knowledge. These therapeutic thinkers demand corrections, they seek to change what the systematic scientists are pursuing, and they attempt to change the content of our economic knowledge. They moreover make us aware of the moral character of our intellectual pursuits.

Now that we are aware of this other type of knowledge (a therapeutic insight) it is also easier to understand the calling to which Carl Menger was referring, analyzed earlier in this book. The introduction to his book on method now appears in a new light. Menger argues that developments in other fields such as political science and jurisprudence had led to promising results, which led various political economists to attempt to apply these methods in economics. In doing so they overlooked the differences between those fields and political

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<sup>118</sup> My translation, in German: „Die psychoanalytische Behandlung der Zeit. Sie kann uns dazu verhelfen, uns vieles zum Bewußtsein zu bringen, was ohne unser Wissen unser Denken beherrscht“.

economy, a claim of 'scientism' once again (Menger, 1883/2009: 30). Menger thinks of himself as correcting these flaws; he will be the critic whom German political economic thought has missed for so long. And he concludes morally, but no very humbly: "All great civilized nations have their specific mission in the development of science (...). Political economy, too, cannot dispense with the single-minded cooperation of the German mind. To contribute to bringing it back to the right paths was the task of this work" (Menger, 1883/2009: 32). The Austrians would keep attempting such corrections: from Böhm-Bawerk's reaction to Marx, to Mises reactions against Werner Sombart and German socialists and historicists, to Hayek's criticism of rationalism. Some parts of their work were constructive, but important parts of their work can only be understood in response to corrupting trends they saw around them. One could call it reactionary, the derogatory label for the counter-revolutionaries of the nineteenth century, and some of the Viennese thinkers would not have been very offended, but edification and therapeutic knowledge captures better what they were after.

Their contributions are sometimes therapeutic when they lay bare unconscious elements in the tradition of economic thought and they are edifying to the extent that they help guide us, and cope with the world. This opens up the question whether there is a larger therapeutic and edifying tradition in economics. Within economics figures such as Bernard Mandeville and Thorstein Veblen come quickly to mind, but I hope that this notion will make us aware of a different kind of knowledge which is existent throughout the social sciences. This other type of knowledge is usually neglected, or worse frowned upon, because it supposedly does not add to the accumulated body of knowledge. I

hope to have shown here, that such neglect, or the frown, is unwarranted.

## ***2. The responsibility of the social scientist***

At the very start of this book I introduced the painting ‘Late Visitors to Pompeii’. In that painting Carel Willink had depicted himself on the left, suspiciously looking over his shoulder towards the viewer. This led me to wonder whether he believed that he bore some responsibility for the demise of the culture depicted in the painting, or whether he perhaps believed he had some role to play in reviving it. This can quite easily lead to somewhat grotesque claims about the role of the painter, or in our case that of the student of civilization, as if it was in his or her powers or to change the fate of a civilization. I hope that the previous chapters have, however, shown that the students of civilization we have studied are very far from thinking that this is within their powers or indeed within their legitimacy. They did nonetheless believe that their responsibilities consisted of more than objective analysis.

We find Hayek struggling with this tension when in 1944 he addresses a gathering of historians at King’s College Cambridge. His tone from the very first words is serious and somewhat dramatic: “Whether we shall be able to rebuild something like a common European civilization after this war will be decided mainly by what happens in the years immediately following it” (Hayek, 1944/1992: 201). He then explains that the fate of Europe to a large extent depends on the fate of Germany. If older liberal ideals can be reestablished there, there will be hope. He argues that the British historians whom he addresses can play a role in reestablishing these ideals. Hayek is aware that any overt



attempts to do so through imposed historical textbooks for example, will probably only have counterproductive effects. British historians can nonetheless play a vital role through international collaboration, and especially through the recognition and appreciation of valuable work done in Germany itself. Furthermore they can help to (re-)establish the “cultivation of certain common standards of moral judgment”. Hayek especially suggests that such common ground might be found in the work of Lord Acton (Hayek, 1944/1992: 208-9). The historian, Hayek argues, has a responsibility to contribute to this project, even if he is reluctant to do so, for: “whether he wills it or not, the historian shapes the political ideals of the future” (Hayek, 1944/1992: 214)<sup>119</sup>.

Such a claim clearly runs counter to the traditional image of the historian, or more generally the objective social scientist. In the social sciences the technocratic perspective has been very influential. The technocrat, according to this standard view, is the expert who is given a goal by the policy maker and then advises on the most appropriate or efficient means to achieve this goal (Berger & Kellner, 1982: 121-142; Robbins, 1932: 149 and Blaug, 1992: 128-131, see also Hutchison, 1964: 108-116). The goal of social science in this technocratic model is clearly to bear fruit, it studies the effects of various policy measures (means) to achieve certain effects (goals). This simplistic model has been frequently criticized not in the least by the Viennese students of civilization for the scientism it implies (see also Berger & Kellner, 1982: 121-31). But even if one is somewhat critical of this simplistic technocratic model it is yet another step to accept the idea that the historian or social scientist should help to promote certain ideals. Nonetheless this is what Hayek

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<sup>119</sup> For more on Hayek’s theory of intellectual change see Burgin (2012).

argues and it was with this goal that he set up the Mont-Pèlerin society (Hayek, 1947/1967). So is this just a type of ideological activity we should reject as scholars?

I am tempted to concur, but doing so feels unnatural. If students of the economy have established that certain organically grown institutions help to foster human interaction with mutually beneficial outcomes, should they not attempt to promote and protect these institutions? The advocacy of the replacement of such institutions with an institutional arrangement which works in theory is somewhat more problematic, but should surely not be completely impossible. The advocacy of alternative institutional arrangements always runs the danger of turning into a naïve perfectionism. Such perfectionism is hard to square with the more pragmatic stance to defend those parts of our culture which seem to function relatively well. It is telling that especially Hayek seeks to anchor his defense of certain parts of our culture in both intellectual as well as practical traditions. For him, at least during his more humble moments, the defense is a combination of the pragmatism of that which has proven its worth with an attempt to ground this defense in intellectual traditions. His attempt to formulate a 'Constitution of Liberty', on the other hand, tends more toward the perfectionism which Hayek so criticizes in others.

I believe there is an additional reason to believe that it would be wrong to think that economists, sociologists or political scientists should stick to a discussion of means only. Over the past decades we have seen, especially in economics, a shift away from the metaphor of foundations (as in Samuelson's defining 'Foundations of Economic Analysis') to the metaphor of principles. More recently we have seen a stream of books that demonstrate the economic way of thinking (Cowen, 2007; Frank,

2008, see also Heyne's textbook of the same name first published in 1973). In this tradition which at least goes back to Wicksteed's emphasis on the 'common sense' of political economy, but probably further back to Mandeville, the economic way of thinking is a particular understanding (and critical perspective) on the world: the need for choices (and trade-offs) in a world of scarcity, the emergence of exchange (or social cooperation) under certain institutions, the importance of property rights and incentives within these institutions and the function of prices within the market process. In a recent book, in which Boettke makes a similar point, he argues that these principles are what make up the economic way of thinking (Boettke, 2012: 17-32). Following Henry Simons, Boettke argues that these economic principles provide a kind of prophylactic against various fallacies.

This view is in great accordance with the view that the sociologist Berger expounds about the sociological way of thinking. Berger argues that sociology is perhaps best understood as a form a consciousness, a way of thinking. This way of thinking according to him consists of three elements: a willingness to look for different levels of meaning of human life, especially those that are hidden from our everyday consciousness (a kind of unmasking), secondly a willingness to look at the unrespectable, to those parts of behavior that are regarded as 'vulgar' or 'unrespectable' or that are too easily taken for granted, and thirdly an awareness of the relativity of identities, ideas and values in the modern world (Berger, 1963: 25-53). It is particularly striking that the first two elements seem to be completely in-line with the recent stream of popular economics books who all unmask our everyday reality ('the hidden reality behind everything' or 'discover your inner-economist'), and are very willing to look at the unrespectable (cheating teachers or

sumo-wrestler, or just realize that the entire idea of studying business was rather unrespectable for many centuries). Berger emphasizes too that these insights might work well to counter various popular fallacies. In that sense we can perhaps understand Hayek's plea to the historians as a call to awareness that the influence of the historical consciousness has been particularly strong in Germany, and that this historical consciousness is to a large degree the responsibility of the historians.

The 'way of thinking' or principles-approach seems to implicitly embrace the idea of therapeutic knowledge. It emphasizes the aspects of knowledge in a particular tradition that help us to understand and cope with the world around us. Another element which at least the economic and the sociological consciousness have in common is the emphasis on the negative: the need for trade-offs, showing what is not true, what should not be taken for granted. One could call it an eye for the tragic elements of human life. In Hayek's own work this element is of course even stronger when he suggests that economists show men: "how little they really know about what they imagine they can design" (Hayek, 1988: 76). Among historians a similar tradition exists, consider for example Pocock: "historical inquiry is anti-paradigmatic, in the sense that it multiplies without theoretical limitation the problem-situations, contingencies and contexts in which any historical occurrence may have been situated, and therefore performs the liberal-conservative function of warning the ruler on the one hand, and the revolutionary on the other, that there is always more going on than either can understand or control" (Pocock, 2009: xiii). Similar sentiments might be found in the work of Quentin Skinner and of course in that of Lord Acton and

Tocqueville, the two thinkers after which Hayek originally wanted to call the Mont-Pèlerin Society<sup>120</sup>.

The final step we have to take to realize that the student of civilization is in a position to defend certain institutions, or at least to warn against certain wrong-headed attempts to change these is that the emphasis on the student element<sup>121</sup>. Within the technocratic model a clear separation is made between the individual as scientist (who as an expert can advise on means) and the individual as citizen (who has a personal opinion on ends). When we instead think of the scholar as a student of society, a student of human culture, such a neat separation becomes more problematic. Berger's book 'An invitation to Sociology: A Humanistic Perspective' (1963) on which I drew above, and the recent stream of economics books which focus on a certain economic consciousness, consciously adopt a democratic perspective. They hope to show the reader that everyone possesses this particular consciousness (hence the invitation), but that some are more aware of it and have cultivated it further than others.

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<sup>120</sup> Some scholars have observed that in both Hayek and Popper the criticism of the social engineering stems from epistemic arguments (see for example Gray, 1984, especially 134-6). I too draw heavily on such epistemic arguments here, the 'student'-perspective emphasizes the skepticism about (the possibility of) certain knowledge.

<sup>121</sup> In the Fatal Conceit Hayek emphasizes this defense of the status quo: "An understanding of cultural evolution will indeed tend to shift the benefit of the doubt to established rules, and to place the burden of proof on those wishing to reform them. While it cannot prove the superiority of market institutions, a historical an evolutionary survey of the emergence of capitalism helps to explain how such productive, albeit unpopular and unintended, tradition happened to emerge" (Hayek, 1991: 20-21).

In other words economics or sociology is not just a substantive body of expert knowledge on how to govern, but rather an awareness from which every citizen can benefit. Not surprisingly this is how Berger ends his book: “we have the possibility of stopping in our movements, looking up and perceiving the machinery by which we have been moved.

### **Box 3: A combination of sensibilities**

The awareness of the existence of the various sensibilities that we can cultivate also makes us aware that any single one of them will only give us partial insight, might even mislead us. So we can to a large degree agree with Keynes when, in his obituary of Alfred Marshall, he argues that the: “master-economist must possess a rare must combine talents not often found together. He must be mathematician, historian, statesman, philosopher -in some degree” (Keynes, 1924: 322). But, instead of emphasizing this high standard of his skills, or indeed the idea that there can be ‘master-economists’, we should perhaps talk of sensibilities. The economist has generally cultivated his sensibility about costs and benefits of a variety means very far; he knows how to do things efficiently. Efficiently only however gets us nowhere, as Menger already claimed, without deliberation about ends such efforts will be blind. The historian, as Pollock points out, has usually cultivated his sensibility of contingency and the importance of context very far, but might lack the understanding of certain principles which underlie almost all human behavior. The sociologist, as Berger argues, has cultivated his sensibility of differences in perception between individuals very far, but they might overemphasize this relativism. What all the various students of particular subjects ultimately require is balance, an understanding that their sensibilities are not the only ones, that they are contributions to a wider (cultural) conversation. These sensibilities do not necessarily divide easily into ends and means (if such a distinction is tenable at all since ends are usually means in a longer means-ends chain). When economists praise the economic growth of the past two centuries (the means) they know fully well that that is not the end of the story about human well-being (the end), but they do rightfully feel that economic growth has contributed to it. The awareness of contingency and context will make the historian skeptical not just of certain means, but also of certain ends.

In this act lies the first step towards freedom. And in this same act we find the conclusive justification of sociology as a humanistic discipline” (Berger, 1963: 176). When Baumol and Blinder first introduced the principles approach to economics, they called these principles ideas for beyond the exam and Cowen even links the discovery of

our inner-economist to the future of civilization. Boettke argues, following Buchanan, that “economics is a public science in that basic knowledge of the discipline improves the ability of the students to be informed participants in the democratic process” (Boettke, 2012: 64). The responsibility of the student of civilization is then not a kind of professional duty, but a civic duty. A duty to speak up given that certain principles or critical insights are ignored. These authors, in other words, appeal to edifying character of economic and sociological knowledge.

This brings us back to the student of civilization and their responsibilities. They have those firstly as teachers, because they cultivation and pass on of the existing body of knowledge. But another responsibility comes about because they possess a certain sensibility. Next to their occupation as teachers and scholars, students of civilization are participants in conversations about human well-being, governance and more broadly the good life. As participants to these debates they have a responsibility to point to successful cultural institutions and warn against proposals they believe to be misguided. They might even have a somewhat privileged position in the democratic debate, precisely because they have studied civilization more than others, but ultimately they are just that, participants. A student should want no more, or should he?

### ***3. On the humility of the Viennese students of civilization***

In the previous chapters I have characterized and in various ways praised the humble position that the Viennese students of civilization take. Now it is time to consider whether they actually practiced this ideal. To examine this I would like to start what I believe to be one of the most potent criticisms of this self-proclaimed humility by Philip Mirowski, a criticism to some extent shared by John Gray.

Mirowski argues that Hayek hit upon a 'double truth doctrine' according to which: "the masses will never understand the true architecture of social order, and intellectuals will continue to tempt them to intervene and otherwise mock up the market" while Hayek and other neoliberals would have the power to "*define and institute* the types of markets that they (and not the citizenry) were convinced were the most advanced" (Mirowski, 2009: 443-4). Mirowski is particularly worried that under a Hayekian regime an elite would be able to create the institutions they had found were most beneficial (private property rights, rule of law and constitutional limits) while the citizens would be told that markets and other cultural institutions could never be fully understood (or outperformed) and that they therefore had to be accepted as a fact of life. This criticism is compelling for various reasons. We have already seen the contempt with which the Viennese students of civilization wrote and talked about the masses and intellectuals. Secondly it would certainly be problematic if it turned out that Hayek, who condemned the social engineering of others, was in fact in favor of a particular type of social engineering. Thirdly it hits upon a deeper tension in the work of the Viennese students of civilization who rely



heavily on epistemological arguments to criticize the philosophies of others, but seem to put a rather definite plan forward themselves. For Mirowski there is a fourth reason why this argument carries so much force, because he believes that Hayek and others have set up, through the Mont-Pèlerin society and its various offshoots, a new 'technology of persuasion'. The way in which Hayek and especially some other neoliberal thinkers have disseminated their ideology through think-tanks, academic departments and business elites he feels is further evidence for the idea that this elite has functioned in a very different way from which they describe markets or other cultural institutions. While the dissemination of their ideas, according to Mirowski, has taken place through concerted (and centralized) efforts, in their theories they instead describe a decentralized process of interacting individuals with dispersed but incomplete knowledge.

