LIBERALISM AND THE AUSTRIAN SCHOOL OF ECONOMICS

by

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A Thesis
Submitted to the
Faculty of The Graduate College
in partial fulfillment of the
requirements for the
Degree of Master of Arts
Department of Political Science

Western Michigan University
Kalamazoo, Michigan
April 1981
This thesis examines the political philosophy and impact of an important group of European economists known as the Austrian School. This group includes such notables as Eugen Von Boehm-Bawerk, Ludwig Von Mises, and Friederich Hayek.

The thesis first seeks to identify the role of the Austrian School within the liberal tradition, chiefly as a "conservative force" seeking to defend the liberal tradition of Locke and Smith.

Secondly, the thesis seeks to examine the impact of the Austrian School on American politics, specifically upon the growth of the American right. The thesis focuses on the impact of the Austrian School upon the libertarian element of the right as exemplified by Robert Nozick, Murray Rothbard, and Ayn Rand.

The thesis concludes by examining the tension within the liberal tradition resulting from a differing emphasis on and interpretation of the concepts of liberty and equality.
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Western Michigan University M.A. 1981

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INTRODUCTION

The group to which this work addresses itself, the Austrian School of Economics, provides the intellectual base for an important portion of the ideological category that we call the American right. The American right derives its identity, as I will argue in this paper, from its opposition to the New Deal's attempt to regulate the market system in such a manner as to rationally plan society. This opposition is due to the conviction that the spontaneous growth of society, of which the free market is a portion, results in both economic efficiency and, to a large extent, economic and political justice.

I stated above that the American right is an "ideological category." The use of the term ideological is subject to confusion and hence may not be entirely adequate. One very popular understanding of the meaning of this term is that an ideological group is a group sharing a common set of goals and values that are derived from the group's class, or other interests. The crux of the argument being that the shared values are derivative from underlying, perhaps even unconscious, interests.

In opposition to this view, it is also plausible to argue that those groups which we categorize as ideological in fact owe their identity to the shared values they hold, and that it is these values which determine how they perceive their economic and other interests. This more idealistic view of human nature implies that man is capable of noble thought transcending simple class interest, while the former view sees man as more or less determined by his economic interests.
The orientation that one adopts in regard to this issue will greatly affect the manner in which one perceives the role of, or possibility of, political theory. If man's political behavior is determined by factors such as economic interest then the role of political theory is simply to explain political behavior in those terms. Such a view trivializes political theory by logically excluding the advocacy of an ideal or preferred state of affairs because to do so one must be able to exempt one's own ideals from the determining force of interest. This logical exclusion is not meant to imply that this prevents those who hold the deterministic view from seeking to manipulate social conditions.

If one adopts the more idealistic view of human action, then one will understand political theory as an attempt to understand, and not necessarily explain, political action with the hope of using that knowledge to achieve the "good" society and/or a better way of life.

Each of these views suffers from its own particular shortcomings and inherent dangers. The idealistic view may eventuate in the twin dangers of naivette and/or a spirit of fanaticism or utopianism. These dangers can blind one to political reality and may in turn bring to fruition a spirit of blindness and pettiness in the name of philosophic purity. While the former view has the advantage of a more pragmatic orientation it suffers from an inherent lack of direction and also from a tendency to see political action only within the narrow terms of interest.

It seems that both the idealistic and pragmatic positions describe part of the whole of the political system. In practice, a society may at times be dominated by idealism or pragmatism, and this may relate to many different factors, one of which seems to be the nearness to crisis, such as the founding of a regime.

When a regime is founded it holds certain ideals as the justification for its legitimacy and as its standard of excellence. It is from these founding
principles that the regime derives its basic character. With the passage of
time and events there is a tendency to move from the idealism of the founding
to the pragmatism of everyday life and action. This is often coupled with an
explicit attempt to re-interpret the founding in order to free one's self from
the restraints imposed by the idealism of the founding principles, as can be
seen by the various forms of revisionist historiography and progressivism.

The danger inherent in such an attempt to de-mythologize the founding and
to move in such a pragmatic direction is that such an avowed pragmatism may
expose the raw nerves of conflicting interests and make conflict resolution
increasingly difficult, hence promoting social instability.

This movement in the direction of an increasing pragmatism does not
necessarily imply a more complete understanding of the character of politics.
Pragmatism, like idealism, can limit one's horizon and blind one to the full
scope of politics. One can see this narrowing of the range of politics by
comparing the work of James Madison, mainly in the Federalist Papers, with the
work in political science of the pluralists (i.e., Dahl, Easton, Deutch).

Madison, in Federalist numbers 10 and 51, puts forward his theory that
a multiplicity of sects and interests by requiring support of other sects and
interests to form a majority are forced to become more moderate and public
spirited in order to gain and hold support. Additionally, the diversity and
fluidity of these groups allow their representatives the leeway to act in a
statesmanly manner to serve the national interest over sectarian interest when
circumstances so require.

The pluralists also center their attention upon the process of interests,
coalition and compromise, but they understand the output as simply a means of

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1James Madison, Alexander Hamilton and John Jay, Federalist Papers,

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aggregating interest and understand politics as simply a decision making process that gives something to all important groups. The virtues of moderation and the concept of an over-riding public interest are lost and play no important part in their analysis, but are shuffled off to the limbo of value judgements and normative analysis.

In this paper I shall argue that the Austrian School attempted to resist the increasing pragmatism of the liberal tradition as it moved from its theoretical formulation by Locke, Smith, and others. The issue that the Austrian School focused its attention upon was the willingness, even of many liberals, to use the state to regulate the market in order to fulfill state objectives.

The increasing statism and pragmatism of the liberals, which was brought about by a combination of circumstance and theoretical confusion, was seen by the Austrian School as a betrayal of the true essence of liberalism. The Austrian School in this sense can be seen as a conservative response to the trends in liberal thought; however, they did not seek a return to the tradition because it was traditional, but rather because it was a truer, more adequate understanding of man and society. Where they felt the tradition was in error they did not hesitate to revise its formulation.

The relation between theory and practice, idealism and pragmatism is neither simple nor uni-directional. For this reason, the attempt to classify the Austrian School as conservative or theoretical is bound to capture only a portion of the whole. The Austrians saw themselves as the true liberals who had the practical solutions to the problems confronting society. In this paper we seek to look at the historical roots of the Austrian School and also to look beyond the Austrian School to its impact upon American politics.
THE HISTORICAL BACKGROUND

One of the most interesting methods of judging changes in the public's perception of politics is the common usage of political terms. One particularly interesting term is the term liberal. In its classical 19th century usage a liberal favored limited government and a basically "laissez-faire" economic policy. In the current popular American usage, a liberal would be an advocate of extensive government regulation and of the welfare state. He would be classified as a New Deal liberal, while those who are closer to the older understanding of liberalism would often be classed as conservatives.

The implication of being conservative is that one seeks to preserve the past tradition because it is traditional. The liberal, in the classical sense, does not seek to preserve tradition per se, although he may seek to preserve tradition in as far as it contains elements of liberal thought. This confusion of terms tends to obscure the force of the liberal tradition. In this paper I shall examine one of the sources of the liberal tradition and, in so doing, attempt to cast light on its importance to American politics.

The specific group that I shall examine is known as the Austrian School of Economics. The name owes its origin to the conflict between the founders of the Austrian School and the German Historical School. Since Karl Menger, the founder of the school, was Austrian and the Germans felt that to call him and his followers the Austrian School would indicate their inferiority, they used the name in a perjorative sense. Menger and his followers adopted the name for themselves, and since then it has been used in a neutral sense.

It was the publication of Menger's first work, *Principles of Political*
Economy, that marked the founding of the Austrian School. In this work Menger sought to establish human desire for utilities, and the concept of marginal utility, as the basis of economics. According to this thesis, all action is based upon a desire to replace one's present condition for another that is deemed more desirable.

This view does not necessarily imply the older utilitarian view that the goal of every action is the pursuit of pleasure, as implied in the following criticism of the Austrian School:

"The essence of this criticism is that marginal theory is based upon hedonistic assumptions, that is on pleasure-and-pain calculus, which modern psychologists have shown to be false."

