



CIVILISED ECONOMICS

The social life of interwar Vienna shaped free market economics,
writes **Darcy Allen**.





DARCY ALLEN
Research Fellow at the
Institute of Public Affairs



From Friedrich Hayek to Ludwig von Mises, contemporary Austrian economics is closely associated with familiar, classically liberal views. Put simply, the Austrian tradition focuses on why and how decentralised planning and individual decision-making is necessary to maintain an orderly society, and comes with a scepticism and reluctance towards government interference.

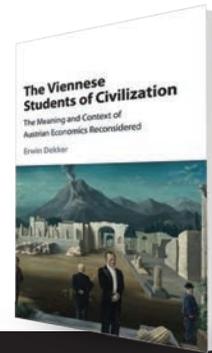
But this interpretation of Austrian economics is too narrow, according to a brilliant new book by cultural economist Erwin Dekker, *The Viennese Student of Civilization: The Meaning and Context of Austrian Economics Reconsidered*. It should be broadened to include cultural roots and lessons extending beyond the traditional economic sphere.

➤ THE AUSTRIANS WERE NOT JUST ECONOMISTS. THEY WERE STUDENTS OF CIVILISATION.

Dekker's convincing argument puts the maturing of the modern Austrian tradition within a cultural context of interwar Vienna in the 1930s and 40s.

In this book Dekker weaves a compelling narrative on the impact of the rise of fascism and socialism—and with them the perceived downfall of Western civilisation—and how this shaped the way Austrian economists viewed the world.

The flavour of Austrian economics is distinctive because it focuses on individual decision-making,



The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered

By Erwin Dekker
Cambridge University Press, New York, pp 220

choice, and action. It attempts to understand market processes rather than outcomes, and acknowledges the natural limits of the human mind regarding knowledge and uncertainty.

But what is it about the method, focus, and engagement of Austrian economics that contrasts so markedly with technical mainstream economics?

In early 20th century Vienna, Austria's unique intellectual climate was not confined to the disciplinary walls of academia. Intellectual endeavour was in the social realm of the Viennese circles, or 'Kreis'. Each of these overlapping circles had a different focus, such as philosophy, art, political science or literature. There were also breadths of speciality.

From the architecture of Adolf Loos, to the psychology of Sigmund Freud, and the compositions of Gustav Mahler, the Viennese circles demonstrate how thick and interconnected social bonds generated a marvellous period of intellectual creativity.

Austrian economics is regularly traced back to Carl Menger in his 19th century classic *Principles of Economics*, but these principles did not mature until the following century.

It was in the 20th century that



■ Franz Sedlacek, *Industrial Landscape* (1934)

► CONTINUED

Austrians were spurred on through important global economic debates and pressures, such as the ‘socialist calculation debate’ when socialist planners and Austrian economists asked how a government could effectively plan an economy in the absence of market prices.

Advocates of socialism argued that experts could formulate market prices while maintaining some aspects of a market economy, and that such a socialist system could be superior and more efficient than capitalism.

Somewhere between the clichéd Viennese coffeehouse and university, several Austrian economists developed their counter arguments.

In particular, throughout the 1920s and 1930s, many of the scholars in the central economic circle, the ‘Mises Kreis’, were focused on this problem.

► **THEIR ROLE WAS NO LONGER SIMPLY TO UNDERSTAND THE COMPLEX ECONOMIC SYSTEM. IT WAS THEIR DUTY TO ACTIVELY DEFEND IT.**

And what did they conclude? Put simply, they argued that experts could not formulate market prices because they were based on the coordination of subjective and distributed information that no

planner could ever obtain.

The by-product of this debate was a deeper understanding of the economics of value, information and markets; understandings which now distinguish Austrian economics. For instance, it was in this context Hayek later famously elucidated the argument that markets were indispensable as coordinating mechanisms for distributed information.

While it would be easy to place Austrian economists solely within the category of economics, or even in philosophy, their analytical scope is much broader than prices, production and markets, especially in the context of interwar Europe. The Austrians were not just

economists, according to Dekker. They were students of civilisation.