So what are we to make of this claim by Mirowski? I believe there are two points at which Mirowski's interpretation goes seriously wrong. He greatly overestimates the power of the scholars involved in the Mont-Pèlerin society to shape both the internal coherence and secondly the message communicated to the outside world. The recent history of Burgin first of all shows the absence of such internal coherence. More importantly Burgin's history shows that during the mid and late 1950's Hayek seriously considered to disband the organization which had been set up to foster international cooperation in a period of intellectual isolation. Burgin describes this plan for disbandment as a curious mixture of triumphalism and despair. Triumphalist because the intellectual isolation was disappearing, but despair caused by: "the continued failure of the society's internal debates to fulfill his [Hayek's] original aspirations" (Burgin, 2012: 124). Burgin shows that similar

problems plagued the society's outside communication, members could not agree on the appropriate channels or even the message.

This leads to a more serious problem in Mirowski's account of Hayek's role in the Mont-Pèlerin society. Mirowski, in contrast to Burgin, seems to neglect the despair of liberal intellectuals in interwar Europe about the political, social and economic developments. Mirowski, instead of emphasizing this context as prime moving force behind the intellectual project, sneers at the 'refined European tastes' and emphasizes the strong anti-democratic strand in for example Hayek's thought. That strand is certainly there, but can only be understood against the Weimar and Austrian experience of collapsing democracies giving way to fascism. Even more serious than neglecting the historical context of this movement is perhaps that in characterizing neoliberalism Mirowski seems to willfully neglect Hayek's attempt to position the market between 'the natural' and 'the constructed' (point 1 and 2 in Mirowski, 2009: 434-5). When Mirowski attempts to identify the view of markets within the society he only contrasts markets as natural entities with the idea of markets as man-made or rather state-made constructs. Hayek's attempt consists in showing that markets are cultural; they are neither designed nor natural. One may certainly believe that Hayek fails to convincingly show this, but to simply neglect it seems unfair.

Does that mean that Mirowski's criticism is completely invalid? I tend to think it is not, but to understand the real tension in Hayek's thought it does not help to claim that Hayek "hit upon the brilliant notion of developing the 'double truth' doctrine of neoliberalism—namely, an elite would be tutored to understand the deliciously transgressive Schmittian necessity of repressing democracy, while the masses would be regaled with ripping tales of 'rolling back the nanny

state' and being set 'free to choose'" (Mirowski, 2009: 444). As I showed in chapter three, Hayek is frank about the fact that paradoxically freedom can only come about through restraints on that same freedom. One might not agree with this ideal of freedom, but it was certainly there for everyone to read. The tension that however is present is that between the Viennese students of civilization as critical observers and the Viennese students of civilization as liberal theorists, or even liberal utopians. Or the tensions between the rationalist and the skeptical aspects of their work, as John Gray once described it (Gray, 1984: 139). Humility implies mainly the skeptical attitude and only very careful constructive proposals. As humble students they would focus on understanding and the therapeutic aspects, but in much of their later work Hayek and Popper go much further. They attempt to formulate theoretical political insights which are at odds with the uncertainty and skepticism which is so central to their work (and critique of socialism).

The tension described in the previous chapter between mythos and logos, between political ideals and understanding is central in their entire body of work. It is this tension with which they struggled so deeply, that explains the tension in their work between an emphasis on uncertainty in their theoretical work, and the conviction of their political work. Different Viennese students of civilization responded differently to these challenges. Some went back to their more theoretical work in various disciplines. One could think of Michael Polanyi (who also stopped attending the Mont-Pèlerin Society). Others hardened into a deep pessimism if they had not already acquired this pessimism earlier. One could think of Joseph Schumpeter and Ludwig von Mises. Hayek, on the contrary, perhaps spurred onwards by the public success of the 'Road to Serfdom' pursued his political work further, into directions, I

have mentioned 'The Constitution of Liberty' earlier as an example, which certain did not sit easily with his own skepticism and emphasis on uncertainty<sup>122</sup>. At times he indeed consciously adopted the strategies which he deplored in others; a striking example is when he asked his fellow liberals to have the "courage to be utopian" (Hayek, quoted in Burgin, 2012: 217). Or when he writes as a memo to self: "what is missing today, is a liberal utopia (...) a liberal radicalism (...) which does not limit itself to what today seems politically possible" (quoted in Hennecke, 2000: 248)<sup>123</sup>. As the previous chapters have shown such utopian courage would run counter to the perspective of the student and the Viennese tradition of which Hayek was such a great representative.

In these three chapters we have seen that the Viennese students of civilization did not strictly stick to the humble position they advocated in their criticism of others. They attempted to formulate (utopian) ideals for the future, especially since they believed this to be one of the reasons for the success of socialism. The way to understand these pursuits is through the tension in their attitude towards civilization, towards the cultural institutions they studied. They were convinced that cultural institutions such as language, law and markets are indispensable for peaceful and beneficial human interaction. The Viennese students of civilization increasingly felt that a purely passive attitude toward the decline of civilization no longer was a responsible position. This led them to write, what they called political books, which

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<sup>122</sup> In a recent controversy over the results about the relation between debt-levels and economic growth of Reinhart & Rogoff Tyler Cowen nicely captured one aspect of this tension: "There is a genuine tension between becoming (and staying) 'famous' and expressing all the appropriate levels of agnosticism on issues" (Cowen, 2013).

<sup>123</sup> My translation, in German: "Was uns heute mangelt ist eine liberale Utopie, (...) ein *liberaler Radikalismus*, daß sich [nicht] auf Dinge beschränkt, die heute politisch möglich erscheinen".

explicitly defended these cultural institutions. This is arguably still consistent with their position as students, but to turn the tide they needed new or reinvigorated ideals for a brighter future. They needed to give hope. Such attempts led to a tension in their theoretical work also, between the rationalism or even constructivism associated with their plans for the future and the more humble emphasis on uncertainty and skepticism in their theoretical work. I have tried to show that in the process they went through an existential crisis in which they transformed from students of civilization to shepherds or defenders of civilization, often 'despite themselves'. Occasionally they even slipped into utopian formulations, with themselves cast in the role of masters or saviors of civilization.

## Chapter 8 - Cultivating Economic Knowledge

### *The student of civilization in Paradies*

*Manchmal denkt man sich, hat denn einen Sinn  
Diese ganze Problemspalterei?  
Draußen fließt derweil froh das Leben hin  
Und selbst ist man so wenig dabei.  
Wars nicht klüger, im Strom zu schwimmen,  
Als die Wasserkraft zu bestimmen?  
Ließ man nicht besser alles Denken sein,  
Lebte einfach froh in den Tag hinein  
Und genosse des Augenblicks Rausch?  
Doch man weiß ja, hier gibts keinen Tausch.*

*Oh the time, it comes, when we must question why,  
Is such questioning really that smart?  
Life goes on and on, it just keeps flowing by,  
And we all play a very small part.  
We could swim along, take no notice  
Of the tide's direction, the world's focus.  
Should we not, perhaps, keep these thoughts at bay,  
Push our cares aside, and relish what's today.  
And yet there's no tradeoff at hand,  
Somehow we must take a stand.*

*Final verse from the Mises-Kreis Song*

Now that we are nearing the end of our story about the students of civilization, there is one important question remaining, and that is a question of scholarly practice. What did the practices of these students of civilization look like? And did these practices in any way contribute to the great scholarly creativity in Vienna? Or one could wonder more generally, what explains the enormous creative output, scientific as well as artistic, from Vienna between 1870 and 1930? Just consider for a moment the breadth and depth of the contributions from Vienna: in physics Mach and Boltzmann, in psychology Freud and Adler, in visual art Klimt, Kokoschka and Schiele, in music Mahler, Schönberg, Berg, in architecture Otto Wagner, Loos, in cultural criticism Kraus, in philosophy Wittgenstein, the Wiener Kreis, Popper, in literature Hoffmanstahl, Roth, Musil, Zweig in socialist thought the Austro-Marxists, in economics Carl Menger, Mises, Hayek, Morgenstern, in visual statistics Neurath, and the list could go on almost indefinitely. Vienna really enjoyed a golden age; it was a cultural 'hothouse' as one

commentator famously characterized it. Various cultural histories have focused on the period from 1890 to 1914, intellectual life was still very vibrant (although increasingly gloomy) during the interwar period (see also Leser, 1981).

Many have attempted to explain this period of great cultural flourishing, most famously Carl Schorske whose complex argument is not easily summarized. He emphasizes the collapse of the Habsburg Empire and its moral order. Because political liberalism never gained a strong foothold in Vienna, the bourgeoisie turned to culture (and science, which Schorske neglects somewhat) as an alternative outlet. He suggests that the collapse of the moral order and the failure of political liberalism generated a tension which allowed the Viennese intellectuals to foresee as it were, the twentieth century (Schorske, 1980). Other commentators have emphasized the Jewish background of many of the contributors to this Viennese culture. Additionally we should not neglect the fact that the Viennese society, especially pre-WWI, was extremely unequal. The cultural (and political) elite was formed by a couple of hundred families who were often related by blood or through recent marriages. To give a couple of examples Böhm-Bawerk and Wieser were life-long friends, attended the same prestigious gymnasium, later both served in various political functions, Böhm-Bawerk became minister of finance, Wieser minister of commerce. Böhm-Bawerk married Wieser's sister<sup>124</sup>. Or take Hayek's description of the personal relations in Vienna:

“I began to go through the list [of famous people from Vienna], and I found I knew almost every one of them personally. And with most

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<sup>124</sup> For a more general discussion of the importance of 'families' in Vienna, see Coen (2007).

of them I was somehow connected by friendship or family relations and so on. I think the discussion began, 'Did you know Schrödinger?' 'Oh, yes, of course; Schrödinger was the son of a colleague of my father's and came as a young man in our house'. Or, '[Karl von] Frisch, the bee Frisch?' 'Oh yes, he was the youngest of a group of friends of my father's; so we knew the family quite well. 'Or, Lorenz?' 'Oh, yes, I know the whole family. I've seen Lorenz watching ducks when he was three years old'. And so it went on."

(Hayek, 1979: 7-8)

Hayek is not even mentioning his family relations to the Wittgenstein family. We are of course all familiar with Ludwig, but did you also know that Maurice Ravel wrote his famous 'Piano Concerto for left hand' for his brother Paul Wittgenstein, an accomplished pianist, who lost his other hand during the War. The cultural world of Vienna is therefore ill-described as cosmopolitan, it was a small village packed full with intellectuals.

The close relationships between intellectuals were cultivated further and expanded in the Viennese circles (Kreise). We are of course familiar with the most famous of them the Wiener Kreis, the circle of logical positivists around Moritz Schlick, but there were many more of these circles. In a recent article Timms has produced a visual representation of these scientific and artistic circles in Vienna in which he suggests that there were as many as fifty of such circles during the interwar years (Timms, 2009: 25)<sup>125</sup>. Perhaps even more striking than the sheer number of these circles is their overlap. In the previous

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<sup>125</sup> It is not precisely clear which time period Timms picture represents, but at least some of the circles in his figure never existed simultaneously. An earlier version of the picture suggests that it shows the situation in the late 1920's (Timms, 1993).



paragraph I already emphasized the importance of personal relationships, but these became even stronger because the ‘membership’ of such intellectual circles overlapped. If one did not know someone directly he was never more than one or two circles away<sup>126</sup>. Historian and economist Engel-Janosi for example is proud to have belonged to four of such circles (Engel-Janosi, 1974: 108-28). It should hence come as no surprise that gossip was pervasive in Viennese society.

The structure of intensive and interconnected circles had serious consequences for the scientific practice in Vienna. While in many other European countries modern universities were coming to dominate the intellectual atmosphere, in Vienna intellectual life took place within the circles. Knowledge and artistic production became increasingly organized along disciplinary lines in many other European countries (and the US), intellectual life in Vienna remained both broad and relatively informal. In many other countries theoretical concerns came to dominate scholarly discussions, in Vienna such theoretical discussions were frequently tied to social and cultural concerns as has for example been shown by Janik & Toulmin for the work of Wittgenstein (Janik & Toulmin, 1973). We have seen in the previous chapters that this was also true for the Viennese students of civilization, but in this chapter I hope to shed some light on the factors which stimulated this broad scholarly interaction with social and cultural relevance.

To do so I will analyze the structure of the scholarly circles around the Viennese students of civilization, the factors which made this

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<sup>126</sup> One exception should be mentioned, there was a more strict segregation between Jewish and non-Jewish circles. This is also emphasized by Hayek in the interview cited above. On the other hand assimilated Jews were regularly fully respected members of non-Jewish circles.

structure of intellectual circles possible and what maintained these circles. In the process I hope to shed light on why there was such an outburst of intellectual creativity in Vienna, an outburst which often continued after these scholars had migrated to the 'new world'. But before we turn to these factors it is important to take notice of a relatively recent trend in the study of the history of science. Historians of science have shifted away from the study of individual scholars in favor of the study creative communities. This shift occurred slowly when in physics historians of science realized that many of the great breakthroughs, including quantum mechanics, were achieved in small communities of about a dozen scholars (Heims 1991, Cushing 1994). A milestone in the field was Collins' study 'The Sociology of Philosophies' which showed that nearly every major philosopher had been part of a face-to-face community (Collins, 1998). As Collins puts it in a later book: "the major thinkers are those most tightly connected to other important intellectuals (...) Successful intellectuals are the most socially penetrated of introverts" (Collins, 2004: 358). The existence and importance of such groups of creative intellectuals or artists has long been recognized in the study of the history of art, in which it is common to analyze movements within especially visual arts: Cubism, Der Blaue Reiter, De Stijl or the Futurists. While the history of art is certainly not devoid of its own mythology surrounding the individual, it has also increasingly studied artistic movements and communities. They emphasize what such groups have in common, and how art works are often the outcome of interactions between various artists, rather than the creation of individuals.

The journal 'History of Political Economy' recently devoted an issue to such intellectual communities (Spring 2011). Robert Leonard

contributed an article on Vienna to this special issue. He describes in great detail how Morgenstern established a community of mathematical economists during the early 1930's, and how this community was broken up by the rise of fascism and the consequent migration (Leonard, 2011). Leonard however does not make much of the fact that intellectual life in Vienna differed markedly from the institutionalized type of social science prevalent in the United States after WWII. He hardly reflects upon the nature of intellectual life in Vienna, and how practices in such circles differed from those in academia. I will on the contrary argue that the institutional context of intellectual activity in Vienna has influenced the character of their work. In previous chapters I have argued that the Viennese students of civilization were ill-understood when we thought of them as social scientists or more specifically as economists, in this chapter I will argue that their practices also differed in important ways, and suggest that these practices had a decisive influence on the type of work they produced. That work was never disconnected from social and cultural concerns, the form was frequently different, and it was always related to what happened in other Viennese circles.