Menger does not contend that all action has the goal of pleasure or avoidance of pain, but rather that all actions seek some goal. The goal itself is outside the scope of economic reason and, perhaps, all reason.

Economic science studies the instrumental element of the means to achieve whatever ends the actor desires. Marginal utility is a statement about the character of means qua means, and not about ends. Simply, the contention is that some ends are preferred to others and are ranked according to relative desire. One uses goods to achieve the highest level of satisfaction of these desires, and the value of a specific good is determined by the relative value of the satisfaction that one would have to give up if the good was lost.

A question may be legitimately raised as to the scope of this analysis, and whether Menger in fact thought that it was as comprehensive as science could be in the study of man. We will examine this problem later in this paper.


In 1863, in his second work, Menger\(^1\) attacked the epistemological basis of the then dominant German Historical School. The resulting conflict was known as the methodenstreit and gave the Austrian School a great deal of notoriety.

The German Historical School had argued that economic theory was relative to the historical period under consideration, while the Austrian School argued that economic theory was a trans-historical phenomenon that was concomitant with all human action. The Austrian School, as a result, focused upon the individual actor while the German Historical School focused upon historical elements such as the growth of technology.

A specific issue which may illustrate the difference in these two forms of analysis is their respective views of British trade policy. The Historical School argued that in the 18th and 19th centuries the class interest of the bourgeoisie in Britain required a free trade policy. As a result the doctrine of free trade was developed by the classical liberal economists. When the bourgeoisie could no longer profit from a free trade policy, a theory of protection was developed.

The Austrians criticized this view upon two grounds: first, that the bourgeoisie did not have a class interest in either free trade or protection. In their role as entrepreneurs the issue was whether changes in policy were foreseen. In regard to specific firms which might be benefited by protection, the interests of the bourgeoisie actually conflicted.

Second, and most important, they advanced a criticism against the notion that ideas were the result of class interests or bias. The Austrians viewed this attempt as a means of ignoring the role of the individual and of human ideas in human action. If one denies human freedom and the role of ideas, then


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one may postulate some other force (i.e., technology) as the dynamic social force that determines human history. The role of ideas is then reduced to the level of epiphenomenal ideologies.

The Austrians would argue that it is one thing to suggest that a specific factor, such as technology, may influence human action, but is quite a different matter to contend that it determines human action.

Ideas are the abstract formulation of man’s attempt to understand nature, and, if man is to be able to comprehend the nature of the world, he must be able to transcend the influence of class, society, or ethnic background. If one contends that these factors cannot be transcended a problem arises: what is the status of such a claim? Is it not also the product of whatever factor or factors one views as a determinate?

The only escape from this problem would be to exempt one’s own analysis from the consequence of its own argument, which would seem to me to be ideological.

Other than Menger, the Austrian School has many important scholars as members. One of these was Eugen Von Bohn-Bawerk, who, in addition to work on exchange value and price theory, wrote an extensive critique of Marx’s Das Kapital.

Bohn-Bawerk is also important as the teacher of one of the most influential members of the Austrian School, Ludwig Von Mises. Mises sparked a debate over the issue of the possibility of economic calculation in an isolated socialist community. It was his contention that without a market price, for both consumer and capital goods, economic calculation could not effectively occur. Many

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agreed with Dr. Mises and were influenced by his analysis, as was, for instance, Max Weber. Even among those who disagreed some admitted the importance of his analysis of the issue.

"Socialists have certainly good reason to be grateful to Professor Mises, the great advocatus diaboli of their cause. For it was his powerful challenge that forced the socialists to recognize the importance of an adequate system of economic accounting to guide the allocation of resources in a socialist community." \(^2\)

One of Dr. Mises' most important students, and perhaps the most widely known member of the Austrian School, was Friedrich Hayek. He is best known for his *Road to Serfdom* \(^3\) in which he argues that a centrally planned economy is not only incompatible with economic freedom, but political and social freedom as well.

After the second world war, Professor Hayek organized the founding of the Mt. Perelin Society. The group has as its goal an international exchange of ideas aimed at reaffirming the importance of liberal ideas. Additionally, Professor Hayek is important as he represents an awareness of the limits of the role of economic analysis.

"In recent years valiant efforts have been made to clear away the confusions which have long prevailed regarding the economic polity of a free society. I do not wish to understate the clarification that has been achieved. Yet, . . . I have come to feel more and more that the answers to many pressing social

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1 See, for example, *his Theory of Economic and Social Organization;* Trans. by A. M. Henderson and Talcott Parsons, (New York: The Free Press, Division of MacMillan Publishing Co., 1947)


3 Friedrich Hayek, *Road to Serfdom,* (London: G. Routledge and Sons, Ltd., 1934)
of our time are to be found ultimately in the recognition of principles that lie outside the scope of technical economics or of any single discipline."¹

In this paper I hope to examine the growth of the economic doctrines of the Austrian School to the extent that they are relevant to their political theory, and to examine the impact of the Austrian School upon American political thought.

THE AUSTRIAN SCHOOL AND LIBERALISM

The Austrian School is one branch of liberal thought; this tradition contains within its ranks many differing views. We shall seek to understand the place of the Austrian School within this school of thought.

Any concept of politics, such as liberalism, contains within it implicitly or explicitly, an idea of the human good. That is, it has some concept of the proper goal of politics as well as individual action.

Liberalism is usually based upon some form of the utilitarian theory of ethics: that any action is judged good on the basis of its contribution to the promotion of pleasure or the avoidance of pain. For the utilitarian, all questions of natural right and justice are ultimately reducible to the question of utility.

"Instead of the phrase Law of Nature . . . Right reason, social justice . . . on most occasions however it would be better to say utility: utility is clearer, it refers more explicitly to pain and pleasure."  

Jeremy Bentham, one of the great utilitarian thinkers, argued that utility could be measured with a mathematical precision. To do so Bentham assumed that all pleasures are equal, and that each individual must count as one. The result of Bentham's analysis is summarized in the formula, the greatest good for the greatest number.

This idea of quantifying ethical theory is the result both of the desire to create a practical guide for the legislator, and of the desire to create a

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scientific political theory.

"What is known as utilitarianism, or Philosophic Radicalism, the foremost historian of the movement has concluded, 'can be defined as nothing but an attempt to apply the principles of Newton to the affairs of politics and of morals.'"¹

If man is naturally inclined to seek pleasure and avoid pain, does this not imply a disjunction between the utility of the individual and society? How is the gap between the greatest good for myself and for the greatest number to be bridged? The issue is whether a concern for the public interest can be founded upon utility.

Adam Smith believed that this problem was overcome by two related considerations. In his Theory of Moral Sentiments,² he offers the theory of the sympathetic identification of interests: that man, because of his ability to imagine himself in the position of others, sympathizes with their feelings, and is, as a result, concerned with their welfare as well as his own.

Smith is most readily identified with the second consideration: the natural identification of interests via the market. In the Wealth of Nations,³ Smith argues that under conditions of free exchange the individual, by seeking his own interest, is naturally lead to promote the interests of the whole. In fact, by proceeding in this manner he is more likely to do the public good than if it were his primary goal.

The third means of resolving this disjunction is by means of the artificial identification of interests. This is, the legislator is to create

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conditions under which the individual will promote the social interest.

In order to deal with the problem of resolving the conflict between a hedonistic/egoistic view of man and the requirements of social life, the liberals did not appeal to a concept of civic virtue. Rather, they sought to create conditions under which egoistic man would identify his interests with the social good.

The different forms of liberalism can be understood as emphasizing different aspects of this identification. The move away from the market system is to a large extent a movement toward a belief that the natural identification of interest did not accomplish the desired results. Specifically, it rejected the view that under the free market all members of society were benefited in such a way as to promote the social good.

Part of the reason for the rejection of the natural identification thesis was due to certain flaws within the original form of the theory. One of the goals of the Austrian School was to correct these errors. Let us then examine the unfolding of these ideas that lead to the rejection of the market by many liberals.

William Godwin,\(^1\) for instance, accepted the natural identification thesis and, in fact, radicalized it into anarchism. However, this natural identification occurred only under conditions of social equality.

