

FERLITO VERSUS THE AUSTRIAN SCHOOL*

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PREMISE

During the 1974, week-long Economics conference at South Royalton, Vermont, one could sense, from the lectures of Kirzner, Rothbard and Lachmann, some irreconcilable differences among members of the Austrian School¹. These differences would intensify over the following decade to the point of becoming readily apparent by the early 1990s. As Murray Rothbard noted in 1993: «it has indeed become evident in recent years that there are 3 very different and clashing paradigms within Austrian Economics: the original Misesian or Praxeological paradigm, to which the present author adheres; the Hayekian paradigm, stressing “knowledge” and “discovery” rather than the praxeological “action” and “choice”, and whose leading exponent is Professor Israel Kirzner; and the nihilistic view of the late Ludwig Lachmann, an institutional anti-theory approach taken from the English “subjectivist” Keynesian G.L.S. Shackle»².

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¹ As Joseph Salerno notes: «incipient factionalism within Austrian economics was already apparent at the South Royalton conference in 1974. If one reads the papers presented at that conference and collected in the book, *The Foundations of Modern Austrian Economics*, it is clear that Rothbard, Kirzner, and Lachmann disagreed on a number of fundamental points of economic theory and method» (Joseph T. SALERNO, *The Rebirth of Austrian Economics - In Light of Austrian Economics*, in «The Quarterly Journal of Austrian Economics», 5, Winter 2002, p. 111-128).

² Murray N ROTHBARD, *Man, Economy, and State*, Ludwig von Mises Institute, Auburn (Alabama) 1993, p. LIX.

Out of the three speakers at South Royalton, the most unusual and eclectic, was the latter³. Lachmann began his studies at the university of Berlin under the teachings of Werner Sombart, the most representative figure of the younger Historical School⁴. He encountered the writings of Mises in the mid 1920s and, after working out his basic theoretical foundations, left to England, in 1933, to serve Hayek as a research assistant at the London School of Economics. Here he began to cultivate his life-long interest in Business cycles and Capital theory, an endeavour which he pursued until the late 1950s, after which, disappointed by the reception of his book, *Capital and its Structure*, he turned to methodology in an attempt to re-examine the foundations of Economic Science⁵.

During this period, in the 1960s, Lachmann, by then teaching in South Africa, came intellectually closer to G.L. Shackle, an old associate of his at the LSE. From Shackle, he borrowed the metaphor of the Kaleidoscope to show how the economy is afflicted by uncaused, sudden changes that nullify any market tendency toward equilibrium⁶. By emphasizing the autonomous nature of expectations, and the notion that "the future is unknowable", Lachmann founded the radical subjectivist strand of the school, and set the stage for the development of Austrian Economics along unorthodox lines⁷.

³ Historian Gary North, who attended the 1974 South Royalton Conference, would say with regards to Lachmann that «he had the goofiest lecturing style I had ever encountered. I had heard a lot of goofy lecturers in my day, but this was something special... He also had a peculiar sing-song style, with his voice going up and down for no apparent rhetorical reason -- Kaleidic rhetoric, I guess». Gary NORTH, *Recollections of the 1974 South Royalton Conference on Austrian Economics*, 1999; available at <https://www.garynorth.com/public/15129.cfm>.

⁴ See David GORDON, *The Philosophical Origins of Austrian Economics*, Ludwig von Mises Institute, Auburn (Alabama) 1993, p. 7.

⁵ For an analysis of Lachmann's life and work, and for an assessment of his contributions from a student of his, see Peter LEWIN, *Biography of Ludwig Lachmann (1906-1990): Life and Work*, 2007; available at <https://mises.org/library/biography-ludwig-lachmann-1906-1990-life-and-work>.

⁶ On the evolution of Lachmann's subjectivism and its distinct phases, see Walter GRINDER, *In pursuit of the subjective paradigm*, in Ludwig LACHMANN, *Capital Expectations and the Market Process: Essays on the Theory of the Market Economy*, Sheed Andrews and McMeel, Kansas City (Missouri) 1977.