### ***1. Wiener Kreise, in plural***

The most important circle (or Kreis in German) for the students of civilization was undoubtedly the Mises Kreis. It was centered round, as the name suggests, Ludwig von Mises and was held biweekly from October to May<sup>127</sup>. The summer season was spent away from Vienna in

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<sup>127</sup> The song of the Mises-Kreis, which frequent participants knew by heart, contained the lines: "Und dort geh ich hin, auch wenn ein Maitag ist / Süß und duftend wie keiner noch war" or in English: "I'll be there for sure, even if it's May/ And the day is the

the mountains by most affluent Viennese. The subject matter would range from philosophy and problems of phenomenology, to social sciences, economics and history. Mises liked to describe himself as ‘primus inter pares’ of this seminar, but he was probably quite clearly its intellectual leader. Or as he describes it, the participants: “came as pupils, but over the years became my friends” (Mises, 1942/1978: 97). The circle was initially a kind of continuation of the famous seminar Böhm-Bawerk had held before the war for his advanced students such as Schumpeter, Rudolf Hilferding and Otto Bauer. The seminar evolved into an intellectual community in which he truly was ‘primus-inter-pares’, but this was also when several of its participants decided to start their own (complementary or rival) seminars.

In figure 1 I have collected the circles most relevant to the group of scholars we have been analyzing<sup>128</sup>. In the middle we see the Mises Kreis<sup>129</sup>. The second prominent circle for us is the Geistkreis<sup>130</sup>. This

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sweetest thus far”. For the songs, including the verse in the epigraph, I have used the translation of Arlene Oost-Zinner available at [mises.org](http://mises.org).

<sup>128</sup> In the notes below I will present lists of members or rather regular participants to these circles. Membership to most of them was not a formal but an informal affair; nonetheless there was a degree of adherence to the shared perspective from some participants that others did speak of members. Such a distinction is nicely illustrated by what Alfred Schütz recounts about the involvement of his friend Felix Kaufmann with the Wiener Kreis: “Kaufmann was never a member and refused to be considered as such, yet attended their meetings regularly” (Schütz quoted in Helling, 1984: 144). In the lists below you will find regular participants.

<sup>129</sup> An alphabetical full list of regular participants: Ludwig Bettelheim-Gabillon, Viktor Bloch, Karl Bode, Martha Stephanie Braun (later Steffy Browne), Walter Fröhlich (later Froehlich), Herbert Fürth, Gottfried von Haberler, Friedrich von Hayek, Marianne von Herzfeld, Felix Kaufmann, Fritz Kaufmann, Rudolf Klein, Helene Lieser-Berger, Rudolf Löbl, Getrud Lovasy, Fritz Machlup, Karl Menger, Ilse Mintz-Schüller, Ludwig von Mises, Oskar Morgenstern, Elly Offenheimer-Spiro, Paul N. Rosenstein-Rodan, Ewald Schams, Erich Schiff, Karol Schlesinger, Fritz Schreier, Alfred Schütz, Alfred Stonier, Richard von Strigl, Gerhard Tintner, Erich Vögelin (later Voegelin), Robert Wälder, Emmanuel Winternitz (list compiled from Kurrild-Klitgaard, 2003 and Craver, 1986).

<sup>130</sup> An alphabetical full list of regular participants: Otto Benesch, Friedrich Engel von Janosi (later Engel-Janosi), Walter Fröhlich (later Froehlich), Herbert Fürth, Franz

circle was formed by a group of advanced students around 1921 led by Herbert Fürth and Hayek. The regular participants of this group overlapped to a large extent with that of the Mises Kreis, but its focus was quite different. Members were asked to lecture on a field which was not their specialty and hence the focus was broader than in the Mises-Kreis. Rather than just science the Geistkreis also discussed contemporary developments in literature, music and art (for a list of subjects discussed see Engel-Janosi, 1974: 225-228). Some of its members graduated in law and later became well-established art historians. Since all members were roughly from the same generation there was less hierarchy than in the Mises Kreis. The Geistkreis did not meet in a fixed place, but circulated from one member's home to the next. Its focus was not only more cultural but they also frequently discussed the political situation in Vienna and the possibilities of migration (Craver, 1986: 16-17).

Later in the 1920's the third important community for (future) economists was found by Karl Menger (Carl's son), the Mathematical Colloquium<sup>131</sup>. He and some of his friends became increasingly dissatisfied with the anti-mathematical atmosphere in the Mises Kreis. Discussions in the mathematical colloquium instead focused almost completely on mathematical subjects, and were in fact frequented more by mathematicians than social scientists. Like Mises emphasized the

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Gluck, Gottfried von Haberler, Friedrich von Hayek, Felix Kaufmann, Fritz Machlup, Karl Menger, Max Mintz, Oskar Morgenstern, Georg Schiff, Alfred Schütz, Erich Vögelin (later Voegelin), Robert Wälde, Johannes Wilde, Emmanuel Winternitz (list compiled from Craver, 1986).

<sup>131</sup> An alphabetical (but perhaps slightly incomplete) list of regular participants: Franz Alt, Gustav Beer, Gustav Bergmann, Kurt Gödel, Hans Hahn, Bronisław Knaster, Karl Menger, Oskar Morgenstern, John von Neumann, Georg Nöbeling, Ewald Schams, Karl Schlesinger, Otto Schreier, Alfred Tarski, Olga Taussky-Todd, Alfred Tintner, Abraham Wald (compiled based on Ingraio & Israel, 1990 and Leonard, 2011).

unity of the social sciences under the banner of human action, so the members of the mathematical colloquium felt that mathematics could be applied across a whole range of fields. Karl Menger himself would end up writing a logical book about moral beliefs and ethics, and the Colloquium was also the place where the existence-problem of the economic general equilibrium model was first discussed. It was the place where Kurt Gödel first presented his famous impossibility theorems about logical systems. While there was some overlap between this circle and the *Geistkreis* and the *Mises Kreis*, this community increasingly distanced itself from the other two circles, a process which Leonard documents in detail. Hayek and Mises increasingly wrote in defense of a civilization they believed was quickly disappearing, Morgenstern and Menger were increasingly attempting to purify their economics, increasingly emptying it of any 'political' content (see Leonard, 1998, 2010 and 2011).

To do so the participants of the Colloquium could draw inspiration from the discussions in what has become the most famous of the *Wiener Kreise*, *the Wiener Kreis* (or Vienna Circle)<sup>132</sup>. The Vienna circle was not a homogenous whole, as it has been portrayed in the past. There was at least a division between the left-wing of the circle, consisting of at least Neurath, Carnap, Feigl and Waismann,

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<sup>132</sup> A more or less complete list of regular participants: Gustav Bergmann, Rudolf Carnap, Herbert Feigl, Philip Frank, Kurt Gödel, Heinrich Gomperz, Hans Hahn, Olga Hahn-Neurath, Béla Juhos, Felix Kaufmann, Hans Kelsen, Viktor Kraft, Karl Menger, Richard von Mises, Otto Neurath, Rose Rand, Josef Schächter, Moritz Schlick, Olga Taussky-Todd, Friedrich Waismann, Edgar Zilsel (Stadler, 2003: n. 5).

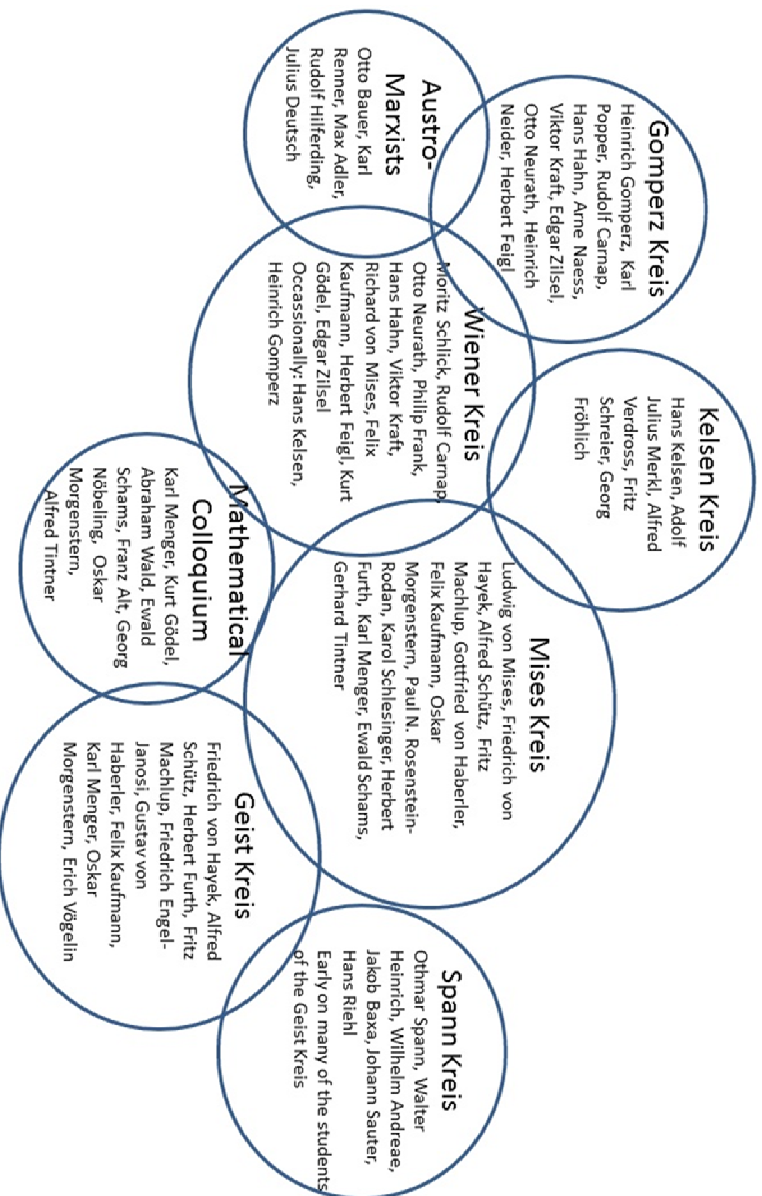


Figure 1: The Wiener Kreise most directly surrounding the Mises Kreis around 1928. For clarity I have limited the visual overlap between the circles, which in reality is often greater.

and a more conservative wing. In especially the work of Otto Neurath, but also in the pamphlet published by the circle 'Wissenschaftliche Weltauffassung' (Scientific World-Conception) there was a clear link between socialist and emancipatory ideals and scientific knowledge (Hahn, Neurath, Carnap: 1929/1979). The conservative wing of the circle headed by professor Schlick was more interested in pure science, free of values and metaphysics, the philosophical program for which the Wiener Kreis has become famous post WWII (see also Reisch, 2005 and Dekker, 2014). At the same time there were links with the Mises Kreis via the phenomenologist Felix Kaufmann. One might expect also via the Mises brothers Ludwig and Richard, but both brothers hardly talked to one another and pursued very different intellectual goals. Karl Menger at various points in time frequented all four circles we have discussed so far and was thus well informed on a very broad spectrum of intellectual discussions, and consequently socially very well connected.

The left-wing of the Wiener Kreis was closely connected with the Austro-Marxists who governed Vienna during the 1920 via the social-democratic party. The community of Austro-Marxists however is not really a circle, since many of the people associated with it held official political positions, and many of their organizations were far more institutionalized via the political party which governed Vienna during the 1920's. At the same time many of the intellectual leaders of this movement had met Mises before the war in Böhm-Bawerk's seminar and at other occasions in the Viennese coffeehouses (Mises, 1942/1978: 88-90). Closely associated with that side of the Wiener Kreis was also



Heinrich Gomperz who for several years also organized a circle<sup>133</sup>. Gomperz was for a couple of years the most important teacher of Karl Popper and his seminar was also frequently attended by many of the younger members of the Wiener Kreis.

Two other circles deserve to be mentioned. The first circle was formed around Hans Kelsen<sup>134</sup>, a prominent law scholar who developed 'A Pure Theory of Law' along positivist lines. He was widely known because he drafted the Austrian Constitution on behest of the Austro-Marxist chancellor Karl Renner. Kelsen was a good friend of Ludwig von Mises, although not a political ally (a combination of relationships with Mises which not many could sustain). The other circle worthy of mention is that of Othmar Spann<sup>135</sup>, who developed a universalist philosophy, and was a supporter of German nationalism (and consequently of the Anschluss). His romantic political-economic philosophies initially attracted many of the young students of civilization we have been analyzing, but they soon left Spann's circle. Spann was able to exert this influence over these young students because he held one of the professorships in economics at the University of Vienna. The other heir of the chairs once occupied by Wieser and

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<sup>133</sup> I compiled a somewhat tentative list of its frequent visitors: Rudolf Carnap, Herbert Feigl, Heinrich Gomperz, Hans Hahn, Arne Naess, Olga Hahn-Neurath, Viktor Kraft, Heinrich Neider, Otto Neurath, Karl Popper, Robert Reininger, Edgar Zilsel (Heyt, 1999 and Stadler, 1994).

<sup>134</sup> I compiled a somewhat tentative list of frequent participants: Josef Dobretsberger, Georg Fröhlich, Walter Henrich, Felix Kaufmann, Hans Kelsen, Josef L. Kunz, Adolf Julius Merkl, Leonid Pitamic, Fritz Sander, Fritz-Schreier, Alfred Verdroß, Erich Voegelin (for an introduction to this circle see Jabloner, 1998 and the website of the Hans Kelsen Institute: <http://www.univie.ac.at/staatsrecht-kelsen/kreis.php>).

<sup>135</sup> I have been unable to obtain more than a few of the regular participants: Walter Heinrich, Wilhelm Andrae, Jakob Baxa, Johann Sauter, Hans Riehl and early on many of the students of the Geisteskreis.

Böhm-Bawerk was Hans Mayer who failed to attract a circle of like-minded scholars (for more details see Craver, 1986).

These Kreise were not only important for the overlap between them and the mutual inspiration, but also for their mutual rivalry. The interwar work of Mises, Hayek, and Morgenstern can only be understood as part of the ongoing conversations and discussions between these circles. The famous socialist-calculation debate was waged between Otto Neurath and Ludwig von Mises, and Morgenstern increasingly objected to the 'political' nature of the work of both the Austro-Marxists and the work of Mises. On a deeper level these communities were identity forming, one's membership to a Kreis or various Kreise formed one's intellectual identity. And consequently conflicts between various circles could become very heated.

## ***2. Between coffeehouse and university***

To describe the intellectual scenery in Vienna we need more than a description of the intellectual breadth of its circles, especially since we started the chapter with the purpose to partially explain why cultural and scholarly life was so vibrant in Vienna. The cliché about cultural life in Vienna is that it took place in the famous coffeehouses, where one could sit and chat all day while paying for only one cup of coffee. As with all clichés there is some truth to this: the entire Mises-Kreis, to take one example, set off on their regular Fridays towards Café Kunstler. But contrary to the cliché, one might expect that they sometimes had more than one drink. In fact for many Viennese these coffeehouses were much more than just a pub, it was closer to a living room. It was where they read the newspapers, met their friends, and regularly had their mail and

washed clothes delivered. To many it was a semi-public space where one could be together alone.