Under conditions of unequal distribution of wealth, the luxury consumption of the rich impoverished this condition of the poor. The root of the problem was the wage system that, because of the "law of wages", would constantly hold wages at a subsistence level.

Godwin's somewhat utopian solution was an end to the wage system and the

division of labor. Godwin believed that man could conquer nature in such a manner that each person could work to support only oneself, and that death could be eliminated. As a result of man's becoming immortal, the need for reproduction would end and so would sex.

While Godwin's theories are somewhat fantastic, he is important because of the impact he had upon other liberals. One of these was Robert Malthaus, who was moved to refute Godwin's theories. Malthaus did not attack the theory of the law of wages, but rather the problem of population.

Malthaus\(^1\) based his argument upon two assumptions: first, that sexual passion was basically a constant, and, second, that food was necessary for life. He argued that the growth in population would always outstrip any increase in the food supply. Food production increase was arithmetical while population increase was geometrical. Hence, to redistribute the wealth would not lead to Godwin's utopia, but rather to an increase in population more than sufficient to prevent any improvement in the condition of the working class.

While Malthaus and Godwin disagreed as to what could be done about it, they both agreed that the inevitable condition of wage labor was bare subsistence. Why was it that both were so convinced that the condition of the working class was so hopeless, that no solution was possible, or possible only in a utopian context?

One factor involved was that Great Britain was in the early stages of industrialization which was accompanied by a tremendous increase in population. This increase in population seemed to bear out what was expected on the basis of the law of wages.

According to the labor theory of value, the value of any economic good

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was equal to the value of the labor necessary to produce or acquire the good. Labor, under the wage system, becomes an economic good, and as a result, its value is determined by the requirements of its existence; that is, by the need of labor to subsist.

According to the theory of population, if the demand for labor increased, the increased wages are absorbed by an increase in population. For this reason then wages would inevitably offer the working classes only a subsistence income.

It is not surprising that given this gloomy forecast about the fate of the working class, many liberals and non-liberals viewed the market system as an "infernal machine." The Austrian School argued that is was not the market which was at fault, but their understanding of the market which should be rejected.

The Austrians rejected these conclusions about the character of the market economy by denying their root assumptions. First, the law of wages was rejected along with the labor theory of value by the development of the theory of marginal utility as the basis of value. Second, economic growth can outstrip population growth because there is no necessity that population growth exceed economic growth.

The effect of this split over the role of the free market was, as we have noted, to cast the Austrian School in a more conservative light within the liberal movement. Let us examine the development of this split and the situation with which the Austrian School was faced.

Perhaps the most famous liberal to defect from the defense of the market was John Stuart Mill. As Mill was to state in his autobiography:

"(I became aware of) ... the very limited and temporary value of the old political economy, which assumes private property and inheritance as indefeasible facts and freedom and exchange as the driving force of social improvement."¹

Mill, like other liberals, could not accept the pessimism and seeming callousness of the market toward the working class. Mill favored, as a solution, a moderate socialism which he felt could be compatible with individual freedom. There would be collective ownership by the producers, the socialization of rent, and restrictions on inheritance to promote equality.

Some of Mill's, and others', attitudes were born of a disenchantment with the attempt by the liberals to unite the lower and middle classes against the nobility. While the coalition did promote certain democratic reforms, the lower class, as represented by the Chartists, and the middle-class, as represented by the Anti-Corn Law League, feared each other as much as they feared the nobility. Given the above theory of wages and the proposed solutions, this fear is understandable.

The Anti-Corn Law League represented those liberals most identified with the middle-class and with the free market. It was the animosity between the League and the Chartists that would disrupt the liberal's coalition plans.

"The challenge (to the coalition thesis) came from the Chartist and the Anti-Corn Law movements, which gave evidence of class consciousness among both the working and middle classes, as well as a conflict between them."\(^1\)

This development of class consciousness and the tendency to view matters in terms of class would cause the liberal view of the market to be seen as ideological. This view was reinforced by the theory of wages. The result was a split in which many liberals moved away from the concept of the free market system of economics.

The Austrian School viewed this trend as an abandonment of the essence of liberalism. As Dr. Mises would state in 1927, "In reading the more recent political literature one must not ignore that in England today the word

'liberalism' is frequently used as denoting a moderate socialism."¹

As liberal economics evolved, it became apparent that the working out of its basic ideas would involve certain effects that were not immediately obvious. It also resulted in different emphasis being placed upon different aspects of the liberal tradition.

An indication of the difference of emphasis within the liberal tradition can be seen in two works on the subject of liberalism, both of which were published in the early twentieth century. These two works are: L. T. Hobhouse's Liberalism² and Ludwig Von Mises' Liberalismus.³

Hobhouse's view of liberalism can be summarized in the following points which he views as being the essence of liberalism.

1. Civil liberty — the right of the individual to be dealt with according to law rather than the caprice of the ruler.

2. Personal liberty — the right of freedom of thought with the right to expression limited only by social utility.

3. Social liberty — society has a positive obligation to assure all citizens have an equal opportunity to pursue the occupation of their choice.

4. Economic liberty — freedom from unfair restriction of trade and the promotion of necessary regulation.

5. Popular sovereignty and democracy — right of the community to enforce its will on the government by means of election.

Let us contrast this summary of Hobhouse's view with the following summary of Dr. Mises' view as a representation of the Austrian School. Mises' view

can be summarized as follows:

1. Material welfare — liberalism is concerned with the satisfaction of desire and not necessarily with happiness.

2. Market economy and private property — as the most efficient system of promoting material welfare.

3. Equality — right to be dealt with according to objective universal law.

4. Democracy — as the most efficient means of allowing for peaceful change.

Both Mises and Hobhouse agree on the importance of the rule of law as a limit upon government action. Where they disagree is upon their interpretation of equality of opportunity, the role of government in the economy, and the justification of democratic rule.

Mises argues the more classic liberal position that the obligation of the state in regard to equality of opportunity is that there be no politically imposed barriers to the free exercise of one's talents. Given a diversity of talents and abilities, the result of such an open road to talent is in fact a large degree of social inequality in actual status. Hobhouse rejects such an outcome and argues that all citizens should have an actually equal chance to pursue the occupation of their choice. The result of such a view is that in pursuing one's goals one may be limited in the use of the advantage one may gain if others do not have the same advantages.

Mises, in regard to the economy, argues that the role of the state is to provide a framework of law in which the laws of the market are to be allowed free rein, while Hobhouse argues for regulation to promote conditions such as his view of an objective equality of opportunity. Hobhouse places much greater emphasis upon popular sovereignty, in that the will of the majority has a right to rule that seems to be unqualified by any objective criteria, while for Mises democracy has simply the utilitarian advantage of allowing for peaceful change.
For Mises and the Austrian School the goal is not democracy, but rather the maximization of social utility. Such a view of utility is no longer connected to a substantive end. If one accepts that the goal of social action is the satisfaction of desires, and that these desires vary in intensity and are in a state of flux, it then becomes necessary to translate the desires into action. For the Austrian School the most effective means is the pricing system of the market, and the adjustments brought about by the actions of the entrepreneur.

While some liberals did look favorably on some form of socialism, most liberals recognized, as Hayek suggested in the Road to Serfdom, that maintaining liberal freedom in a socialist community was rather problematic. While also recognizing the basic utility of the market, they believed that certain interventions into the economic sphere might be necessary.

No liberal economist, including the members of the Austrian School, believed that economic action was totally divorced from political action. In fact, economic action takes place within a political framework, and the nature of this framework affects the nature of economic behavior. However, within the economic realm certain basic concerns should not be tampered with: private ownership, the market pricing system, and the money supply.

What the interventionists in fact wished to do was to manipulate the market in such a manner as to promote what they felt was socially necessary. This was seen by the Austrian School as a move from the democracy of the market to the paternalism of central planning.