⁷ Lachmann's emphasis that everything is subjective and uncertain brought him to doubt the existence of objective laws of cause and effect, and to dismiss the validity

Most significant was Lachmann's influence in the 1980s on a group of Austrians working at George Mason University who, in their struggle against positivism and neoclassical formalism decided, upon discovering the hermeneutical philosophy of Heidegger and Gadamer, to embrace the epistemology of subjective interpretation⁸. By no means, however, was the methodological and epistemological counter-attack architected by these hermeneutical Austrians directed at the positivists and neoclassical economists only. As Don Lavoie, head of the movement, openly admitted: «the hermeneutical Austrians' challenge has been primarily aimed at mainstream neoclassical economics [...] but the challenge has implications for the 'mainstream' of the Austrian tradition as well [...]. The interpretative Austrians challenge to traditional Austrian methodology is a bold and controversial critique of all of the school's usual methodological self-descriptions»⁹.

Among other things, the axiomatic-deductive method which had been employed by Menger, Böhm-Bawerk, and which found its clearest exposition in the works of Mises and Rothbard had come under attack, and along with it the status of Economics as an a priori and universally valid science. Thus, not surprisingly, Lavoie's call in 1985 for Austrians to jump on board of the new methodology led to a firing debate among members of the school¹⁰.

of deductive logic. His emphasis on radical uncertainty led him to throw away the mental construct of Equilibrium, which lied at the heart of the causal-realist tradition of Menger, Mises and Rothbard. For an analysis of Lachmann's position within the Austrian movement see Piero VERNAGLIONE, *La Scuola Austriaca: differenze interne*, in «Rothbardiana», 31 luglio 2009, p. 11-14; available at <http://rothbard.altervista.org/teoria/differenze-interne.doc>. Regarding Lachmann's influence on modern "self-described" Austrians, who have dispensed with the Praxeological framework built by the founders of the school, see Joseph SALERNO, *The Sociology of the Development of Austrian Economics*, in Jörg Guido HÜLSMANN - Stephan KINSELLA (edited by), *Property, Freedom, Society. Essays in honour of Hans-Hermann Hoppe*, Ludwig von Mises Institute, Auburn (Alabama) 2009, p. 95-108.

⁸ See Murray N. ROTHBARD, *The Hermeneutical Invasion of Philosophy and Economics*, in IDEM, *Economic Controversies*, Ludwig von Mises Institute, Auburn (Alabama) 2011 (1989), p. 135.

⁹ Don LAVOIE, *The interpretative turn*, in Peter J. BOETTKE (edited by), *The Elgar companion to Austrian economics*, Edward Elgar, Northampton 1994, p. 55.

¹⁰ On the debate see Virgil Henry STORR, *On the hermeneutics debate. An introduction to a symposium on Don Lavoie's "The Interpretive Dimension of Economics-Science*,

Some 30 years after what Jesus Huerta De Soto described as the 4th round of the *Methodenstreit*¹¹, Prof. Ferlito's book *Hermeneutics of Capital: A Post-Austrian Theory for a Kaleidic World* attempts to revive the teachings of Lachmann and his followers, and bring them to fruition in a renewed theory of Capital and Business cycles. Although Ferlito highlights from the start that his work is not "an epistemological one", his association with the Austrian School of Economics requires one to examine his entire apparatus.

In Part 1) I will, touching upon some of Ferlito's remarks, outline the *a priori* foundations of Economics. In Part 2) I will analyse the crucial categorical difference between Praxeology and History, and part 3) will show how the basic idea of Hermeneutics that Ferlito praises centres around the rejection of Economic reality and its laws. To such extent, the author's apparatus is incompatible with the one developed through the years by the Austrian school economists.

I

THE NON-HERMENEUTICAL NATURE OF ECONOMICS

The view that human action is the essence of Economic activity, descends, as Ferlito highlights, from the founder of the Austrian school, Carl Menger, and finds its clearest exposition in the works of Ludwig von Mises, the 20th century Austrian Economist par excellence. Stating that humans act and understanding its logical implications however is, for Ferlito, not sufficient. One must also understand the subjective meaning of action, since processes of interpretation are the link between various objective facts. As he writes, «introducing the category of meaning we enter the world of interpretations, *verstehen* (understanding) which is central to the

Hermeneutics, and Praxeology”, in «Review of Austrian Economics», Volume 24, 2011, n. 2, p. 85-89; available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1968986.