Like any living room there were very specific rules to be observed by its visitors. In certain cafés for example tables or even specific chairs belonged to some of the intellectual hotshots, and in some of the literary coffeehouses each group of authors had their own table. Quarrels over such tables and the rights to it would not infrequently lead to physical disputes. As homage to this tradition one can find a life-size figure of the author Peter Altenberg who still sits in his regular chair in café Central. The cliché however is also in need of some correction; private spaces were at least as important for the circles (Fuchs, 1949: v-xvi). None of the Kreise we discussed above actually met for their discussions in one of these coffeehouses. The availability of such private spaces depended on private wealth. We should not forget that the various 'Von's' we have been talking about were (inherited) titles of nobility. Some circles depended on more recently acquired wealth, the prime example was the Wittgenstein family who had acquired its wealth through iron and steel, and was estimated to be the wealthiest family of Vienna (after the Habsburgs presumably). On the other hand social stratification did become less during the 1920's in Red Vienna.

Such processes of social integration did not always go smoothly. Take the Wiener Kreis where Moritz Schlick was the most prominent individual; not only was he the only one holding a professorship but he was also much wealthier than many of its other members. Schlick had always refused Otto Neurath into his house. Neurath had grown up in a working class environment and he cultivated this background to some extent, frequently wearing a characteristic working man's cap and refusing to adjust his language. Which led Schlick to exclaim: 'I cannot

invite this man; I cannot bear his loud voice' (Schlick quoted in Neider 1973: 48). Neurath was undoubtedly somewhat offended that Schlick refused to receive him at his house, but at the same time he made fun of the 'aristocratizic' accent of Schlick. Such social inequalities had further consequences. Schlick could arrange certain jobs for his students, Feigl for example became librarian at the philosophy faculty, but this also meant that Feigl was merely his assistant.

Mises, too, was quite good at arranging jobs for his favorite students. In 1927 he managed to set up a new institute under the umbrella of the Chamber of Commerce where he was secretary, the 'Institut für Konjunkturforschung'. The first director of this institute was Hayek who could hire Morgenstern as his assistant. There is more than a little irony in the fact that the two economists Hayek and Mises, who would go down in history as two of the most vehement opponents of the use of statistics and mathematics in economics during the twentieth century, opened an institute which was essentially intended to publish economic statistics. This somewhat paradoxical state of affairs was continued when Morgenstern took over the directorship after Hayek had left for the LSE in 1931. As director Morgenstern published his work on the impossibility of economic prediction, thereby, more or less implicitly, demonstrating the irrelevance of the institute<sup>136</sup>. Nonetheless the institute expanded, especially after Hayek helped secure Rockefeller money in 1931. This shows that there were various opportunities for the Viennese scholars to get a job, it also makes clear the uncertainty in which they operated. The University of Vienna became marginalized and politicized, which made young intellectuals highly dependent on a few

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<sup>136</sup> Perhaps unsurprisingly after all this irony is that the institute after the War was dominated by Keynesianism and attempts to 'plan' the economy.

wealthy and powerful individuals. No wonder that the topic of migration frequently came up in the discussions of the *Geistkreis*.

This in fact leads us right into probably the most important cause for the prominence of the social and family sphere in Viennese intellectual life. Even Mises was subject to these uncertainties and dependencies. When Böhm-Bawerk passed away and Wieser retired he was one of the candidates to succeed them, but the positions went to Mayer and Spann. The reasons for this are extensively discussed in Craver's excellent article (1986). More important than individual factors - why Mayer and not Mises? And why not Schumpeter? - was a general trend at the University of Vienna. It failed to hire and attract the most talented individuals, and hence became increasingly marginalized in Viennese intellectual life. This was further reinforced by a growing anti-Semitism in Vienna generally and at the university in particular, and during the 1920's it became virtually impossible to obtain a university position as a Jew (which Mises was). Janik & Toulmin in their cultural history of Vienna even speak of an 'authority gap', by which they mean the absence of legitimating institutions in Viennese society (Janik & Toulmin, 1973: 248).

This authority gap was not complete, as Janik and Toulmin also recognize. Left-wing of the Viennese intellectuals there was the opportunity to associate themselves with the social-democrats. During the 1920's Vienna was ruled by the social-democratic party, hence its nickname 'Red Vienna'. And the social-democrats set up extensive social programs most famously to solve the housing conditions and shortage in Vienna. This development did not improve matters for the liberal-conservative students of civilization. For them the changing political wind meant that political positions which many Viennese economists

had occupied before WWI had become unavailable. Schumpeter, as an exception did obtain such position. His position as liberal economist, but officially neutral expert, in a socialist government however was bound to cause insurmountable problems, which it did quickly did, greatly damaging his reputation (McCraw, 2007: 96-103).

Another institution which was still standing strong was the gymnasium system, which provided a solid basic intellectual knowledge for many in the Viennese elite. Gymnasiums such as the Schottengymnasium which Böhm-Bawerk, Wieser and no less than three twentieth-century Nobel Prize winners attended were of a high quality. This gymnasium system, however, was also a reflection of the highly stratified society of Vienna. In his reminiscences Karl Menger points to yet another factor which contributed to Viennese intellectual life:

“The unusually large proportion of professional and business people interested in intellectual achievement. Many members of the legal, financial, and business world; publishers and journalists, physicians and engineers took intense interest in the work of scholars of various kinds. They created an intellectual atmosphere which, I have always felt, few cities enjoyed.”

(Menger, 1994: 9)

This interested group of professionals regularly participated in the Kreise. To give some examples from the participants of the Mises Kreis: Mises combined it with his work at the Chamber of Commerce, and established the institute. Karl Schlesinger was also a banker, Machlup worked in his parents' cardboard factory, and Schiff was a newspaper editor (Schulak & Unterköfler, 2011: 133-5). It was also from this

professional class that a more general audience could be drawn, for example for the public lecture series which various members of the Wiener Kreis organized. And this professional class often acted as patrons of the arts, and sometimes the sciences.

To sum up, various factors contributed to the social and private nature of intellectual life in Vienna, but it also came about because there were no alternatives. The presence of the unique structure of coffeehouses and the relatively small cultural elite contributed to this more social and private character. At same time the conditions at the university made the professional pursuit of scholarly issues difficult, and politically there was not much space for conservative or liberal-minded individuals either. Intellectual life as a consequence became separated from the official institutions. Famous is the artistic Viennese 'Sezession' movement (literally: separation), which sought independence from the existing artistic styles and institutions. It is not unhelpful to think of the students of civilization as also separating themselves from the university. Like the artists of the Sezession this meant that they sought alternative institutions, alternative modes of financing, an alternative source of legitimacy, even an alternative identity.

### ***3. The rituals of the Kreise***

Academic life is so full of rituals, that we sometimes hardly notice them: extensive rituals when (Ph.D.) students graduate, or when a professor accepts a chair or retires and smaller rituals such as the celebration of centenaries of famous predecessors, or the opening of our academic year. Such rituals have a double function: they honor the people involved, the renowned scholar or the graduate, but they also legitimize

the institutions that organize such rituals. A conference about economics is an opportunity for individuals to present themselves and their scholarship, but it also legitimizes the discipline of economics, and its particular sub-disciplines. Not least importantly such rituals keep a discipline alive, if they are successful at least. They ensure the continued scholarly conversation about a particular subject. Such legitimization was not self-evident in Viennese intellectual life. A position at the University of Vienna was the exception rather than the rule, and the continued conversation often depended on particular individuals within the *Kreise*, rather than on more formalized and official institutions. It should thus perhaps come as no surprise that Viennese intellectual life was full of rituals, and alternative strategies to establish legitimacy. These rituals could also help to establish a scholarly identity for the intellectuals in Vienna, so that they could give an answer to those piercing questions: who are you and what do you do?

Although no one has to my best knowledge ever paid very particular attention to such rituals in the *Wiener Kreise*, we are fortunate to know quite a bit about them. Kurrild-Klitgaard for example has collected a whole set of them. The meetings of the Mises Kreis always started punctually at seven on a Friday evening. Mises would be sitting at his desk and usually he had a large box of chocolates which he passed around. The meeting would last until half past nine or ten, after which the participants would have dinner at the Italian restaurant 'Anchora Verde'. Those who wanted to continue the discussion would then head to café 'Künstler' (Kurrild-Klitgaard, 2003: 47). But undoubtedly the most striking ritual of the Mises Kreis has to be the songs which Felix Kaufmann wrote in honor of the seminars. The songs deal with the critical spirit of the circle ('Geschliffener Geist in Mises-



Kreis'), particular debates within the circle, the Austrian tradition ('Der letzte Grenadier der Grenznutzenschule). Other songs were written for special occasions; there is a song of celebration for the opening of the institute, a goodbye song to Mises when he departed for his position in Geneva in 1933 and a song lamenting this departure. One of the most striking of these songs is called 'Der Nationalökonom im Paradies' (The economist in Paradise), so no that is not a typo in the subtitle of this chapter in case you were wondering.

Now it is easy to think of these songs as a kind of curiosity, but that would be too easy. Many years later Haberler was still able to sing these songs word for word, and he emphasizes that all regular participants could recite these songs (Haberler in Kaufmann, 1992: 9-10). All the songs were written to well-known melodies and Haberler stresses that these songs were meant to be sung, not to be read (although even reading them is quite insightful to the historian). Such rituals established a certain rhythm to the meetings of the Mises Kreis, and provided a sense of belonging where the university could not do so. The songs legitimized the discussion taking place in the Mises Kreis. Take for example the following fragment: "An economist moved to Germany/ A learned position to pursue / This should have been a certainty /For in Wien he'd learned a thing or two / But the good man learned the tragic tale / Marginal Utility was deceased" (Kaufmann, 1992: 21-22)<sup>137</sup>. In the official Mises- Kreis song, all the rituals discussed, including the delicious chocolates, are celebrated. In the final verse of the song, which is the epigraph to this chapter, Kaufmann wonders

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<sup>137</sup> In German: „Nach Deutschland zog Jüngst ein Volkswirt hin/ Der wollte sich unterfangen / Auf Grund einer venia legendi in Wien / 'ne Professur zu erlangen / Da hörte der Brave die traurige Mär / Die Grenznutzenschul' sei gestorben"

whether all these intellectual discussions lead anywhere, while life outside goes on as usual. Was it not easier to follow the stream, instead of attempting to change its course? Only to conclude affirmatively: “And yet there's no tradeoff at hand/ Somehow we must take a stand” (Kaufmann, 1992: 28)<sup>138</sup>.

Such rituals mainly established internal coherence and legitimacy, the overlap between the circles meant that a strong internal identity would also become known in other circles. In fact there was a curious interdependence between all these Kreise. The identity of such circles was often defined in opposition to other circles. The Mises Kreis was opposed to the positivism of the Wiener Kreis and the universalism of the Spann Kreis. The Geistkreis was more informal and more cultural than the Mises Kreis. It was also only open to men and restricted to twelve members. A degree of secrecy was not alien to these circles, Mises in his recollections written around 1940 explains: “Outsiders knew nothing of our meetings; they merely saw the works published by the participants” (Mises, 1942/1978: 98). But who in the intellectual elite of Vienna was really an outsider? The Mises-Kreis was well known in intellectual circles in Vienna and far abroad, and regularly foreign visitors joined the seminar. The most prominent foreign visitor was perhaps Lionel Robbins, who would later offer Hayek a professorship at the LSE. That who was, and who was not, invited to the meetings was sometimes a sensitive issue becomes instantly clear from the following passage from Popper's autobiography:

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<sup>138</sup> Once again I have used the translation by Arlene Oost-Zinner. In German Kaufmann concludes: „Doch weiss man ja, hier gibts keinen Tausch“.

“The Circle [Wiener Kreis] was so I understood, Schlick’s private seminar, meeting on Thursday evenings. Members were simply those whom Schlick invited to join. I was never invited, and I never fished for an invitation. But there were many other groups, meeting in Victor Kraft’s or Edgar Zilsel’s apartments, and in other places; and there was also Karl Menger’s famous ‘Mathematische Colloquium’. Several of these groups, of whose existence I had not even heard, invited me to present my criticisms of the central doctrines of the Vienna Circle.” (Popper, 1976: 84)

Now Popper’s autobiography has almost become the archetypical example of how unreliable autobiographies can be, but it is beyond doubt that the tension between him and the Wiener Kreis was as much social as intellectual. Popper’s biographer Cohen writes about the issue: “his personality made collaboration difficult. Even Popper’s defenders, Carnap and Kraft, admitted that he was a social problem” (Hacohen, 2000: 209). So we should perhaps also read Popper’s claim that he did not know ‘these groups’ with some suspicion. Perhaps he did know them, but was upset for not being invited to join<sup>139</sup>.

The Wiener Kreis is also interesting to study for its search for legitimacy. Its most famous publication is a manifesto ‘Wissenschaftliche Weltauffassung’, which is usually translated somewhat awkwardly into ‘Scientific World-Conception’. Let us pause for a moment, to realize what

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<sup>139</sup> The insider-outsider discussion is also interesting with respect to the very negative essays that both Schumpeter and Hayek have written about intellectuals (Schumpeter, 1943/1976: 145-155 and Hayek, 1949). One is tempted to think of the Viennese scholars of the interwar period as (public) intellectuals but in their search for legitimacy they had to distance themselves from outsiders. Their repeated arguments against intellectuals or men of science are perhaps best understood as an attempt to create a professional identity outside academia, they are testimonies of a certain existential angst.

is happening here. A group of philosophers (!) who seek to purify science from metaphysics and values publish a manifesto. The pamphlet or manifesto was, and is, a rather revolutionary form: Marx and Engels published a manifesto pamphlet, and the Italian Futurists published one to declare a revolution in art. It is, however, not the form one would expect from a group of philosophers. In fact the most traditional of them, Moritz Schlick, was seriously taken aback by the publication (Mulder, 1968). The pamphlet as a scientific form is of course still far from accepted, but understood as an alternative strategy to seek legitimacy it makes sense. It succeeded in providing the Wiener Kreis with a clear identity, and the movement soon attracted followers in other countries. It also provided the stimulus for cooperation between members of the Wiener Kreis and the cultural avant-garde in Europe. Especially Neurath and those around him set up connections with the Bauhaus in Weimar and later with the CIAM (*Congrès International d'Architecture Moderne*). Neurath had also founded a museum for the education of the public through visual statistics, where he and others found employment. If not through the University these communities could build a strong reputation through association with all kinds of other social institutions and movements.

Looking back on the interwar situation in Vienna it becomes clear that the situation was ultimately unstable. The uncertainty and the lack of official positions made it tempting to migrate. The more senior and successful scholars and artists were the first to migrate, not uncommonly before the political situation in Vienna became truly unstable. Hayek for example already migrated in 1931, when the circles were still operating as usual. The domestic situation does become more problematic in 1934 when Dollfuss comes into power. Between 1934

and 1938, the year of the Anschluss, Austria was ruled by the Austrofascists and public life was increasingly restricted. Mises, who expected the worst for the future, left for Geneva in 1933, only to move to New York in 1940. The Wiener Kreis was particularly disturbed by the shooting of Moritz Schlick, by a former student. Although the murder was not motivated by anti-Semitic sentiments, the press did justify the murder in such terms. Migration was not easy for everyone. Those with little international visibility depended on friends from Vienna who migrated earlier. Karl Popper for example had to migrate to New-Zealand in 1937 where he held a low-prestige job at the university. The adaptation to these foreign *and* academic cultures would require a separate chapter, but it is safe to say that this process was not always easy. Individuals with considerable prestige in the Kreise of Vienna sometimes ended up at the bottom of the ladder at rather marginal universities.