One of the more important of these interventions was in the area of growth of the money supply, or what is commonly referred to as the Keynesian revolution. The goal was to increase wages above the market level. In order to prevent this increase in wages from causing unemployment, the money supply would have to be
increased. This would in turn create new demand for goods and stimulate the economy sufficiently to support the new wage levels. Dr. Hayek has pointed out that this scheme would be successful only in a situation where there was an abundance of unused resources:

"Although the technocrats and other believers in the unbounded productive capacity of our economic system do not yet appear to have realised it, what he (Keynes) has given us is really the economics of abundance . . . or rather a system which is based on the assumption that no real scarcity exists."¹

For the Austrian School man always exists in a state of scarcity relative to his desires. Human desire is viewed as infinite in that the attainment of one's desires leads to new desires. The condition of life is action and unrest, not satisfaction and repose. The problem is the maximizing of satisfactions in order of their intensity.

The attempt to "stimulate demand" only redistributes the ability to attains one's desires.

The interpretation of inflation and the business cycle are among the most important contributions of the Austrian School to economic thought. The Austrians also reformulated liberal economic thought with regard to the theory of economic value and the use of a praxeological theory of human action.

These reformulations of liberal economic thought are related to the theory of value, and the epistemological/methodological basis of economic action. Karl Menger and the Austrian School were among the earliest proponents of the marginal/subjective theory of economic value, and Mises would emphasize the praxeological theory of human action. It is not possible in this paper to deal with a technical discussion of these theories, however, we shall briefly examine the impact of the former upon the Austrian analysis of certain socialist theories, specifically

¹Shuda Shenoy, ed., A Tiger by the Tail. Forty Years Running Commentary on Keynesianism by Hayek, Institute of Economic Affairs, (1972), p. 4

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Marxism, and of the importance of the praxeological view as it relates to the problem of social justice.

Marx argued, on the basis of the labor theory of value, that the worker was exploited by the capitalist. Since the value of an economic good was derived from the amount of labor which was required to produce it, the capitalist's profit was the result of his paying the worker less than the value of his labor.

The capitalist, because of his ownership of the means of production, treats labor as a commodity. As a commodity the value of labor-power is also determined by the labor theory. That is, the value of labor-power is what is required to sustain the ability to labor or subsistence. The major difference between Marx and classical liberal economics is that Marx did not approve of, or consider inevitable, that this should be the case.

Marx's position, once one assumes the labor theory, seems to be logically unassailable. However, with the development of the theory of marginal utility by the Austrian School, Bohm-Bawerk could deny Marx's basic premise.

If the value of an economic good is determined by the subjective desires of the individuals within the market, then the value is based upon its exchange value, which has no relation directly to subsistence and may in fact exceed such a level.

It is the marginal theory of value that allowed Dr. Mises to argue that economic calculation would be impossible in a totally planned and isolated community. Basically, he argued that the market was the only effective means of measuring and adapting to changes in demand which constantly are occurring. This debate would become rather widely discussed. It seems, however, that on the basis of marginal utility, Mises is correct. However, if the labor theory is accepted, then differential equations may offer a solution.

As we have already mentioned for Mises, and the Austrian School, praxeology is the basis of economic theory. The basic presumptions being that man acts to achieve ends which are subjective preferences, and that the market is the
best means of resolving these preferences, which can only be measured in terms of marginal utility. It seems, however, that Mises views praxeology not only as the basis of economics, but of any scientific study of society and human action.

It is not obvious that praxeological analysis can deal with the whole of human action as effectively as it can economic action. One is also led to wonder if the defense of the free market, which is clearly the goal of the Austrian School, can be adequately made upon the grounds of economic efficiency. Many liberals who do not accept market theory, reject it not upon economic grounds, but upon grounds of social or distributive justice.

Praxeology is based on the fundamental fact of the subjective character of human desire and that there can be no appeal beyond the desires of the individuals. As Mises puts it:

"Praxeology is indifferent to the ultimate goals of human action . . . (and) Since nobody is in a position to substitute his own value judgement for those of the acting individual it is vain to pass judgement on other people's aims and volitions."¹

It would seem that Mises, in making the ends of human action subjective and based upon desire simply, is reasserting a form of Bentham's taste egalitarianism — the view that "pushpin is as good as poetry." In seeking to counter the argument that capitalism only pursues base desires and leads to an impoverishment of the human spirit, Mises makes the following argument:

"The judgement about the merits of a work of art is entirely subjective. Some people praise what others disdain . . . . Only people who are endowed with a spark of the artistic mentality are fit to appreciate and to enjoy the work of an artist."²

The last sentence in this statement is puzzling, and it leads us to wonder if Mises is actually arguing from a simple position of taste egalitarianism.

²Ibid., p. 16
Consider the following:

"What characterizes capitalism is not the bad taste of the crowds, but the fact that these crowds, made prosperous by capitalism, become consumers of literature -- of course, of trashy literature. The book market is flooded by a downpour of trivial literature for the semi-barbarians. But this does not prevent great authors from creating imperishable works."\(^1\)

Mises' argument then may be not that all tastes are equal, but rather that one can only appreciate that which is in accord with one's taste. Further, although pearls should not be cast before swine, the swine do have an equal right to their desires as do those of more refined taste.

Thus, Mises' contention in discussing choices, for example the choice between playing chess or going to the symphony, seems to be reasonable. It is not clear that this subjectivity is equally applicable to all choices of ends, or that if it is that one must go in the direction of freedom rather than tyranny. It is also not clear that untutored desire is on an equal level with educated desire.

The making of economic, subjective choices implies a stable and peaceful social framework. This framework must allow certain means and goals, and not allow others. Society is based primarily upon a hierarchy of goals or values to which the individual gives his assent.

It does not seem that these values are simply instrumentally derived from the needs of the individual actor. For example, if one's goal is the destruction of a certain race, the argument that peace is necessary for social life does not seem significant. It seems then that all goals or values are not simply subjective preferences or instrumental means to other ends.

At times Mises suggests that the problem of ends is simply outside the scope of praxeological analysis. However, the fact that ends are almost totally

\(^{1}\)Ibid., p. 79
ignored, or referred to as arbitrary preferences, seems to indicate that he
does not believe that anything meaningful can be asserted about the existence
of ends other than as an expression of preference.

The Austrian School reflects in this manner the dissolution of the initial
liberal view of society. The earlier liberals saw a unity between political/
social theory and economic theory. While many liberals moved from the free
market economics because of social concerns, the reverse took place within groups
such as the Austrian School. They abandoned virtually all concern with social/
political issues.

Certain of the later liberals within the Austrian School were to come to
recognize the limits of a purely economic, or praxeological, approach. Most
important of this group are Friederich Hayek and Wilhelm Roepke.

Hayek, in his Constitution of Liberty, seeks to develop a theory of
knowledge based upon the growth and transmission of knowledge. Hayek argues
that a free society allows for greater growth and efficiency than is possible
in a planned society. While a centrally planned system may be preferred when
an organization has clearly defined and specific goals, there are only general
goals in society and the goals of individuals. By general goals Hayek is re­
ferring to what we have called the framework of conditions that are necessary
for the society to function.

The superiority of the free society, according to Hayek, is due to two
phenomena: the unplannable character of discovery, and the limits of knowledge
that any person or group can claim. Much of the discovery of new technology is
due to unplanned circumstances, which, if there isn't great diversity, would
never be discovered or put into practice. Further, to the extent that society

\[1\] Friederich Hayek, The Constitution of Liberty, (Chicago: University of
Chicago Press, 1960)
or any activity is planned, we limit ourselves to the knowledge of the planners.

Planning is an attempt to remake society in accord with one's own conception of what is rational: it disregards the fact that society itself is not planned, but rather has evolved over many years by processes that we do not totally understand. To substitute one's own judgement for the evolution of society implies that one's judgement is superior to that of the tradition.

"... if we examine the significance of the assertion that man has created his civilization, and that he therefore can also change its institutions as he pleases. This assertion would be justified only if man had deliberately created civilization in full understanding of what he was doing or if he at least clearly knew how it was being maintained."

The critique of a rationalistic view of society is one of the common grounds of both the libertarian element of liberalism and of traditionalist conservatism. In the United States there have been several attempts to synthesize these elements as we shall examine later.

As noted earlier, Hayek sought to expand the scope of analysis of the Austrian School. To do this, he dealt with problems that are related to law and the basis of law as a framework of action. Hayek recognized the role of law as nomos, or rule of just conduct, as the basis of social order.