Austrian writings of this time reveal a tragic sentiment. Socialism was considered inevitable. Joseph Schumpeter's famous book *Capitalism, Socialism and Democracy* contended that capitalism would eventually destroy itself and socialism would prevail. Walking around the picturesque Ringstrasse in Vienna with one of his students, von Mises once said that grass would grow where he was walking.

Early Austrian economists had seen themselves largely as passive onlookers of this trend towards fascism, socialism, and Nazism. Their role was to understand society, while maintaining a 'hands-off' attitude, making them resigned, reluctant, and fatalistic. They understood the complexity and fundamental lack of knowledge of the social scientist. Social scientists, in their view, should repress their natural instincts to intervene or to show what should be done.

But while previously the rise of socialism was considered inevitable, Austrians (in various degrees) saw these movements as a revolt against civilisation. This is perhaps most clearly articulated by Hayek in a forward to von Mises' book: "We felt that the civilisation in which we had grown up had collapsed. We were determined to build a better world."

Such a tragic outlook, however, brings into clear view a fundamental tension with Austria's traditional 'hands-off' heritage. How should they respond to the seemingly inevitable decline of their civilisation? Should they step outside their passive academic role as 'students of civilisation' and begin to defend it?

In the early 20th century, Dekker argues, there was a fundamental shift in the way Austrian economists saw themselves. They became active

defenders of a liberal civilisation.

Their role was no longer simply to understand the complex economic system. It was their duty to actively defend it.

Both Hayek and Karl Popper referred to their work as their 'war effort'. But how would such intellectual war be fought?

As many readers would understand, classically liberal institutions are difficult to explain. The liberal tradition is more concerned with explaining what not to do than what to do. But in exploring this problem—in the context of the Viennese circles—Austrian economics flourished.

The Austrians began to look outwards, explaining complex ideas to the layperson. Hayek's 1944 book, *The Road to Serfdom*, has shorter versions published in Reader's Digest, selling more than two million copies.

 **JOSEPH SCHUMPETER
CONTENDED THAT
CAPITALISM WOULD
EVENTUALLY DESTROY
ITSELF AND SOCIALISM
WOULD PREVAIL.**

In other works, Hayek focused on explaining the shortcomings of human rationality, diminishing the overestimated powers of the expert. He explained why we should accept certain customs and traditions that we do not fully understand.

Markets, while enabling individual action, also constrain and discipline unacceptable behaviour. While a free, liberal society defends individuals against the will of others, it does not protect them from the forces of the market, nor the customs of a society.

To be civilised requires submission to a set of norms, traditions, and institutions that no one person can rationally understand, along with

institutions that impose frustrating costs. Indeed, as Hayek wrote in 1982: 'Man has been civilised very much against his wishes.' Interestingly, Popper makes a similar argument in relation to the 'strain of civilization'.

Another way to translate this, as Dekker notes, is that 'the defence of markets is the defence of civilisation itself for Hayek and von Mises'. The Austrian scholars became custodians or defenders of civilisation—a civilisation based on norms and traditions with fading popularity.

Even though the interwar period is fundamentally different from today's society, the meaning and context of the intellectual output of Austrian economics remains remarkably valid. This is especially so given the clear push towards more state power and centralised planning through the regulatory state.

Defending against this process, however, will not be easy. Think tanks, in particular, must argue and articulate submissions to the classically liberal propositions—such as freedom of speech, property rights, and the rule of law—which unavoidably evade rational planning, and impose costs. Such costs, however, must be defended because they are the cost of living in a civilised society.

This book is not just enlightening for the scholar of economics, but for those interested in the classical liberal tradition more broadly. It's a book for those who wish to rally against the rational transformation of society.

It will teach you that the modern student of civilisation does not believe in the inevitable decline of our society and its institutions. They do not seek to design, but rather to understand and interpret. They are sceptical of quantification and expert opinion, but value tacit human experience. And, most importantly, their role and duty is both outward looking, to the layperson, and forward looking, to a freer and more liberal society and civilisation. 