It is tempting to argue that first Austro-fascism and later the Anschluss with Nazi-Germany caused the migration, but that might also be too easy. The social situation for many of the intellectual talents was uncertain even apart from the political situation. On the one hand they were as Fürth years later wrote to Hayek 'spoiled' by the intellectual stimulation around them (Fürth quoted in Hennecke, 2000: 25). They were however unable to obtain official academic positions. They were furthermore dependent on not more than a handful of powerful and wealthy individuals, and there were few signs of future improvement. So when Hayek was offered a position at the LSE he knew what he left behind, but also what he stood to gain. What also helped in his case was that he was offered a full professorship. It seems unlikely that Vienna

would have been able to retain (and attract) its most gifted intellectuals, even if the political situation would have remained stable.

#### ***4. The importance of the conversation in the Viennese tradition***

In the previous section we have witnessed the vibrancy of Viennese intellectual life in the first decades of the twentieth century. Such descriptions tend to cause a bit of nostalgia for a golden period in Vienna, a nostalgia wonderfully cultivated in some of the memoirs about the period (Zweig, 1943; Spiel, 1987). In this section I will examine that longing for things past and to what extent Viennese intellectual life can be an inspiration for modern scholarly interactions. To do so I will look at the evaluation of this interaction by George A. Reisch, and secondly I will analyze the evaluation of the students of civilization of their Viennese experience.

Reisch's stimulating argument on the Wiener Kreis is that it never came to fruition because it was smothered before it could really flourish. He suggests that the central ideal from within the Viennese intellectual scene has been lost and forgotten: the ideal of the unity of science. Reisch shows that this was not so much a philosophical program but much more a practical program: "the unity of science program transformed from a practical, collaborative goal to a more narrow academic thesis (...) it became an empirical hypothesis about science (...) after it was decoupled from the ideal of active collaboration (Reisch, 2005: 375-6). He argues that cold-war political pressures and academic professionalism transformed the ideal of the unity of science from a

collaborative project into an empirical thesis. We must not forget that the Wiener Kreis was not just a philosophical movement, it was also intimately connected to various social projects, of which the unity of science was one. Many of its members were concerned and active in processes of emancipation of the lower and middle classes through knowledge.

This is not the place to debate the merits of the unity of science thesis or these other social projects. What is interesting for us is the shift Reisch describes away from these social goals, towards purely philosophical and academic goals. He contrasts the idea that philosophy underwent: “a development or maturation through which twentieth-century philosophy (finally) acknowledged a fundamental and proper distinction between philosophical research and political partisanship”. With his own view that questions of philosophy and epistemology could (and should) inform public debates and individual decision making, or in his words: “a more scientifically and epistemologically informed public, and possibly a more peaceful, economically stable and just world” (Reisch, 2005: 369-388). Reisch is not the only one with this sentiment; Janik & Toulmin in their study of Wittgenstein’s Vienna also lament the professionalization which made the position of therapeutic philosophers in modern intellectual life increasingly difficult. Both Reisch and Janik & Toulmin recognize that within the Viennese tradition there is no clear separation between science and politics or philosophy and life. They realize that social, cultural and sometimes political goals went hand in hand with scholarly concerns for the Viennese, as we witnessed in the previous chapters.

This unique feature of the Viennese tradition combined with its breadth often puzzled outsiders and it made moving to another

intellectual climate, another country a difficult process<sup>140</sup>. When Schumpeter visited the US in 1913 he was asked to deliver a lecture by Seligman, an economics professor at Columbia. Seligman's description of the lecture is a wonderful example of this confusion: "[He did not only speak of economics] but the relation of economics to psychology and sociology. He was - what is very unusual - both brilliant and profound; his choice of novel illustrations taken from a great variety of different fields, shows a surprising breadth of culture, which is unusual in a specialist" (Seligman, quoted in McCraw, 2007: 81). But Schumpeter was no specialist, and never became one; he was a student of civilization, schooled in wide cultured conversation not with just Wieser or Böhm-Bawerk, but with Marxists, Max Weber, and artists from Vienna. This is also exemplified by Hayek's tribute to his mentor Wieser. Hayek chose not to compare him to a great economist of the past, but to Goethe, the great symbol of German culture, who had: "Wide-ranging interests encompassing all fields of culture and art, worldly wisdom and the worldly tact of the minister of Old Austria combined with an aloofness from daily trivia" (Hayek, 1926/1992: 125). It is a description that could well be extended to the intellectual scene of interwar Vienna.

The other prime example of such confusion from the group of scholars we have studied is undoubtedly the reception of Hayek in the U.S.<sup>141</sup>. He is often associated with the Chicago School of economics, because he held a position in Chicago. Hayek, however, was never offered a job at the economics department in Chicago. There is still no

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<sup>140</sup> Reisch study of the migration of the Wiener Kreis contains many examples of such difficulties (Reisch, 2005).

<sup>141</sup> I have decided not to discuss all the students of civilization, but it is worth noting that one of Mises' students, Alfred Schütz, suggests that Mises was not hired because it was believed that he was too practically oriented and not academic enough (Kurrild-Klitgaard, 2003: 52).



absolute clarity regarding the reasons for this, but it is clear that there were concerns about the non-economic nature of his work. Friedman, the main figure within the Chicago school, explained why Hayek was not offered in an interview from 2000: "My understanding is that this was because, at that stage, he [Hayek] really wasn't doing any economics" (Friedman, quoted in Cassidy, 2000). Such an account might be somewhat tainted since Friedman only joined the department in 1964; fourteen years after Hayek came to Chicago. But Friedman's account is confirmed by various historians of economics and it should not really surprise us that Hayek was not considered a professional economist in 1950. His book on capital theory from the 1930's was not very well received, which meant that he was mainly known for 'The Road to Serfdom', a political rather than an economic book (although as I argued before both categories do not do great justice to it, it was really part of his study of civilization).

Hayek was instead hired at the 'Committee of Social Thought' which was oriented much more broadly. In fact Hayek was happy with this position precisely because it was concerned with what he described as 'borderline problems in the social sciences', and in an interview he claimed that he was bored with the purely economic atmosphere at the LSE. In that same interview he speaks very positively about especially the initial period on this committee:

"I announced a seminar on comparative scientific method, and the people who came included Sewall Wright, the great geneticist; Enrico Fermi, the physicist; and a crowd of people of that quality. It only happened once; we couldn't repeat this. But that first seminar

I had in Chicago was one of the most interesting experiences I had.”

(Hayek, interviewed by Buchanan, 1979: 262)

Hayek was back in cultured conversation with scholars from many fields. And not just scholars; the committee on social thought also invited individuals from the literary world. Hayek was never happy in just one discipline, but thrived in an atmosphere like the one in which he came of age.

At one point there was the opportunity that he could restart in Vienna what had been lost during WWII. In the same interview with James Buchanan, Hayek explains that he could get money from the Ford Foundation, a lot of money, to start a new center in Vienna. Then Buchanan asks whether this was to reestablish the University of Vienna, to which Hayek responds quite accurately: “Well, to reestablish its tradition” (Hayek, 1979: 253). Of course reestablishing the University of Vienna would have been nearly a *contradictio in terminis*, for in many fields it had never really been established, and it certainly had never been the center of scholarly life. What Hayek consequently sought to do was to reestablish its tradition, and for this he needed to bring the people back: “to bring all the refugees who were still active back to Vienna - people like Schrödinger and Popper and - Oh, I had a marvelous list! I think we could have made an excellent center” (Hayek, 1979: 253). This is Hayek’s nostalgia for a tradition, for the Viennese conversation, which always took place on the borderlines between disciplines and between science and society; a conversation which never took place in an ivory tower, but always occurred in the middle of the cultural life of the city. Needless to say this initiative remained a nostalgic dream and never materialized.

Hayek did, however, manage to keep the broad conversation he so cherished alive. In the Mont-Pèlerin society he was able to gather a group of like-minded individuals from a wide variety of academic fields, although mostly from the social sciences. He was very concerned to prevent a domination of professional economists within the Mont-Pèlerin society, an effort which ultimately failed (Burgin, 2012: chapter 4). This international group or thought collective has now become somewhat notorious for its role in the rise of neoliberalism (Mirowski & Plehwe, 2009). But we should not underestimate that it was also simply an effort to keep a conversation alive which many of the European exiles felt was withering away during the interwar period and was finally terminated by WWII. Such conversations thrived on the borderline between the academic world and the intellectual world. Historians of the Mont Pèlerin Society have shown that various think-tanks and other intellectual institutions grew out of this broad conversation<sup>142</sup>. The peculiarity of these conversations lies not just in the fact that they operate on the borderline between wider cultural and intellectual conversations and the academic conversation, but also that they aim at more than just scientific knowledge. Like I argued in chapters five and six these conversations were aimed at studying civilization in all its facets, and advancing or protecting that civilization. They included more therapeutic and edifying elements, and they included the spread of such ideas. For the Viennese students of civilization it was natural to

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<sup>142</sup> The response to this by various scholars, most prominently perhaps Mirowski, has been suspicion. But that response perhaps represents a view from inside the modern academy, which implicitly assumes that scientists or intellectuals should not be concerned with such 'political' institutions. I would instead argue that there is an interesting continuity between at least the intellectual aims of various Wiener Kreise and what the Mont Pèlerin Society achieved after WWII.

simultaneously discuss methods and politics, social science and culture, philosophy and life.

Another central aspect of the Viennese tradition is emerging from our analysis of the *Kreise*: the importance of the conversation. The conversations in the *Kreise*, the unity of science as a collaborative project, the committee on social thought, the Mont-Pèlerin society, they all existed for one main purpose: to converse. They were opportunities to meet *face-to-face*, to share ideas, to spar, to argue, to stimulate one another, to interact. The conversation, or the seminar was the center of Viennese intellectual life, it was the main scholarly practice.

### ***5. Conversation as scholarly practice***

The conversations were the *practice* par excellence of Viennese intellectual life, not experiments, not armchair observations, not statistical methods, not modeling, but talking. One of the downsides for the historian is that little remains of such conversations. All we have left are some lists of topics discussed during the seminars. In fact if one looks back on the interwar period one notices a peculiar absence of written work. Hayek hardly published anything during the 1920's, and was hired at the LSE based on the *lectures* he delivered there. Mises *wrote* his most important books before and after the flourishing period of his seminar. I certainly do not want to claim that there was no output, but it seems that the conversations were indeed more important than the written word. On the other hand I do believe that many of the participants of the Viennese *Kreise* were able to draw on these conversations for the rest of their careers. As such much of the visible output only comes much later, when they migrate to an academic

culture in which the written word, and academia itself is far more important than it was in interwar Vienna.

And if they did write it was just as often a contribution to some contemporary political debate as it was an academic paper. In fact a recent volume which collects the writings of Mises during the interwar period shows that his reflections on political and economic developments far outweigh the more traditional academic issues (Mises, 2002). Additional in depth research is needed to definitely answer the causal question of whether this different character of their work was caused by the specific intellectual culture of interwar Vienna, I certainly do get that impression from my study of the Wiener Kreise. This impression is further strengthened by the image that Reisch paints of the Wiener Kreis in Vienna. He portrays them as a practical, a political *and* philosophical movement. He shows to what extent this practical and political side of their work was misunderstood and ultimately smothered by the American academic culture and Cold War political pressure.

Hayek's nostalgia for the Viennese circles as evident from his wish to recreate them after WWII is further evidence that the students of civilization later thought very highly of the intellectual environment of Vienna. They realized that to some extent they had been 'in Paradies'. Kaufmann's song with that title emphasizes the negligible role of the economist in a world without scarcity, the Viennese students of civilization thrived in this world of abundance: the abundance of intellectual conversations. It has also become clear, however, that while the intellectual culture might have been ideal, the situation was far from ideal in other respects. The Viennese intellectuals longed for more security, both politically and career-wise. Nonetheless I think we should

give it some thought that some of the major contributions in economics, philosophy, political philosophy, and so many other fields originated in an intellectual environment which was free from disciplinary boundaries and other academic restraints. These contributions originated from an environment in which interaction was absolutely central, and in which scholars mainly practiced the art of conversation. In these conversations there were no clear borders between science, society, culture and politics (they were all part of the conversation about civilization). The goals that these scholars consequently pursued were often as much social, cultural and political (civilizational if you pardon the neologism) as they were academic.



# Chapter 9 – What it means to be a student of civilization

*On modern economics and the study of civilization*

*When we look for examples of man's control over culture  
we begin first to wonder, then to doubt.  
Leslie A. White, 1949*

## **1. What it means to be a student of civilization**

When I first started working on this project about five years ago I envisioned it as a critical project about modernism in economics. Modernism, yes a very problematic term, so let me be more concrete. I wanted to understand how economics became a professional and autonomous discipline, which in increasingly abstract ways represented the economy and which at the same time developed into a discipline in which the idea of 'Machbarkeit' in German or 'maakbaarheid' in Dutch became almost universally ingrained. This concept is perhaps best understood as a belief in social engineering, the idea that social change can be brought about through government policies, policies which would be designed by professional experts from the social sciences. Few traces of that initial project are left; sometimes I think I failed to answer my initial question. At other moments I am more hopeful and I think that I have in fact reached something of an answer, albeit a negative answer to that initial question. My study of modernism led me to places where modernism as a cultural movement flourished, Vienna being a prime example. Instead of finding out directly what this modern or modernist



attitude entailed I have come to study a group of Viennese scholars who I think have attempted to resist this modernist attitude.

The Viennese students of civilization deny that economics is an autonomous science, and argue that our study of markets is part of a wider study of civilization. They resist the idea that social engineering can achieve much, by stressing the importance of social, cultural and economic processes beyond our control, and the impossibility of foreseeing the full consequences of our actions. They 'fail' to become professional economists, even though they do occasionally obtain university positions. They resist the pressure of specialization along (sub-)disciplinary lines. Their intended audience is the interested laymen rather than their professional colleagues or policy makers. Their representations of the economy and society are verbal and tied to human experience (more phenomenological than empirical in philosophical language). Their main goal is understanding rather than explanation or prediction, or stronger yet designing. The goals of their inquiry are never purely academic, but always social, cultural and economic as well. They remain skeptical about quantification, the idea of measuring the economy. They refuse to accept that scientific knowledge is the only valid type of knowledge; they even suggest that there are very clear limitations to scientific knowledge. In short, they reject many of the characteristics I initially identified with modernism (although they certainly did not remain immune to these trends). Instead of providing an answer to what made economics modernist, I have come to study one of the (few) alternatives to modernist economics, or social science, in the twentieth-century. On a very good day I believe that such an alternative is ultimately more valuable than a critical analysis of modernism in the social sciences, but that is for you as reader to judge.

I have labeled that alternative perspective the study of civilization, done by students instead of scientists. So what does it mean to be a student of civilization? What are the characteristics of this study of civilization? What does he or she study, and what is the appropriate attitude for the student? To give an answer to this question I have developed a list of the five most important characteristics of the student or study of civilization which I have distilled from the previous chapters.