"By 'nomos' we shall describe a universal rule of just conduct applying to an unknown number of future instances described by the rule, irrespective of the effects which observance of the rule will produce in a particular situation. Such rules demarcate protected individual domains by enabling each person or organized group to know which means they may employ in the pursuit of their purposes, and thus to prevent conflict between the actions of different persons ... they lead to the formation of equally abstract and end-independent spontaneous order or 'cosmos'."

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1Ibid., p. 22

Hayek has then given us a good explanation of the role of nomos and of its abstract character. A question remains as to the origin of the nomos and of its status. Further, is there any rational basis for acceptance of the ruling values of one's own society, or is acceptance purely a result of social conditioning? Hayek offers the following view:

"Like all other values, our morals are not a product but a presupposition of reason, part of the ends which the instrument of our intellect has been developed to serve. At any one stage of our evolution, the system of values into which we are born supplies the end, which our reason must serve . . .

"These considerations, of course, do not prove that all sets of moral beliefs which have grown up in a society will be beneficial. Just as a group may owe its rise to the morals which its members obey . . . so may a group destroy itself by the moral beliefs to which it adheres."1

Moral values are derived from tradition and not from reason, and are accepted upon basis of piety. These values can be judged by reason only from an historical perspective which allows us to judge the effect they have had upon the survival of the society of their origin.

Dr. Hayek's position here is unsatisfactory because unless the values of liberalism have a more elevated position than other possible value systems, the fact that the free market is the result becomes rather insignificant. Neither is it the case that some values have utility and some do not, but rather the goals themselves that are the basis of utility are what is in question. Does in fact the survival of a system of values indicate that it is the best or even good for man. Again, it is in the realm of political philosophy that the Austrian analysis is inadequate.

Another attempt to synthesize a conservative theory of society and the

1Ibid., p. 68
economics of the Austrian School is that of Wilhelm Roepke in his work, A Humane Economy.\(^1\) In this work he seeks to account for many problems in society as a result of sheer size. In this he utilized the critique of mass society of Ortege y Gassett and more recent sociologists such as Robert Nisbet and David Riesman.  

In mass society the individual becomes lost within the crowd, not only because of the demands of society that tip the scale against the individual, but also because of the increased problems due to size.  

"If such people avidly lap up mass slogans, if the surrender to social religions as a surrogate for vanishing faith and traditional values . . . they do it not merely to fill the emptiness of their souls. One of the principal reasons is that they are made deeply unhappy by the social enmassment which prized people out of the fabric of true community."\(^2\)  

Mass society not only destroys both high and folk culture by replacing it with a universal plastic culture, but also makes liberal democracy impossible by destroying the vigorous individualism it requires.  

While one can find many phenomena that seem to be in accord with Roepke's analysis, one does wonder if they are due primarily to the problems of size. Tocqueville saw many of the same potential problems, but thought the source was a radical view of the idea of equality.  

For our purpose, Roepke is important because he represents both the increasing conservative color of the Austrian School and the concern for sociological/political problems.  

The members of the Austrian School did not, however, consider themselves


\(^2\)Ibid., p. 14
to be conservatives. However, in the popular perception of liberalism, particularly in the United States, they were not liberals. In the United States many followers of the Austrian School would begin to refer to themselves as libertarians. During the late fifties and during the campus radicalism of the sixties, libertarianism became an important force among right/conservative college students. It is to this development that we shall turn our attention next.
THE AUSTRIAN SCHOOL AND THE AMERICAN RIGHT

The second world war resulted in a mass exodus of many of Europe's top scholars to the United States. Among this group were Ludwig Von Mises and Friederich Hayek. Mises, by way of Switzerland, accept a position at New York University, and Hayek, coming from England, at the University of Chicago.

Both Mises and Hayek were considered conservative within the American context, although they continued to refer to themselves as liberals. This, of course, reflects the semantic confusion about the usage of the word liberal.

In the United States, the most common test of one's liberalism or conservatism, that is of being left or right-wing, is one's view of the New Deal and Franklin Roosevelt. The American right being a coalition of the opponents of the New Deal, while the left was the new coalition of groups supporting the New Deal. It was this new coalition of groups that would dominate American politics for some years to come. As Kevin Phillips has noted:

"While many GOP leaders still ignorantly dismissed Democratic success as a product of the President's personal popularity, the fact of the matter was that a new Democratic majority in the Northeast and in the nation had come into being by 1936."

Needless to say, one's view of the character of the New Deal varied with one's approval or rejection of its programs. The proponents tended to view it as conservative reaction to the problems of the depression, which closed off more radical and perhaps revolutionary reactions. Those opposed to the New Deal viewed it as fundamentally changing the character of the American economic/political system. Consider the following by an early critic of the

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New Deal, journalist Garet Garrett:

"There are those who still think they are holding the pass against a revolution that may be coming up the road. But they are looking in the wrong direction. The revolution is behind them. It went by in the Night of the Depression, singing songs of freedom . . .

". . . put in contrast what the New Deal means when it speaks of preserving the American system of free private enterprise and what business means when it speaks of defending it. To the New Deal these words -- the American system of free private enterprise -- stand for a conquered province. To the businessman the same words stand for a world that is in danger and may have to be defended.

"The New Deal is right.

"Business is wrong."¹

In contrast, consider the following by James MacGregor Burns referring to Franklin Roosevelt:

"But the President was also confused and hurt by the rancor from the right. He had not sought it. Had he not saved the capitalistic system? It was with political guile but also with real perplexity that later in the year he told his fable:

'In the summer of 1933, a nice old gentleman wearing a silk hat fell off the end of a pier. He was unable to swim. A friend ran down the pier, dived overboard and pulled him out, but the silk hat had floated off with the tide. After the old gentleman had been revived, he was effusive in his thanks. He praised his friend for saving his life. Today, three years later, the old gentleman is berating his friend because the silk hat was lost.'²

Both views contain a strong polemical element that is based upon differing views of the cause and needed cure for the problem of the depression. The New Deal position assumed that the depression was caused by economic factors that required strong government action to correct, while still preserving the


capitalist economy in corrected form. The failure of the Republicans and President Hoover was that they failed to take the actions necessary to resolve these problems.

"Rarely has a party been caught so neatly in a cul-de-sac of its own making as the Republicans during the Depression. Prosperity was safe under the G.O.P., their orators had chanted in 1928; . . . The position was as intellectually dishonest as it was dangerous for the Republicans, following in general Laissez-faire ideology, shrank from any real commitment to national government action to prevent depression."1

The right, and the Austrian School, rejected this interpretation of the New Deal and the depression. They argued that the depression was not the result of the free market, but rather of government intervention and bungling in the control of the money supply. The Republicans were responsible for the depression, but not for the reasons that Burns suggests -- rather they were not so fervently dedicated to the idea of the free market. The New Deal was not a proper reaction to the problems, but rather tended to increase both future and current problems.

The Austrian School based this view upon the role of money and the trade cycle, which was developed by Mises. I think one could argue that if the Austrian view that the depression was caused by the intervention into the market by the state is accepted, one must reject the New Deal. If, however, the depression was a result of market factors, then some form of government action was necessary.

According to the Austrian theory of the trade cycle, the most important

1Ibid., p. 123

2The Austrian theory of the trade cycle was explained before the depression by Mises in his Theory of Money and Credit, the Austrian theory was applied to the depression by Murray Rothbard in America's Great Depression.
phenomena to be noted about an economic depression is that it represents a
cluster of economic errors in investment of such proportions as to rule out
accidental causation. The most obvious common factor among various investments
is the monetary factor, and, therefore, it is in the area of money that the
problem may have begun.

The Austrian School argues that depression is caused by the malinvestment
of resources brought about by government manipulation of the money supply. In
the United States, the Federal Reserve System performs the function of control
of the money supply. By increasing the money supply and by lowering the interest
rates they can create a boom in the economy, and the effect of this inflation is
to create new areas of demand for goods and services. As a result, the money
flows into investment for capital goods needed to provide these goods and services.

