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978-1-107-12640-4 - The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered

Erwin Dekker

Excerpt

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Introduction

1 Late visitors to Pompeii

In 1931, Carel Willink a Dutch painter started working on one of his finest works: *Late Visitors to Pompeii* (see cover.)¹ He had been traveling 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, whose 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 observe 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.² The gentleman on the left in his brown suit somewhat suspiciously looks over his shoulder toward 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. To emphasize this even more, a volcano is emitting smoke in the background. This mountain of doom, the Vesuvius if these are the ruins of Pompeii, is about to erupt. It is clear that whatever these

¹ The picture *Late visitors to Pompeii* by Carel Willink is part of the collection of the Boijmans van Beuningen Museum in Rotterdam.

² The cigarsmoker has been confirmed as Oswald Spengeler in private correspondence with the painter's widow, see also Hupkes (1989).

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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 1930s were indeed a time in which the various European countries turned inward and away from one another. It was a period during which international cooperation broke down, a period during which even more serious dangers in the form of fascism and Nazism 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 culture. 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 Willink³. 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? Is the painter aware that we are observing him? Does he think we are expecting something from him, and is he unsure how to respond? What is the role of a painter when he feels that his civilization is in decline? Does he have a responsibility toward 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?

You might wonder why a book on a group of scholars from Vienna starts with an analysis of Willink's picture. The reason is simple. This book will argue that the issues we just discussed and the questions raised by Willink's painting are at the heart of the work of the Viennese students of civilization. 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 who

³ An observation easily confirmed by a comparison with some of his self-portraits from this period.

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will be the main protagonists in this book are facing many of the same problems. During the 1930s, 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? Were they to blame? Did they have a responsibility to defend their civilization, and even if they wanted to, was there anything they could still save?

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 Austro-Hungarian Empire and its culture.

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 during the interwar years. The response of this group of scholars to the developments in Vienna, the Habsburg Empire and later Austria 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 these scholars from Vienna who are usually grouped as the Austrian economists are better understood if we consider them as Viennese students of civilization.

That is not just an issue of semantics, but an argument that our current understanding of them is flawed in at least three ways. The first of which is

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that the label 'Austrian' is misplaced. 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 Wieser and Böhm-Bawerk also identified themselves as inhabitants of the Empire rather than as Austrian. Even the younger members came of age in the Empire rather than Austria, so the Habsburg school of economics seems more appropriate. That is however not what I am after, for what is more troublesome is that 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. As I will argue in Chapter 2 the Viennese conversations were the point of reference for their work. More importantly still, the political, cultural and economic developments in Central Europe prompted them to ask specific questions. So the quarrel is not merely over Austrian, Habsburg or Viennese, but also about the importance of this context.

The second way in which our understanding of them is flawed is that we tend to understand them as economic scientists in a rather narrow sense. Carl Menger's first book *Principles of Economics* 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. 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 3 and 4. Markets for them are an essential part of our civilization, they are cultural phenomena, just like language and law. This is of importance for two reasons, firstly because it is a different conception from markets than is common in economics. 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.

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1. Late visitors to Pompeii

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This leads us to the third point, the emphasis I wish to place on *students*.⁴ It is common among economists to think of themselves as 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. The Viennese 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 primarily what we cannot achieve. An insight which they hope will have a therapeutic effect on us. This puts them in a difficult predicament when they feel that the civilization they study and cherish is in danger. Only very reluctantly, and only some of them, attempt to stand up for their civilization, to act as its custodian or even to defend it; even though they remain skeptical of their own capacity to do so.

⁴ For a long time I pondered over the right label, convinced that the label economist or economic scientist is unsatisfactory. The label of ‘intellectual’ springs quickly to mind. Intellectuals are not 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 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).

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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 student 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. 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. There is, however, 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 knowledge. 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 the subjective nature of 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.

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2. Civilization?

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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, to technology, the division of labor and to manners. 'Kultur' on the other hand is used to refer to those accomplishments of which are really profound, and which make up the identity of a people, their art and their character. One could also say that 'Kultur' is the authentic of the two concepts, while 'Zivilisation' refers to the surface. Other people than the Germans could be civilized, but it was doubtful whether they could also acquire a true '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 expectation, a surprising consensus on what the central element is of any type of civilization: restraint.⁵ 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 (constraint by others). And in yet another prominent account the anthropologist Malinowski argues that restraints are central to make civilization possible: "Culture (...) implies obedience and submission to

⁵ Some references to non-European uses of Elias' civilizing process are collected in Mennell and Goudsblom, 1997.

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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 this 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.⁶ 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).

This consequently means that freedom, for all these thinkers, 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 in abundance, so that we can trade). Freedom, in this perspective of the students of civilization, is 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 themselves to certain norms and rules. I like to illustrate this with the freedom

⁶ Hayek also cites the anthropologist Geertz in support of his thesis.

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 this 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 makes all the difference in practice. 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). Goethe emphasizes the restraint, Eckermann the absence of these. Elias, sides, we now understand why, with Goethe.

A common complaint against the concept of 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. 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*. 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 act as its custodian. This consequently means that for the Viennese students of civilization, as well as for Malinowski, Elias and 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

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had to carry for being human' (Popper, 1945: 176).⁷ That is obviously at odds with the modern idea of value-free social science, but it is precisely that contrast that we wish to make clear in this book.

3 Why civilization?

My purpose in this book 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 depends 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 and other resources through war.⁸ Various progressive authors argued that a society in which war is not accepted as a means of appropriation will be more 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, that markets have cultural effects, is perhaps less widely accepted. I believe, however, that a little reflection will make it clear to everyone that markets have cultural (including) moral effects. If we frequently engage in market processes, then this will shape our culture. It will, for example, influence our level of trust (for better or worse) and will change how we value other individuals. Market societies tend to foster

⁷ A possible breakdown of civilization or a decivilizing process is further discussed in Chapter 10.

⁸ The paper which paradoxically has made me most aware of this is Neurath's 'War Economy' paper, which takes very seriously the economic benefits of war (Neurath, 1919/2004)