1. *The scholar is always student and never the master of his subject*  
Humility and modesty are perhaps the most characteristic and distinctive elements of the Viennese tradition. Against the idea that the social scientist is the master of society or even the modern prophet the Viennese posit a humble student, who is sometimes capable of understanding the world around him, but whose knowledge is always limited and whose capability to bring about social change is very limited. The primary reason they adopt this attitude is because they recognize the strength and importance of cultural, or rather civilizational processes. Cultural institutions such as law, language, markets, money, political institutions, traditions and morals have come about, they argue, as an unintended consequence of individual human interaction, without any intervention by social scientists. They function because humans constantly interact, but only as an unintended consequence of those acts. The primary goal of the student of civilization is to understand how these institutions function and what role they have in fostering or hampering mutually beneficial human interaction. Since the student is aware of his own fallibility the study of his own limitations and the limitations of his own knowledge are an important part of his work (see also point 3).

Another way of putting this is to say that they have developed a third eye for the stuff-in-between: the institutions, relations, traditions and values which exist between individuals. The stuff-in-between that exists between markets and governments, our civil society, and the social forces that are at the heart of Wieser's analysis. Or we could think of the knowledge that exists between the personal and the objective. It is their perception of this stuff in between which distinguishes the Viennese students of civilization from virtually all modern economists. And it is that stuff-in-between that distinguishes groups of people from one another, the stuff that gives human interaction its particular flavor, that which makes up culture. It is also this part of life which is so often neglected in rationalist social science, and the policies which follow from it. Menger wondered how money and credit emerged, Wieser why social change was so slow a process, Mises why the economy could not be planned, Hayek why traditions were so important: all questions about the stuff in between. Hayek develops this insight into a general idea according to which language, law and markets are the three most important achievements of civilization. It is therefore such a pity, almost frustrating, that Hayek and Mises sometimes resorted to a simple dichotomy between socialism and capitalism, at times ignoring all the stuff in between.

*2. There is a difference between knowledge from and knowledge about civilization*

Perhaps the central insight we have learned from the Viennese students of civilization is that it is helpful to make a distinction between knowledge about and knowledge from civilization. This distinction is

central to their idea of the institutions of civilization as evolved (complex) structures and processors of knowledge. If we wish to learn about justice, it makes sense to study (successful) traditions and institutions in which this concept has evolved. And if we want to understand what an efficient process of exchange and distribution looks like we should study the institutions which evolved to serve this purpose, most importantly the market. If we want to learn about effective ways of communication we should study actually existing languages, for they have evolved for this purpose. So when Wieser discusses the misguided rationalism of his age he discusses the attempts to replace the languages of the world with Esperanto (ignoring the knowledge contained in evolved languages), when Mises and Hayek discuss the rationalism of their age they discuss the attempts to plan the economy (ignoring the knowledge contained in existing business practices). This rationalism, they argue, ignores the knowledge from civilization, the knowledge embedded in institutions and the interaction and flexibility that these 'irrational' institutions allow. In that sense Michael Polanyi's (yes another Viennese) concept of 'tacit knowledge' is part of this knowledge embedded in institutions and practices (Polanyi, 1958)<sup>143</sup>. From Polanyi Hayek also adopts a difference between knowledge that and knowledge how, the knowledge from civilization and the knowledge about civilization (Caldwell, 2004: 307).

In Hayek's later work he very explicitly argues that culture and cultural institutions have enabled human intelligence, and rationality. In chapter two I have shown that the individual in the Viennese tradition

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<sup>143</sup> The spirit of Polanyi's book is very much in line with what follows in this section: "I have traced the tacit personal interactions which make possible the flow of communications, the transmission of social lore from one generation to the other and the maintenance of an articulate consensus" (Polanyi, 1958: 212).

was always conceptualized as in possession of limited knowledge, highly dependent on others and surrounded by uncertainty. The institutions of civilization help the individual (however imperfectly) to cope with these circumstances.

On the other hand there is the knowledge about civilization, which is not fundamentally different from what we consider traditional social scientific knowledge. That should not obscure the fact that there are clear limits to what the student of civilization *can* know, he can never have complete information about the particulars at any given moment in time (knowledge from, knowledge that), but he can know certain processes, the way in which certain cultural institutions operate (knowledge about, knowledge how)<sup>144</sup>. The Viennese students of civilization are famous for their claim that planning is impossible because the central collection of all relevant price information would be impossible. One could well extend this argument to claim that it would be impossible for a linguist to map out all the possible uses and functions of words. That information is dispersed throughout society and possessed by heterogeneous individuals. More importantly, both markets and languages are dynamic processes, so mapping itself would be rather beside the point. The information possessed by the student of civilization is thus always limited. Like the individual who is always in possession of a very limited amount of knowledge in the economic theory of the Viennese, so the knowledge of the student of civilization is

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<sup>144</sup> A similar point, including the distinction between knowledge from and knowledge about, is made by McCloskey: "An economist looking at the business world is like a critic looking at the art world (...) Human scientists and critics of human arts, in other words, write history, not prophecy. Economics teaches this, the limit on social engineering. It teaches that we can be wise and good but not profitably foresighted in detail, even if we are economists (McCloskey, 1994: 73).

always limited. The student is highly dependent on others, and in need of constant interaction to partly overcome these limitations.

3. *Markets are cultural institutions with cultural and moral effects*

The Viennese students of civilization show that markets are cultural institutions; neither natural, nor designed. It means that markets have come about more or less organically through human interaction. It also means that markets will work better or worse in different cultures; in that sense one could speak of more and less market-conducive cultures. The Viennese students of civilization especially stress the values foresight, prudence and temperance as conducive to the development of extensive markets. In terms of institutions they claim that the protection of property rights is especially important, and that central planning hampers markets. Temperance is especially important for it leads to markets for what Menger calls higher order goods, in modern economics often called capital goods. These goods are not produced for consumption; they are means, which will help improve the production process of what are ultimately to become consumer goods. The Viennese students of civilization believe that the progress of civilization is tightly bound up with the adjustment of our horizon further into the future and the expansion of human knowledge which enable us to produce of (ever) higher order goods.

Markets for the Viennese students are not only supported by culture, they also have cultural and moral effects. In chapter three I have explored how markets limit as well enable individual freedom. They limit individual freedom, because they make humans more dependent on one another and because they force us to produce that for which others are willing to pay. Markets enable freedom, because they increase

the possibilities of the individual, and that they enable individuals to specialize in the direction that he or she prefers. The disciplinary effects of markets are somewhat more complicated, but they bring out wonderfully how the Viennese students of civilization conceptualize freedom. The disciplinary forces of the market, such as competition, instill certain values in individuals, it civilizes them. But such forces will most likely be experienced as a burden by the individual. He might feel insecurity about his income, about the right choices to make, he might feel competitive pressures, or might find it very hard to restrain certain desires. This burden, this strain of civilization is, however, an inevitable part of the civilizing process.

4. *There is a therapeutic or tragic element to the work of students of civilization*

Another distinctive feature of the Viennese students of civilization is that there is a therapeutic element to their thought, therapeutic both about what it means to be a student of civilization and a therapeutic element about what it means to be human. Let us start with the latter, which is perhaps best illustrated by the characterization of economics as a dismal science. Economics for the Viennese is indeed a dismal science for it emphasizes unfortunate characteristics of human life: the unavoidable scarcity, the necessity to make (painful) choices, the fact that there are almost invariably trade-offs involved in our attempts to realize various aims. These facts are all recognized by mainstream economists, but they are hardly ever presented in a therapeutic way. For the Viennese it is very important to *show* their fellow citizens that such inconveniences are unavoidable, that they have to be accepted. That is also the message which follows from their concept 'the strain of

civilization'. This strain consists of the responsibility individuals bear for their own choices, the acceptance of powerful social forces such as the force of competition, the necessary restraints of our instincts, and the submission to norms which we do not fully comprehend. In therapeutic terms they advocate the acceptance of those facts of life one cannot change without enjoying the benefits of our civilization.

There is also a more hopeful therapeutic element to their thought, facts of life for which we should be grateful. Hayek especially stresses the marvel or wonder with which we should look at the market process (Hayek 1945: 527). This view is implicit in Viennese thought going back at least to Carl Menger, who already emphasized the importance of organically grown institutions, and the limits of our rationalism. The civilization that the Viennese study, the cultural institutions, norms and traditions more generally deserve our admiration, they argue. Law, language and markets to use this trio once more, are all institutions which are very beneficial to humans and which have not been designed by us. Like we sometimes marvel at the wonders of nature (see chapter 5), so the Viennese argue we should marvel at the wonders of civilization.

There are also elements of their work which are therapeutic for their fellow students of civilization (and for themselves as students). These pertain mainly to the 'social enthusiasm' of many students of civilization who hope to improve the world and cure various social ills. Like the therapeutic skeptics in medicine, the Viennese students of civilization want to make clear to their fellow students that they should be cautious and recognize that their sphere of influence is limited. This is an especially important realization, because not only his own inclinations might lead the student to bite off more than he can chew.



The outside world, citizens, governments and businessmen, expect the student of civilization to deliver cures and solutions. The therapeutic value of their work lies in the fact that they make other students of civilization aware of these pressures, aware of his own urge to alter social outcomes (especially those which seem unjust), aware of the limits of his knowledge, and aware of the limits of his power to alter the world.

Another way of putting this is that they emphasize, and here there are clear links with the work of the sociologist Berger, the human condition<sup>145</sup>. They emphasize the limits of human capabilities and the tragic elements in life, those things which we cannot change. That perspective has led some to conclude their work is pessimistic, especially those firmly wedded to the ideal of 'Machbarkeit' tend to deny the existence of such limitations. I believe, on the contrary, that is more helpful to think of their work of therapeutic or tragic. My emphasis on fate in chapter six is an attempt to bring these tragic elements out. In chapter five and six I demonstrated how the Viennese students of civilization dealt with tragedy, how they occupied various positions on a spectrum which the Austrian novelist Adalbert Stifter once described: "[when faced with destruction and tragedy] the strong man submits to it humbly, the weakling rebels and complains, the common run of man is stupefied" (Stifter quoted in Magris, 1989: 148). In that sense the work of the Viennese students of civilization is also character-building, it is

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<sup>145</sup> Another sociological work which is of interest in relation to these themes is Harry Liebersohn's 'Fate and Utopia in German Sociology, 1870-1923' (1990). This book contains a very stimulating first chapter on what one might call the tragic element in sociological thought. Unfortunately the later chapters do not really live up to this initial promise.

edifying.

5. *The study of civilization is a social process between various students and their culture*

Claudio Magris further praised that same novelist Stifter because he: “[inquired] into the secret of moderation, of that acceptance of limits which enables the individual to subordinate his own vanity to a value above the merely personal, to open himself to sociability and to dialogue with others” (Magris, 1989: 129). It is not only in terms of moderation that there is a close relation between the work of Stifter and that of the Viennese students, but also in the importance of dialogue with others. In the Viennese circles the frequency and high level of intellectual conversation helped bring about great contributions to culture and scholarly work. As Stifter points out for such conversations to be successful there has to be a social spirit and willingness to subordinate oneself to the conversational norms and the shared aims of the conversation. In that sense one might say that the humility stressed with regard to knowledge is reflected in the social practice of the conversation. That same humility is reflected in their view of freedom, in which the individual subordinates himself to cultural norms and traditions. It is like the example of freedom speech: meaningful freedom of speech is achieved (perhaps paradoxically) when individuals are willing to observe (to submit to) conversational norms. Freedom of speech does not mean that every individual can say what he likes when he likes it; that would not generate meaningful conversations. The freedom of speech is different from the freedom to be heard, and the willingness to listen. It is this idea of freedom which is at the heart of Hayek’ theory, not the Berlin’s idea of ‘negative freedom’ as is often

implicitly assumed. The observance of such conversational norms was practiced in the Viennese conversations, although as such things go not without the occasional transgression. But it was undoubtedly partly because of this spirit of sociability and humility that the Viennese conversations achieved the level of creativity and originality for which we now remember them.

The fact that the practice of scholarly work is a social process is not just reflected in the manner in which their work was conducted, but also in the goals that were pursued. The goals of the Viennese students were not just scholarly; they were not purely autonomous scientific goals. Their goals were social, cultural and economic, civilizational. Others have sometimes labeled their work philosophical, because it is not restricted to the purely empirical, or political, because it is moral as well, but a better way to understand the work in the Viennese tradition is to realize that they were attempting to understand society, understand civilization, as well as to contribute to it. This becomes most clear when Hayek and Popper called their work their 'war effort'. But the earlier work of the Viennese students of civilization was just as much an attempt to steer their civilization in the right direction, even though they realized that their capability to do so was limited. Carl Menger already summed it up: "But never (...) may science dispense with testing for their suitability those institutions which have come about 'organically'. It must, when careful investigation so requires, change and better them (...). No era may renounce this 'calling' (Menger, 1883/2009: 234).

This list sums up to most important characteristics of the Viennese students of civilization, but I hope that it also invites us to add

individuals or groups of scholars to this tradition. In the more reflective chapters four and seven I have suggested several authors who might well fit into this tradition. Within economics a couple stand out to me: Kenneth Boulding, Albert Hirschman and Frank Knight, and the recent work of Peter Boettke (who identifies himself with the modern Austrian School of economics). I hope it also invites us, as I attempted at various points, to find links with other disciplines. My knowledge of these other disciplines is rather limited but I made the suggested connections to the work of the anthropologist Malinowski, sociologists Norbert Elias and Peter Berger, political scientists and intellectual historians J.G.A. Pocock and Quentin Skinner, and somewhat more tentatively with cultural historian Johan Huizinga. These are only first suggestions, please feel free to add. Instead of attempting to formulate yet more lists, it is time for some additional reflection on the idea of civilization at the end of this book.

## ***2. When civilization breaks down***

A chapter in Hayek's 'Road to Serfdom' is called the totalitarians in our midst. Some of the first words in the 'Open Society' by Popper make clear that some of our gravest mistakes come from what "admittedly is a part of our intellectual heritage" (Popper, 1945: v). Or as literary critic George Steiner put it: "The blackness did not spring up in the Gobi desert or the rain forests of the Amazon. It rose from within, and from the core of European civilization" (Steiner, 1967: 14-5). As you undoubtedly guessed, these authors were attempting to come to grips with what was widely perceived as the breakdown of a civilization, the rise of Nazism, the Holocaust, and the total war. This breakdown had

occurred in Europe, right at the heart of the civilization that the Viennese had studied. Even after the war the effects of this breakdown were severe; these authors felt that their civilization was infected. Language had been deformed through propaganda and intellectual errors; our idea of the law had been corrupted through a confusion of law and legislation, and our rationalist idea of markets was misguided. George Steiner even wondered whether silence was the only appropriate response for the novelist or poet when language was so deeply corrupted. When we study Hayek's post-war work we soon notice how much he is concerned with correcting the use of language: his criticism of 'social justice', his distinction between law and legislation, the disentanglement of true and false individualism, his concern with the various uses of liberalism and freedom, etc.. The illness was severe, and cures were not easily found. A deeper question also emerged: was our civilization partly to blame for the atrocities of WWII?