However, these new demands can only be maintained by again increasing the
money supply. If the inflation is not checked at some point, the result is the
destruction of the monetary unit.

The boom/crisis cycle that is typical of depressions is the result of
governmental intervention into the market via the money supply. However, if
once the crisis has been reached the market is allowed to adjust itself, the
problem can be resolved rapidly. As Murray Rothbard summarized the problem:

"The boom then is actually a period of wasteful malinvestment. It
is a time when errors are made, due to bank credit's tampering with
the free market. The crisis arrives when the consumers come to re­
establish their desired proportions (of consumption and savings).
The depression is actually the process by which the economy adjusts to
the wastes and errors of the boom, and re-establishes efficient service
of consumers' desires. The adjustment process consists in rapid liqui­
dation of the wasteful investments."

1Ibid., p. 171
According to the Austrian School, the error made by both Presidents Hoover and Roosevelt was that their programs tended to prevent the market from adjusting. President Hoover, far from being an advocate of laissez-faire, had even in 1921 favored greater government involvement in the economy because of the 1921 economic turndown. However, his advice was not followed, and the market quickly adjusted itself.

The New Deal promoted measures which, according to Murray Rothbard, had the effect of preventing the market from liquidating bad investments. These included:

1. Prevent, or delay, liquidation by lending money to shaky business.
2. Infl ate the currency further.
3. Try to keep wages and prices up.
4. Stimulate consumption and discourage saving.
5. Subsidize unemployment.¹

The result of the New Deal, in terms of reform, was to give greater power to the government to control the economy when in fact it was the government that had caused the problem. While it might be argued that the personality of Roosevelt restored public confidence and prevented even more radical reforms, the Austrian felt that the bad outweighed the good.

Because of this reasoning, the Austrian School was a critic of the New Deal, and, as a critic, would be classed as part of the American Right. The anti-New Deal coalition, known as the right, consists of many diverse ideological groups; however, these groups are mainly one of four types, or some combination of these types.

These groups are:

1. Traditionalists
2. Libertarians
3. Fusionists
4. Anti-Communists

The traditionalist position is that which most readily is evoked by the term conservative. The major traditionalist spokesman on the American Right is Russell Kirk, who is a fond admirer of Edmund Burke. As Kirk states in the introduction to his work, *The Conservative Mind*:

"To confine the field more narrowly still, this book is an analysis of thinkers in the line of Burke. Convinced that Burke's is the true school of conservative principle."

Kirk's conservatism is based upon religion, tradition, and the importance of community. Kirk argues that modern society has been upset by the forces of urbanization and industrialization to the extent that community no longer exists. Kirk, in criticizing Mises work *Human Action*, states:

"They (factory workers) have lost their community; they are atoms in a loveless desolation; they are desperately bored . . . . And then comes a preacher, he is a union organizer . . . He wants them to go on strike of higher wages . . . They would go on strike for lower wages just as cheerfully . . . For the union has restored a semblance of community."

The fusionist element consists of those who sought to promote some form of synthesis of the libertarian and traditionalist theories. Such a synthesis can be practical eclecticism, or an attempt to resolve the differences into a philosophically coherent whole. Frank S. Meyer, while a senior editor of National Review, sought to do the latter.

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"The conservative today is the inheritor of the best in both of these tragically bifurcated branches of the Western tradition. But the division lingers on and adds to the difficulties of conservative discourse. The traditionalist, although in practice he fights alongside the libertarian against the collectivist leviathan state of the twentieth century, tends to reject the political economic theories which flow from classical liberalism, in his reaction against its unsound metaphysics . . . . The libertarian, suffering from the mixed heritage of the nineteenth-century champions of liberty, rejects the emphasis upon precedent and continuity out of antipathy to the authoritarianism with which that emphasis has been associated . . . .

"We are victims here of an inherent tragedy in the history of classical liberalism. As it developed the economic and political doctrines of limited state power, the free market economy and the freedom of the individual person, it sapped, by its utilitarianism, the foundations of belief in an organic moral order . . . . Without such a belief, no doctrine of political and economic liberty can stand."  

Meyer is probably correct about the need for any doctrine of freedom to be based on some concept of morality, as we have suggested previously. However, as the traditionalist position is based upon religion and tradition, one is led to wonder if a doctrine of freedom can be based upon them without substantial revision. Such revision would necessarily run counter to tradition. In fact, few libertarians or traditionalists followed Meyer's lead.

While Meyer's fusionism did not resolve the philosophic differences within the right, it did provide an umbrella under which most conservatives could gather. This eclectic fusionism which resulted is perhaps best represented by National Review, of which Meyer was a senior editor.

This umbrella would be broad enough to include with favorable reviews the work of Mises, but not the more radical libertarianism of a Rothbard. One need not be a devout Christian, but one could not be an avowed atheist such as Ayn Rand.

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Additionally, one could not be a fanatic religiously such as L. Brent Bozell. The result of this combination was a somewhat diffuse group that focused upon more practical immediate problems and largely ignored theoretical issues.

The fusionism did in fact dominate the American Right in the late fifties and throughout the sixties. This can be seen in a membership survey of Young Americans for Freedom, which prior to the libertarian split was a good microcosm of the right. In the terms we are using in this paper, the survey\(^1\) showed the following division:

- Traditionalists ............... 21%
- Fusionists .................... 57%
- Libertarians .................. 22%

While the fusionists tended to be strong anti-communists we have a separate classification because, for many members of the right, opposition to communism was their supreme guiding principle. These people can be divided into two groups. The advocates of a theory of American Empire who favored the subordination of all domestic issues to issues of foreign policy, and the advocates of a conspiracy theory of history, the major advocates of this theory being Robert Welch and the John Birch Society.

Most libertarians were rather skeptical about the anti-communist ideology as they doubted the possibility of combining capitalism, liberal freedom, and an aggressive nationalism or internationalism.

"While giving lip service to resistance to the ever expanding federal bureaucracy which conservatives have been railing against since the inauguration of the welfare state, the conservatives had in fact helped the liberals launch the warfare state with their unholy obsession to exterminate atheistic Communists at any and all costs."\(^2\)


The group on the right which the Austrian School had the most impact upon
is, of course, the libertarian element. Libertarianism is in many ways the
direct offspring of the Austrian School.

The libertarian element of the American Right emerged from the students
of Ludwig Von Mises while at New York University and the followers of Ayn Rand.
Ayn Rand is most widely known for her novels, The Fountainhead1 and Atlas
Shrugged.2 When Atlas Shrugged was published, many students of Mises thought
that Rand could fill in many of the lacking ethical and political elements
not present in Mises' work.

"These students (libertarians) were greatly influenced by
Ludwig Von Mises . . . with the advent of Atlas Shrugged,
a number of them enlisted under the banner of 'Objectivism.'
The Randian ethic being deemed congruent with Mises economics."3

This group, which included Murry Rothbard, Nathaniel Branden, John Hospers,
Alan Greenspan, and others, was to form the core of the libertarian right.

One of the attractions of Miss Rand's Objectivism, as she called it,
was that it sought to provide an integrated view of ethics, economics, and
epistemology. Objectivism was to restore to liberal thought its comprehensive
character which it had lost by being split into factions.

The basis of Rand's Objectivism is her view of man and ethics, that is,
her basic view of the role of values in human life. Man must choose among
various goals and actions to achieve these goals; it is the role of reason and
ethics to teach man both the proper ends and the means to achieve these ends.

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3 M. Stanton Evans, Revolt on the Campus, (Chicago: Henry Regnery, 1962),
p. 183.
"Man cannot survive as anything but man. He cannot abandon his means of survival, his mind, he can turn himself into a subhuman creature and he can turn his life into a brief span of agony . . . But he cannot succeed, as a subhuman, in achieving anything but the subhuman . . . Man has to be man by choice -- and it is the task of ethics to teach him how to live like a man."1

The basis of ethics then is the knowledge of man's nature qua man, the fulfillment of which is the proper goal of human action. The result of such fulfillment is happiness and pleasure; these are not the goal, but the result.

Rand's ethical theory then differs from utilitarianism in that the standard by which action is to be judged is not simply pleasure, but human nature. Second, for Rand the basis of ethics is the human will to the good, which is chosen, and not the automatic seeking of pleasure which Bentham based utilitarianism upon. Additionally, Rand's ethical focus is upon the individual, and not upon the social good.

Rand's view of the ideal man, as presented best in her novels, was not the pure philosopher, but the knower/creator. His mind and reason are in the service of solving the problem of survival, and of creating -- both as a means and an end for his life. He deals with others on the basis of exchange of the products of his labor.

"The principle of trade is the only rational ethical principle for all human relationships, personal and social, private and public, spiritual and material. It is the principle of justice.

"A trader is a man who earns what he gets and does not give or take the undeserved. He does not treat men as masters or slaves but as independent equals. He deals with men by means of a free, voluntary, unforced, uncoerced exchange. . . "2


2 Ibid., p. 31

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It is at this point that the role of the Austrian School, and their defense of the market, becomes important. It is the free market that resolves the individual actor/creator into a workable social member. This is because, according to both Rand and the Austrian School, there is a harmony of interests among rational men in a system of free exchange.

For Rand, and most libertarians, the role of the state was to be limited to protection of the individual from the use of force or aggression. This implies a limited government with domestic concerns being limited to the preservation of peace and order necessary for the free action of individuals.

One of the first splits in libertarian thought would come over foreign policy, brought about by the war in Vietnam. Many libertarians, although not necessarily favorable to the Vietnamese war, accepted that a strong defense posture was unfortunately necessary to the preservation of peace. Others, such as Murray Rothbard, argued for revisionist view of world politics, in which he argued that the true threat came not from other nations, but from the aggressive designs of the military/industrial complex within the United States.

Rothbard and others, such as former Goldwater speech writer Karl Hess, would seek to incorporate the revisionist historian work of Kolko and William Domhoff to argue that the libertarian had little, if anything, in common with the right. They argued that the right was not pro-capitalist, but rather pro-business, and only favored the market and freedom when it suited their class interest. As Karl Hess argued in his article entitled, "The Death of Politics":

"Big business in America today and for some years has been openly at war with competition and, thus, at war with laissez-faire capitalism in which government and big business act as partners . . . Men who call themselves conservatives, but who operate in the larger industries . . . They do not fight direct subsidies to industry."

1Karl Hess, "The Death of Politics" in Radical Libertarianism, by Tucille.
Rothbard, and others, would argue that libertarians had more in common with the anarchist/communalism of the left than with the right.\footnote{Rothbard edited a journal called \emph{Left and Right} which explored this concept.}

Rothbard would suggest that in fact the state was the prime instrument of aggression, and was not necessary for the protection of the individual. He argued for privately contracted defense agencies. This system would not only eliminate the violence inherent within the state, but would also be more efficient because of its status as a market phenomenon.

"Government is no more necessary for providing vital protection service than it is necessary for providing anything else. And we have not stressed a crucial fact about government: that its compulsory monopoly over the weapons of coercion have led it, over the centuries to infinitely more butcheries, infinitely greater tyranny and oppression than any decentralized, private agencies could possibly have done."\footnote{Murray Rothbard, "Free Market Police, Courts, and Law," \emph{Reason}, (March, 1973), p. 5.}

The first response from within the libertarian circle to the anarchist thesis was by Professor John Hospers of the University of Southern California Philosophy Department. Hospers was the libertarian candidate for President in 1972, and when a Nixon elector bolted to vote for him and his running mate, Tonie Nathan, she became the first woman ever to receive an electoral vote. Hospers argued that the anarchist thesis ignored the unique character of the state as regulating the use of force in society.

"A government possesses exclusive jurisdiction over a certain geographic territory, and it exercises a monopoly on the use of force within that geographic area. This does not mean that a man attacked on the street has no right to defend himself personally against the attacker; it means that is he uses force to answer force, he must be prepared to justify his action before the law. In a libertarian society, man would be free to engage the services of protective agencies; but when such agencies resorted to the use of force against those who initiated force,
they would have to be prepared to justify his action before the law. The matter would not be left to their personal discretion. Force is too dangerous a thing, even in its retaliatory use, to be left to the whims of individuals. A system of laws, published in advance and knowable to all, is required to regulate the use of force, if men are to enjoy any sort of security in their social existence.¹

The anarchist, in response, argued that the state, because of its being financed by taxation, was inherently redistributive. That is, it took money from everyone to provide services for all, and by so doing forced some to finance the protection of others.

The limited government libertarians received additional support from Harvard professor, Robert Nozick, with the publication of his work, Anarchy, State, and Utopia.² In this work Nozick seeks to demonstrate that a private defense agency, such as foreseen by Rothbard, must evolve into a dominate monopoly position, that is, into an "ultra-minimal" state; one that holds a monopoly, but does not protect everyone in the area. Secondly, Nozick seeks to demonstrate that the transition from the ultra-minimal state to the minimal state, one with a monopoly and which protects everyone regardless of ability to pay, is not a violation of human rights, but is in fact morally necessary.

He makes this argument based upon a theory of compensation and risk. If an action is not a violation a rights, but imposes risks upon others that action may be prohibited. If such prohibition disadvantages the person prohibited he is entitled to compensation. The private enforcement of justice places risks upon clients of the ultra-minimal state, and hence must be prohibited. However, the persons must be compensated for not being able to privately enforced justice,


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and hence must be granted protection. In this case the ultra-minimal state becomes the minimal state.

"We set ourselves the task . . . of showing that the dominant protective association within a territory satisfied two crucial necessary conditions for being a state; that it had the requisite sort of monopoly over the use of force in the territory, and that it protected the rights of everyone in the territory, even if this universal protection could be provided only in a 'redistributive' fashion. These very crucial facets of the state constituted the anarchists' condemnation of the state as immoral. We also set ourselves the task of showing that these monopoly and redistributive elements were themselves morally legitimate, of showing that the transition from the state of nature to the ultra-minimal state (the monopoly element) was morally legitimate and violated no one's rights and that the transition from an ultra-minimal state to a minimal state (the redistributive element) was morally legitimate and violated no one's rights."*  

Nozick's widely discussed work is important for more than his critique of the anarchist theory of the state. He also attempts to show that no more state than the minimal state can be justified. In making this argument he deals with the problem of distributive justice, which is generally ignored by liberals.

Nozick deals with the question of distributive justice as a response to John Rawls' work entitled, *A Theory of Justice.*^ Rawls' criticism of traditional utilitarianism is that it ignores the issue of relative distribution of pleasure or happiness, and concentrates upon the maximization of utility, without regard to distribution.

"The striking feature of the utilitarian view of justice is that it does not matter, except indirectly, how this sum of satisfactions is distributed among individuals . . . The correct distribution in either case is that which yields the maximum fulfillment."^  

According to Rawls, in order to determine a just distribution of social goods, a theory of justice must be based upon the concept of justice as fairness.

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*Ibid., p. 1


^Ibid., p. 26
This requires the theoretical establishment of an original pre-social situation.

"Among the essential features of this situation is that no one knows his place in society, his class position or social status, nor does any one know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like. I shall even assume that the parties do not know their conceptions of the good or their special psychological propensities. The principles of justice are chosen behind a veil of ignorance. This ensures that no one is advantaged or disadvantaged by the outcome of natural chance or the contingency of social circumstances."^1

In this original position, Rawls suggests that individuals would first establish equality of rights and duties among all members of society. Second, with regard to distribution of material goods, they would favor an equal distribution of goods unless an unequal distribution would work to everyone's advantage. This would be judged according to the difference principle: that an inequality can be justified only if it benefits the most disadvantaged group. The result of this principle is that:

"We see then the difference principle represents, in effect, an agreement to regard the distribution of natural talents as a common asset and to share in the benefits of this distribution whatever it turns out to be. Those who have been favored by nature, whoever they are, may gain from their good fortune only on terms that improve the situation to those who have lost out."^2

Rawl's argument is based upon an implicit egalitarianism: To the extent that people are equal, they should be treated equally, and to the extent that they are not equal, they should be treated in such a manner as to become as equal as possible. Nozick is not an egalitarian and argues for an entitlement theory of distribution, that is, any distribution is just if it arises from free exchange.