It is an issue that Elias the most prominent writer on the subject of the civilizing process in the twentieth century also faced in his book 'The Germans' (Elias, 1996). This book was partly prompted by the fact that several critics accused his theory of the civilizing process as linear and optimistic. These critics frequently pointed to WWII and the 1930's as a clear counter-example to such linear ideas about civilization. They apparently failed to notice that the work of Elias, as well as that of Hayek, Popper and Malinowski were all written in response to these developments. Their intellectual efforts were an attempt to show their fellow citizens what was at stake, but especially what the value was of the civilization they usually took for granted. It is central to Elias work to show the origins and the importance of the manners and morals we now take for granted, and it was central to the work of Hayek and Mises to

show the complexity and importance of market processes, which they felt were too easily taken for granted. These authors were well aware that there was a possibility of a breakdown of civilization or a decivilizing process. In fact they wrote their works to warn their fellow citizens that grave dangers were lurking. As Elias put it:

“Contemporaries did not then conceive of civilization as a condition which, if it is to be maintained or improved, requires a constant effort based on a degree of understanding of how it works” (Elias, 1996: 314).

However true that might be, it should not obscure the fact that such a decivilizing process was something to be understood, to be explained. Just after WWI, Mises and Schumpeter were attempting to come to grips with the outburst of violence, nationalist sentiments and romantic longing. In the same manner Popper, Hayek, Elias and others were attempting to come to grips with the political movements of the 1930's and WWII. In chapter three we saw that Mises and Schumpeter were struggling to understand and empathize with what they believed to be atavistic cultural sentiments. And although Mises attempted to go beyond merely thinking of these developments as atavistic remnants in a rationalizing society, he did not really manage to do so. What however came to fruition in the work of Hayek, Popper and Elias (and Freud although Hayek did not liked to acknowledge this) was an alternative understanding of these so-called atavistic sentiments. They argued that the civilizing process had come at a price; the restraint of instincts had put a heavy burden on individuals. The political movements of the interwar period exploited the dissatisfaction with this burden; they promised the relief of these restraints in combination with the same level of prosperity and freedom.

What Elias in his book on the Germans attempts, and Popper and Hayek in their work of the 1940's attempt, is to understand how these once restrained sentiments were unleashed again. They trace this development within Western or European civilization, and hence do not provide a triumphant picture of Western civilization. On the contrary, they chastise significant parts of that civilization, especially the misguided rationalism or scientism which emerged in the early nineteenth century. One can of course criticize their respective efforts to do so: Popper may rely too heavily on the rationalism which it critiques; Hayek may be criticized for a reliance on evolutionary theory while at the same time criticizing the direction of this evolution; Elias explanation might rely too much on German exceptionalism, and he may be criticized for ultimately resorting to atavistic arguments. It is, however, simply unfair to claim that these authors accept the civilizing process as a natural or linear process. They wanted to show their contemporaries that civilization is a cultural process for which we have a shared responsibility. The work of the students of civilization is not triumphalist or uncritical about our intellectual heritage, it is instead a reminder how fragile that civilization is and remains. The question that does spring from their analysis, and which they only partly answer, is whether the burden of civilization might at any point become too heavy.

Their work also raises interesting questions about our ability to distinguish civilizing from decivilizing processes. In the introduction to Elias study on 'The Germans' Eric Dunning and Stephen Mennell for example wonder to what extent the informalization processes in the 1960's and 70's are part of a civilizing or decivilizing process (Dunning & Mennell, 1996, see also Wouters, 1986). If one draws an analogy to economics one could wonder what more and less civilized markets look

like, and especially to what extent predatory as opposed to mutually beneficial interaction still takes place on markets. The analysis of the students of civilization also makes us wonder to which extent the most important elements of our civilization are sufficiently supported within society.

### ***3. The scholarly heritage and traditions***

At various points in this book we have reflected on scholarly practices and virtues, especially the awareness of limitation of the student. There is, however, one element of our scholarly practice which we have so far largely ignored: the relation of the students of civilization to their own intellectual heritage.

In the study of civilization by the Viennese we find great respect for the knowledge embedded in institutions and traditions which have been passed down and cultivated generation after generation. But within economics (a tradition of thought to which I will refer most here) we have in the twentieth century instead largely neglected this insight. We have behaved like the rationalist who attempted to plan society from the ground up, like the avant-garde artists who wanted to reinvent painting, and the modernist architects who wanted to destroy cities to build them anew, of course rationally and according to plan. The work of Thomas Kuhn even lent some legitimation to the idea that every so many decades a scholarly field would be revolutionized and become incompatible with all that went on before. Such sentiments, however are contrasted by our experience of reading the classics. When we read Aristotle, Smith, Marx or in this case the Viennese, we still find many valuable things, including valuable things with which we disagree. More



importantly we recognize that they are part of a more or less continuous intellectual tradition.

Although we know that a complete revolution of economic thought is not possible or desirable, we have seen many instances in which older thinkers were discarded because they were unscientific, or ideological. At other instances we have felt the need to once again prove, using the latest methodology, things that were well-known to our predecessors. To give just one example: the recent stream of experiments designed to show that individuals are not fully rational, wholly self-interested and sometimes jealous, spiteful or altruistic. No doubt some of these experiments have helped us to understand the institutional setting under which human beings are jealous or altruistic, but many of these experiments merely re-established old wisdom<sup>146</sup>. Especially outsiders repeatedly raised their eye-brows when they found out that economists were only now finding out (or proving?) that human beings were not perfectly rational. A more hopeful way of putting it, was that these economists were rediscovering a neglected part of their intellectual heritage. It is this heritage that I want to talk about some more.

Our relation to our intellectual heritage is not an issue that is frequently raised, or at least I have not come across it often. How should the student of the economy relate to the students that came before him? Do we stand on the shoulders of giants, or do we feel the need to seriously reconstruct our intellectual buildings?<sup>147</sup> An interesting point

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<sup>146</sup> It is somewhat ironic that Smith's work on our moral sentiments also gained renewed popularity during this period.

<sup>147</sup> The essays collected in a special issue of *Daedalus* (Winter 1997) can however be read as an historical consideration of these issues. Especially the reflections of Schorske are well worth studying (Schorske, 1997).

to start this inquiry from is with the work of Gadamer. He confronts the issue head-on when he takes a stand for prejudice in scholarly work. Prejudice seems a straightforward reason for us to discard the work of earlier economists, especially political prejudice. Even one of the more subtle authors on the issue, Joseph Schumpeter, warns against the dangers of preconceptions which are “dangerous to the cumulative growth of our knowledge and the scientific character of our analytic endeavours” (Schumpeter, 1949: 347). In that sense he is completely in line with what Gadamer sees as the most important legacy of the Enlightenment: “the prejudice against prejudice, which denies tradition its power” (Gadamer, 2004: 273). Gadamer on the other hand argues that we have come to think mistakenly of prejudices as purely negative. According to him prejudices are an essential part of everyday life *and* scholarly practice. We hold prejudices for authorities, say Adam Smith, and we hold prejudices against astrological hypotheses (with the possible exception of Jevons and his sun-spot theory of the business cycle). We also hold prejudices for tradition; we continue doing certain things because that has been the way to do it for a long time. We of course do not do so uncritically, as Gadamer acknowledges, the greatest value of the Enlightenment period has been precisely its emphasis on a critical attitude. That attitude, however, should not be taken to its extreme. The justification of many practices and morals lies not in their rational justification, but in tradition according to Gadamer (the Viennese students of civilization would be nodding at this point). This is not a passive process, traditions are not automatically transferred to new generations, they have to be “affirmed, embraced, cultivated” (Gadamer, 2004: 282). These prejudices and beliefs that have been passed on to us are not just myths and distortions, they are what mostly

what previous generations felt was worth preserving. These beliefs have been tested in the past, and therefore command our respect<sup>148</sup>.

These prejudices and traditions help us see, think, understand. Against the idea that the social scientist is a disinterested observer, who tries to detach himself from time, place and his own biographical situation, Gadamer places a social scientist who is interested, often passionately involved and located in space and time. Without such characteristics interpretation, understanding, and the necessary empathy would be impossible in the first place. To describe this set of prejudices and traditions, that which is commonly believed, Gadamer uses the term 'sensus communis'. Science, or rather the scholarly conversation, is a social endeavor in which we constantly accept or reject one another's prejudices, opinions and theories. The agreement in such conversations is often far larger than the disagreement, he argues, although we sometimes hardly notice this. Economists accept the notions of 'the individual', the 'market' etc. The accepted views, theories and prejudices create a common ground, which makes communication possible in the first place as modern Austrian economist Don Lavoie has argued (Lavoie, 2011). That these prejudices, or concepts and theories, are passed down to us by tradition does not discredit them in any scientific conversation, it usually warrants extra attention for them. We would certainly not get very far if we were to start every conversation by precisely defining every term we use (even though we sometimes have to do this for certain contested terms). These shared concepts, this

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<sup>148</sup> The Viennese students of civilization would also have nodded when in the same context Gadamer makes a connection with freedom: "Does being situated within traditions really mean being subject to prejudices and limited in one's freedom? Is not, rather, all human existence, even the freest, limited and qualified in various ways? If this is true, the idea of an absolute reason is not a possibility for historical humanity" (Gadamer, 2004: 277).

shared understanding of the world, is what Gadamer calls the '*sensus communis*'.

It is the common ground which in conversations between peers is taken for granted. We soon notice how important these are in discussions if one engages in a conversation with those outside our field. There the conversation does not take place as naturally as one hopes, but words, concepts, and meanings are used and understood differently<sup>149</sup>. Gadamer's term, which was originally coined by Aristotle, does not just refer to a shared understanding, an overlapping consensus, but it also refers to a community: a group of people who share this same sense. And it is this shared understanding which often differentiates various social groups and fields. Economists have a different '*sensus communis*' than sociologists, who have a different '*sensus communis*' than political scientists. Understanding economics means understanding and learning this shared sense, and passing on this shared understanding, this particular sense is the bulk of our academic education. As such it is very close to what I labeled the sensitivities in the previous chapter.

To locate the origins of our current '*sensus communis*' is one of the tasks of the history of a particular discipline. Through the practice of the history of our discipline we understand where our current beliefs, prejudices and theories come from. In that sense the history of a discipline is a way to critically reflect on our current *sensus communis*, the knowledge which we currently take for granted. During periods of economic or financial crises we will for example reconsider our image of the economy as an automatically stabilizing system, and look for

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<sup>149</sup> For a more extended discussion of these issues, see Klammer (2007), especially chapter 3.

alternative conceptualizations of the economy. If we wish to understand why we think about the market as we do, and how this could be done alternatively, again the history of a discipline is indispensable. It is for this purpose that we need history, and why our own intellectual history should be an integral part of the social sciences. As Lavoie puts it: “History of thought can no longer be seen as an extra specialty for those with a peculiar curiosity about ideas of dead men, but must be seen as an integral part of any scientific discipline” (Lavoie, 2011: 112). I would add that separating between the history of a subject and the subject itself is wrongheaded. This book, even though it discusses scholars of the past, is concerned with economic thought and the study of our civilization, rather than with ‘merely’ the history of that study.

The ‘sensus communis’ does not only help us communicate, it also helps us in the judgments which are so central to scholarly practice. It helps us to make judgments when choosing between various books to read, theories to study, arguments to evaluate, concepts to be developed further, questions to ask. In other words it helps us to *act* scholarly. For Gadamer there is no fundamental difference between acting in everyday life and acting as a scholar, both rely on experience, practice, skills and judgment. We learn by doing, but more than anything else we learn by studying how others do it. To do so our own tradition is important, for it is from our own scholarly traditions that we can learn these skills. The study of our own traditions, the practice and judgments of others, teaches us to make our own judgments. Judgments which, as Gadamer argues, “presuppose education and maturity” (Gadamer, 1975: 312). Our everyday scholarly judgments require weighing various aspects which are not necessarily easily commensurable: desirability, effectiveness, feasibility, accordance with earlier beliefs etc. A sense of judgment is

also what we appreciate in others. Among historians of economics, Schumpeter's 'History of Economic Analysis' (1954) is as popular for his judgments about scholarly contributions as for its historical accuracy. And Jacob Viner who noted this quality of Schumpeter's work in his original review of the work, himself was also known for both his knowledge and his sense of judgment. Viner by the way was called "the greatest historian of economic thought that ever lived" by Mark Blaug, another judgment. Authority in science undoubtedly depends as much on theoretical contributions as it does on this sense of judgment, it are these judgments which help guide us. Authorities gain this authority for we have learned to trust their judgment. Such judgments allow us to claim that somebody is a great scholar, and no I do not think that such a claim is an unfounded value statement.

The reader might by now guess that I am uncomfortable with the prejudice against 'unfounded' knowledge. The knowledge *from* civilization is unfounded in a scientific sense, but very valuable in our everyday life. The knowledge embedded in successful institutions might be scientifically unsound but is of great importance to human interaction. In the same sense our judgments have value. The reason that we can make such informed judgments, or value statements if you like, is because we have developed a conception of goodness in various practices. Mark Blaug has an idea of what a good historian of economic thought is and does, and therefore he can claim that Viner is the greatest that ever lived. Similarly we evaluate the actions of other based on such standards. We can claim about a student that he is a good student, because he has acquired mastery of the required subjects, or because he has shown the right type of attitude. MacIntyre claims that such evaluations, such judgments have for a long time been central to the

moral discourse. These judgments could be formed because it was roughly clear what functions or goals institutions or objects served. This means that contrary to folk wisdom one can sometimes proceed from certain 'is' statements to 'ought' statements (MacIntyre: 1984: 57-8). Or more precisely we can sometimes move from statements about somebodies practices and attitude, to statements about the value of a particular contribution or person. If a student shows the right attitude and has acquired a good understanding of the required concepts, we can call him a good student. I believe that these types of evaluative judgments are part and parcel of what scholars do. They have implicitly or explicitly recognized the purpose of various scholarly activities, and can hence judge whether the activity is performed well. Such standards are not absolute, or objective, they emerge in scholarly interaction.

Just like the Viennese students of civilization showed the importance of moral traditions and historically grown institutions in society, I think it is good for us to recognize the importance of our own intellectual tradition. It is perhaps time for what Gadamer called 'a rehabilitation of authority and tradition'. This is not to say that we should get rid of our critical faculties, but to once again appreciate the role of both authority and tradition within social thought. When Popper called for piecemeal engineering in society many agreed with its anti-revolutionary spirit. Hayek made this spirit an explicit concern in what he labeled the counter-revolution in science. In social thought, on the contrary, we have continued to act like revolutionaries. In essence this anti-revolutionary mindset is similar to the modesty so central in the Viennese tradition; we should practice modesty with respect to the existing body of knowledge as well to the historically grown institutions. Humility should make us reluctant to believe too easily that our

'rationality' is greater than that of the past. To practice this humility is a skill, and should not be taken too some extreme. Too much respect for tradition is as bad as the hubris which Hayek condemned. It is just that the balance in the past century has tended more towards this hubris, than to the side of humility.

The strait between the Scylla of hubris and the Charybdis of deference might be narrow. As some scholars have observed it is the essential tension within Hayek's work. His call for a respect of our traditions and historically grown institutions was combined with a vehement criticism of the current state of affairs, and the development of social thought since the nineteenth century in general. One may accuse him of being inconsistent, of pleading for modesty and radical reform at the same time. That is certainly the most convenient response (it would probably even be right). It is however more insightful to recognize the tension inherent in our relation and Hayek's relation to traditions. We build on them, we cultivate them, but at the same time we sometimes feel that our traditions are no longer suited to the current circumstances or worse yet, that our traditions are being corrupted by contemporary developments. If we at least recognize that both feelings, the need for reform and the need for a return, are expressions of our relationship to that tradition that would be a big step in the right direction. When we apply the modesty of the Viennese students of civilization to our own heritage it leads to a respect for the knowledge that has grown historically, and a cultivation of that tradition. But that respect should be combined with an attempt to gradually improve these traditions, to keep them relevant. To conclude, once more, with Menger, we may 'not renounce that calling'.





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## **Dutch Summary / Nederlandse Samenvatting**

Op de omslag van deze dissertatie staat het schilderij 'Late bezoekers van Pompeii' van de Nederlandse schilder Carel Willink. Op het schilderij staan vier mannen die elkaar de rug hebben toegekeerd, het gesprek dat ze ooit hadden lijkt al een tijd geleden te zijn verstomd. Op de achtergrond zien we de ruïnes van Pompeii en een dreigende Vesuvius. De natuur lijkt de overhand te krijgen, de beschaving dreigt het te verliezen. De heren op de voorgrond bekommeren zich hier echter nauwelijks om, ze staan er gedistingeerd bij en een van hen rookt tevreden een sigaar. Alleen de figuur links, de schilder Willink zelf, kijkt enigszins ongemakkelijk over zijn schouder, alsof hij zojuist betrapt is door de kijker. Het lijkt erop dat Willink zich bewust is van een bepaalde verantwoordelijkheid, maar daar niet goed mee om weet te gaan. In één beeld wordt zo de thematiek van deze dissertatie gevat. Hoewel de dissertatie niet over schilders gaat, laat het beeld prachtig de problematische relatie zien tussen een groep Weense economen en hun beschaving. Deze Weense economen, waaronder Carl Menger, Friedrich von Wieser, Joseph Schumpeter, Ludwig von Mises, Friedrich Hayek, gezamenlijk ook wel bekend als de Oostenrijkse School van de economie, maken zich zorgen over het lot van de Habsburgse en de bredere Europese beschaving. Tijdens de eerste helft van de twintigste eeuw worstelen ze met hun verantwoordelijkheid ten opzichte van die beschaving.

Deze denkers zijn dan ook niet primair bezig met economische analyse, maar met een bredere studie van de beschaving. In deze dissertatie wordt betoogd dat deze economen beter te begrijpen zijn als ze wordt gezien als een groep studenten van de beschaving. Anders dan

veel economen zien deze Weense studenten van de beschaving de economie niet als een natuurlijke orde of een zichzelf regulerend systeem, maar ze leggen de nadruk op het feit dat markten culturele instituties zijn. Net als bijvoorbeeld taal, morele normen en wetten ontstaan markten vanuit menselijke interactie en spelen ze een belangrijke rol in het bevorderen van die menselijke interactie. In de decennia voor de Eerste Wereldoorlog en vooral tijdens het interbellum brokkelt de steun voor dergelijke culturele instituties, die van levensbelang zijn voor onze beschaving, af. De Weense studenten van de beschaving analyseren deze revolutie, en bevragen hun eigen rol in dit proces.

Aanvankelijk is hun houding het best te beschrijven als 'therapeutisch nihilisme'. Deze houding, die zijn oorsprong vindt aan de medische faculteit, wordt steeds typerender voor een hele generatie Weense intellectuelen. Dit therapeutisch nihilisme houdt in dat de ontwikkeling van een ziekte, of in dit geval van de maatschappij, bepaald worden door krachten die groter zijn dan de macht van de dokter of de sociale wetenschapper. De sociale wetenschapper kan deze ontwikkeling wel bestuderen, maar hij kan haar richting niet veranderen. Sterker nog, de Weense studenten van de beschaving kijken met enig disdain neer op economen en sociale wetenschappers om hen heen die de illusie koesteren dat ze de maatschappij kunnen sturen en reguleren. Ze vinden het van intellectuele lafheid getuigen dat deze sociale wetenschappers niet eerlijk erkennen dat hun macht beperkt is. Een rechtgeaarde sociaal wetenschapper moet volgens hen zijn grenzen kennen en nee durven zeggen.

Deze houding komt echter onder druk te staan gedurende het interbellum onder invloed van het opkomende fascisme. De Weense

intellectuelen gaan zich steeds meer realiseren dat ze wel degelijk een verantwoordelijkheid hebben, en enige invloed kunnen hebben op het lot van hun beschaving. Dit plaatst hen, het gaat hier vooral om Hayek en Popper, in een lastige spagaat. Hun werk wordt politieker en idealistischer, terwijl ze juist waarschuwen voor sociale wetenschappers die zich als profeten van de toekomst opwierpen. Vooral in Hayek's 'The Road to Serfdom' (1944) en Popper's 'The Open Society and its Enemies' (1945) is deze spagaat goed zichtbaar. De spagaat tussen het besef van de beperkte macht van de sociale wetenschappers, en de wil om te strijden voor een beschaving die onder druk staat. In hun voorwoord verontschuldigen ze zich voor deze poging ten opzichte van hun collega's, maar ze voelen zich genoodzaakt deze boeken te schrijven, die ze bewust omschrijven als hun 'oorlogsbijdrage'. De term 'studenten van de beschaving' die in deze dissertatie wordt gebruikt is dan ook bewust gekozen, deze intellectuelen voelen zich geen experts of ingenieurs die de samenleving naar hun hand kunnen zetten, maar proberen zich juist bescheiden op te stellen. Met tegenzin werpen ze zich tijdens de Tweede Wereldoorlog dan uiteindelijk toch op als hoeders van de beschaving. De Mont-Pelerin Society die Hayek na de Tweede Wereldoorlog opricht en waar ook Popper bij betrokken is, is een nog meer uitgesproken poging om de idealen die zij belangrijk achten, zoals persoonlijke verantwoordelijkheid, vrijheid, matiging en een rechtsorde, te bevorderen en te beschermen. De scepsis blijft echter, ze houden oog voor de soms tragische ontwikkeling van de geschiedenis en de beperkte rol van het individu daarin.

## **Markten tussen natuur en constructie**

In de rechtvaardiging voor hun nieuwe positie komt ook een veranderde opvatting over onze beschaving naar voren. Popper en Hayek realiseren zich dat het beschavingsproces niet een min of meer natuurlijk proces is dat zichzelf voortstuwt. Ze gaan het beschouwen als een cultureel proces waarvoor we een gezamenlijke verantwoordelijkheid hebben. Daarbij waarschuwen ze echter tegen een te sterk rationalisme dat probeert de maatschappij in te richten volgens wetenschappelijke principes.

Tegenover dat sterke rationalisme benadrukken zij het belang van graduele veranderingen, het belang van tradities, en de onbedoelde en ongewenste consequenties van hervormingen. Sterker nog ze benadrukken dat elke generatie maar beperkte invloed heeft op de beschaving, die bestaat voor een groot deel uit gebruiken en tradities. Alleen op de lange termijn kunnen we hierop enige invloed uitoefenen.

Deze visie werkt Hayek ook uit over markten. Hij laat zien dat markten geen natuurlijke instituties zijn, die zichzelf reguleren, maar dat ze alleen kunnen bestaan binnen een bepaalde marktcultuur, een beschaving. In zijn analyse van de revolutie in de eerste decennia van de twintigste eeuw tegen markten en de bredere beschaving onderscheidt hij twee types verzet. In de romantische hoek is er een sterk geloof dat de beschaving de mens beknelt waardoor hij zich niet vrij kan ontwikkelen. In de theorieën van Nietzsche, Freud en vele anderen worden de vele normen, regels en tradities bekritiseerd die het individu beknellen en burgerlijk maken. De oplossing die gepropageerd wordt door deze denkers is om deze kettingen van de beschaving af te werpen, om een ware vrijheid te bereiken. Maar, zo stelt Hayek, deze denkers onderkennen niet dat ze daarmee de samenleving, de beschaving als geheel in gevaar brengen. Samenleven in moderne maatschappijen is

alleen mogelijk doordat er normen, regels en tradities zijn, die dat samenleven reguleren. Dit noemt hij, in navolging van Popper, de 'strain of civilization'. Die 'strain of civilization' is de noodzakelijke prijs die de mens betaald voor de verworvenheden van de moderne samenleving.

Aan de andere kant van het politieke spectrum ziet Hayek een ongegrond rationalistisch geloof, waarbij voorstellen worden gedaan om de samenleving van bovenaf opnieuw vorm te geven. Deze zogenaamde sociale ingenieurs beweren dat ze met de voortschrijdende kennis van de sociale wetenschap instituties, regels, wetten en de ethiek opnieuw vorm kunnen geven, en zo een betere samenleving kunnen creëren. Vanuit deze hoek klinkt er kritiek op de chaotische en fluctuerende markten, en de verspilling die noodzakelijk gepaard gaat met concurrentie. Vooral in zijn boek "The Counter-revolution in Science" (1952) waarschuwt Hayek tegen een dergelijk maakbaarheidsidee. Hij benadrukt dat kennis altijd tijd- en plaatsgebonden is en bovendien verspreid is over vele verschillende individuen. Alleen als we instituties zoals markten hebben is er een mogelijkheid om die kennis samen te laten komen. Markten, net als taal of wetten, zullen nooit perfect zijn maar ze zullen altijd open moeten staan voor bijdragen van onderaf, om zo goed mogelijk de kennis en kunde in de maatschappij te benutten. Efficiëntie is dan ook niet een doel dat bereikt kan worden met planning van bovenaf, maar tot stand komt in menselijke interactie, bijvoorbeeld op markten. We moeten dus zoveel waken voor de zelfoverschatting van het moderne rationalisme, als voor de wens om ons te ontdoen van de culturele normen die ons samenleven mogelijk maken. Of zoals de antropoloog Malinowski het uitdrukt: "Man is not born free. He is born to a new freedom which he can only achieve by taking up the chains of



tradition and using them, for paradoxically, these very chains are the instruments of freedom” (Malinowski 1949).

Hayek kan bij het ontwikkelen van dit idee over markten bouwen op een langere Weense traditie van denkers. Carl Menger legde reeds de nadruk op het belang van de lange termijn en het min of meer spontaan ontstaan van instituties als geld. In hoofdstuk twee laat ik zien dat de weg naar deze opvatting geen makkelijke was. Vroege pogingen van Carl Menger en zijn broer Max tot emancipatie van de werkende klasse leidde tot een groot verzet tegen de liberale beweging in het Habsburgse Rijk. Friedrich von Wieser was daarom van mening dat er een sterke elite op moest staan, die de liberale orde kon waarborgen en de lange termijn voor ogen kon houden. Bovendien benadrukten zowel de gebroeders Menger als Wieser dat markten alleen konden bestaan binnen een bepaald moreel kader. Het zijn die elementen die Hayek uiteindelijk weet te verenigen in zijn visie op markten, als de meeste geavanceerde instituties van onze beschaving.

### **Het belang van interactie in de wetenschappelijke praktijk**

In hoofdstuk acht van deze dissertatie wordt de intellectuele praktijk van Wenen onder de loep genomen. Daar wordt geschetst wat het belang was van de Weense intellectuele kringen, waarvan het Wiener Kreis de beroemdste is. In deze cirkels kwamen de Weense studenten van de beschaving regelmatig samen om te reflecteren op de maatschappij, omgeven door vele rituelen. Er werden bijvoorbeeld liederen gezongen over de identiteit van de kring, en er werd heftig gedebateerd over de verschillen in visie met de concurrerende kringen. Bijzonder aan deze kringen is dat ze bestonden in een ruimte die ik ook omschrijf als de ergens tussen het koffiehuis en de universiteit. De

universiteit van Wenen was vooral in het interbellum een slapend instituut waar nauwelijks wat gebeurde, beroemd zijn aan de andere kant de levendige Weense koffiehuisen die voor velen een soort huiskamer waren. De intellectuelen kwamen vaak met elkaar in contact tijdens hun studietijd of in de koffiehuisen, maar de discussies vonden plaats in prive-salons van de rijke Weense elite. Die salons waren toonaangevend voor de intellectuele cultuur van het tussenoorlogse Wenen. Het was de plek waar de sociale interactie plaatsvond die zo centraal stond in de analyse van onze beschaving. Het belang van die sociale interactie in koffiehuisen en salons roept de vraag op of die kringen, die bepaald geen ivoren torens waren, van invloed zijn geweest op het karakter van het werk van de Weense intellectuelen. Die vraag is lastig te beantwoorden, maar buiten kijf staat dat de betrokken Weense traditie in schril contrast staat met de objectieve en afstandelijke economische wetenschap van na de Tweede Wereldoorlog.

Deze dissertatie bevat behalve een alternatieve interpretatie van de Weense economische school ook een breder kritisch kader. Die is voornamelijk te vinden in hoofdstuk vier, zeven en in de conclusie. In die hoofdstukken laat ik zien dat de brede en betrokken oriëntatie, net als het ideaal van bescheidenheid, die zo centraal stonden voor de Weense studenten van de beschaving, weinig navolging hebben gekregen. Er zijn wel enkele verbindingen te leggen met economische en sociologische denkers van nu, maar dat zijn toch uitzonderingen. Sterker nog onze huidige opvatting van sociale wetenschap heeft ons beeld op deze Weners flink vertroebeld. Niet alleen noemde de Nederlandse econoom Jan Pen ze in de jaren '60 al zuurpruimen, maar we herinneren hen nu vrijwel alleen nog voor hun economische theorie, in plaats van hun

breder analyse van de beschaving. Als zodanig hebben we ons best gedaan ze er in onze moderne geschiedschrijving zoveel mogelijk uit te laten zien als moderne economen. Deze dissertatie toont echter aan dat ze onderdeel waren van een veel rijkere traditie. Die traditie heeft ons bovendien veel te vertellen in een tijd waarin de legitimiteit van veel van onze instituties verre van gegarandeerd is.

## Curriculum Vitae

Erwin Dekker teaches cultural economics at the Erasmus School for History, Culture and Communication Department of the Erasmus University of Rotterdam since 2008. He teaches a variety of courses about the economics of the arts and cultural sector, the valuation of cultural goods, and research skills. Between 2009 and 2011 he was also a lecturer at the European Studies Department of the University of Amsterdam, where he taught courses on capitalism in Europe, European history, and the economics of the European Union. He has published on a variety of topics within the field of cultural economics and the history of economic thought including 'Economics made fun, and economics made fun of' in the *Journal of Economic Methodology*. He is currently working on a project about the valuation of cultural goods. Together with professor Klamer he has also worked on various research projects ranging from a cultural-economic analysis of the Maastricht area in preparation for its bid as European Capital of Culture to a recent report on the specific economic culture of consultation within the Netherlands for the Dutch Social Economic Council (SER).

Erwin Dekker earned his MSc degree at the London School of Economics in the 'Philosophy of the Social Sciences'. He completed two undergraduate degrees at the University of Amsterdam in Economics' and Political Science. Erwin Dekker was born in 1984 in Hoorn, the Netherlands.