^1Ibid., p. 12
^2Ibid., p. 101
"The general outlines of the entitlement theory illuminate the nature and defects of other concepts of distributive justice. The entitlement theory is historical; whether a distribution is just depends upon how it came about. In contrast, current time-slice principles of justice hold that the justice of distribution is determined by how things are distributed."¹

Rawls' theory is a principle that judges justice upon the standard of equality, while Nozick judges its justice on the basis of its origin. Further, Nozick argues that Rawls makes an artificial distinction between the individual and his talents or abilities; even if these talents are the result of natural endowment and chance, a fact which may be doubtful, why should they be regarded as common assets? Nozick argues that by Rawls' artificial construction of the original position he rules out opposing views without having to consider them, most importantly the entitlement theory. The advantage of the entitlement theory, according to Nozick, is that it does not assume that any specific distribution is just or unjust.

"The entitlement conception of justice in holding makes no presumption in favor of equality, or any other overall end state or patterning. It cannot merely be assumed that equality must be built into any theory of justice."²

The key to the argument between Rawls and Nozick is Rawls' egalitarianism,³ and at the root of Nozick's argument is the belief in freedom and free exchange. I would also suggest that this is also the key to the difference between the modern liberal and the libertarian. The modern liberal's concern is with promoting

¹Nozick, Anarchy, p. 154
²Ibid., p. 33
³By claiming that Rawls is an egalitarian, I do not mean to imply that he believes that people are in fact equal. If such were the case there would be no need for his "difference principle" to overcome inequality, but rather he believes that all should share equally in the benefits of social action.
equality and the libertarian's with protecting freedom of action.

We began this paper examining the semantic confusions that are attendant upon the current usage of the term liberal. We noted that as liberalism matured in Great Britain a split developed over the issue of the free market. Many liberals, in order to promote equality and the conditions of the working class, abandoned the free market.

The Austrian School, along with other economically oriented groups, sought to defend the free market. In so doing, important advances in economic theory were made in regard to the theory of value and other issues. Later Austrian economists, such as Hayek, argued that the defense of the market and of liberalism required more than an economic defense. Hayek began work on social and political theory in order to clarify certain issues of liberal concern.

With the arrival of Mises and Hayek in the United States, the impact of the Austrian School on American politics began. The most important aspect of this impact was upon the libertarian element of the American right. The libertarians sought to incorporate Austrian economics with a theory of ethics based upon Ayn Rand's Objectivism. From this point we examined two major libertarian issues: anarchism versus limited government, and the problems raised by Rawls' theory of distributive justice.

This argument over distributive justice led us to argue that the concept of equality, that is at the root of Rawls' argument, may in fact be the issue that divides modern liberals and libertarians.

The idea of equality has been one of the major themes of the American experience, as can be seen in the Declaration of Independence and the Revolution. However, Washington, Jefferson, and Lincoln did not understand equality to be absolute social equality, but rather as political equality.

What I have attempted to show in this paper is the rise of the Austrian School in reaction to certain changes in liberal thought. Additionally, I have
tried to suggest the manner in which the Austrian School has influenced American politics, specifically the libertarian right. In this regard it is helpful in understanding the relation of American conservatism to the liberal tradition.

Further, it seems that the root difference between the Austrian School's defense of the free market and many liberals movement toward government regulation is a difference over the concept of equality. The development of a view of equality that not only understands itself as equality before the law which is necessary to political freedom, but also as some form of substantive equality, seems to be the issue that divides them.

The Austrian School views equality as a means to protect the freedom of the individual to seek satisfaction for his desires. For the Austrian School the crucial consideration is not the distribution of satisfaction, but its character as being based upon free exchange. This limited view of equality eventuates in a view of man as an active being who engages in peaceful competition for goods and services to serve his desires. The libertarians and the Austrian School fear that the more extensive view of equality will have the effect of leveling all men to a uniform standard of greyness. On this point I believe that they would agree with Tocqueville's view of the threat of democratic despotism.

"I see an innumerable multitude of men, alike and equal, constantly circling around in pursuit of the petty and banal pleasures with which they glut their souls . . .

"Over this kind of man stands an immense, protective power which is alone responsible for securing their enjoyment and watching over their fate . . .

"It covers the whole of social life with a network of petty, complicated rules that are both minute and uniform, through which even men of the greatest originality and the most vigorous temperament cannot force their heads above the crowd."1

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It is the decline of the free self-reliant individual and the rise of the modern bureaucratic state in which the Austrian School and the libertarian right have sought to provide an alternative. As I have tried to suggest, many questions remain unsolved; however, they have made a start and provide us some important contributions that warrant our continued concern.

The rise of industrialization and the decline of agrarian life led to a reaction against industrialization known as the populist movement. The populist and progressive movements of the late 19th and early 20th centuries formed the basis upon which the New Deal would build. We can see in this growth of left liberalism a consistent identification with the disadvantaged elements of society. In a democracy such an appeal has political advantages as there are often more people who consider themselves oppressed.

As a result of the New Deal, the right and the libertarians have been cast in the role of opposing the advance of the welfare state and more extensive regulation of the market. Perhaps because of the lack of the need to act in a practical political manner many libertarians are lost in speculation that shows little substance or wisdom.

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1 An excellent discussion of populism can be found in Chapter 3 of Paul W. Glad's, McKinley, Bryan, and the People, (New York: Lippincott, 1964).
CONCLUSION

In this work I have attempted to show how the Austrian School of Economics emerged from what it saw as the crisis of liberalism. The Austrians believed this crisis was due to an abandonment of the essence of the liberal tradition, and, additionally, to certain errors that were made by the founders of modern liberalism. The Austrian School set itself the task of correcting these errors and restoring the tenets of liberalism to their proper status.

The Austrian School focused its attention upon economics and upon a defense of the free market system as the most dramatic example of the change in liberal thought from advocating freedom to statism. In so doing they accomplished much in terms of economic insight and in correcting the older liberal economic views with regard to value, and to the role of money and inflation in the business cycle. However, they fell short of their goal of a comprehensive revival of liberalism and in fact of even a comprehensive defense of the free market.

This shortcoming was due to an inadequate understanding of the structure of society. Specifically, the role of values in promoting social unity. If one were to ask the liberals of the Austrian School the source of social co-operation, one would receive an answer that would place its emphasis upon the mutual advantage derived from social life, with an assist from the compulsory power of the state. In this they are in the tradition of Hobbes and Locke who saw society as based upon social contract.

This view seems to require a pre-social man who is rational, which seems to be paradoxical since speech is required for reason and speech is socially learned. Be that as it may, it also assumes that the members of society are
rational to the degree that they can recognize the mutual advantages of social life and that everyone benefits from social non-violent life versus simple expropriation.

What is needed then, in addition to mutual advantage and simple coercion, is that there be a shared system of values that set the terms of acceptable behavior, and that the citizens be "educated" to understand these values. Such values derive from the founding of the regime, such as the U. S. founding period or ancient mythological tradition, Romulus and Remus in the case of Rome. In the founding period certain beliefs, based on divine revelation or natural law, are upheld as the true faith and through a combination of education and compulsion become the governing law.

With time there will quite likely be a movement away from the founding principles which will be seen as narrow or parochial, which they, definitionally, almost always are. Such a movement may be beneficial initially, but often it continues to the point of creating a crisis of cynicism. At this point either a revival and change can refound the regime, or the process of degeneration makes the regime unable to sustain itself.

The Austrian School saw the crisis of liberalism, but did not speak to the core of the issue: the liberal values of individualism, hard work, and independence. Hence, in the name of rational planning and equality, the liberal view of society was transformed.

The American libertarian epigones of the Austrian School have to some extent pointed in the proper direction, but their sectarian dogmatism has prevented them from dealing with the problem in its full form. The libertarians have not been able to make a dynamic synthesis of idealism and pragmatism that would allow them to see and deal with this crisis.

None of this is too surprising for these tensions between pragmatism and idealism, the sectarianism and closedness required by the values of the regime,
and the openness and scientific willingness to question required for progress, are tensions in the human character that cannot be dissolved without making man a god or beast.
BIBLIOGRAPHY