¹¹ See Jesus HUERTA DE SOTO, *The Ongoing Methodenstreit of The Austrian School*, in «Journal des Economistes et des Etudes Humaines», Volume 8, n. 1, March 1998, 75-113; available at <https://mises.org/library/ongoing-methodenstreit-austrian-school>.

analysis of human action... interpretation processes have to be seen as the necessary and subjective link between different objective facts and events. Human actions are objective facts; they are answers to other objective facts constituting the elements of reality. However the way in which such answers are defined is totally subjective... without the interpretative moment, reality could not take shape because no action would be decided».

From the insight that «without the interpretative moment, reality could not take shape because no action would be decided» Ferlito infers that Economics is a Hermeneutical science. Is such a conclusion valid? Surely no Austrian would doubt that actions are conducted on the basis of the actor's thymological knowledge¹², but isn't one required to make a distinction between a theory and its subject matter? Indeed, this seems the case, and Ferlito neglects this at his peril. From the fact that economic agents use their intuitive apprehension in the selection of a particular set of means for the attainment of specific ends, it does not follow that Economics - which spells out the general principles that extend from the essence of action - rests on an interpretative framework. In noting the fundamental difference between the economist and the entrepreneur, David Gordon, alluded more generally to the intellectual error committed by those who, like Ferlito, confuse a theory and its subject matter, writing «that the actors studied by a theory used tacit knowledge to deal with conditions of imperfect information need not itself be a proposition known only through subjective hunches. Just as the study of insane people need not consist of mad propositions, the study of actors using imperfect knowledge need not resemble its subject matter»¹³.

Before labelling Economics "a hermeneutical science" Ferlito should answer the following question: what is the foundation of such theorems as the law of voluntary exchange, the laws of utility,

¹² "Thymology" is a term coined by Mises, and which he used to refer to that «branch of knowledge which deals with human judgements of values and ideas» (MISES, *Theory and History*, cit., p. 312). Thymology is employed by every man. Every actor, in fact, upon acting has to speculate about the future actions and value judgements of his fellowmen.

¹³ David GORDON, *Hermeneutics versus Austrian Economics*, Ludwig von Mises Institute, Auburn (Alabama) 1986.

the Ricardian law of comparative cost, the quantity theory of money, the time preference theory of interest? Is the validity of such theorems dependent on the economist's subjective understanding, as the Hermeneuticians believe, or do these statements rest on objective and realistic foundations? Ferlito might consider these questions trivial - for he carefully omits them in his text - yet questions of method are of paramount importance, for as Mises noted «with each problem, the economist confronts the basic questions: whence do these principles come, what is their significance, and how do they relate to experience and "reality"? These are not problems of method or even research technique; they are themselves the fundamental questions»¹⁴.

Only by answering such fundamental questions does one understand whether economic propositions can be given logical justification and whether they can furnish new knowledge about reality. According to Mises, the answer was straightforward: such theorems do not depend in the slightest on anyone's cultural attributes, subjective value-judgments, tacit knowledge or hermeneutical framework, but rather «flow directly from our reflectively gained knowledge of action»¹⁵. The claim that individuals act - that is that they display intentional behaviour - is not limited to particular places, people, or cultures, but has, on the contrary universal empirical validity; the existence of human action is a primordial, objective, undeniable feature of the world. It is, as Rothbard liked to call it, «a law of reality»¹⁶.

One is able to recognize - being an actor himself - that this proposition is both undeniable and empirically meaningful, simply by thinking about it, without the need for employing specific

¹⁴ Ludwig von MISES, *Memoirs*, Ludwig von Mises Institute, Auburn (Alabama) 2009, p. 105.

¹⁵ Hans-Hermann HOPPE, *Economic Science and the Austrian Method*, Ludwig von Mises Institute, Auburn (Alabama) 1995, p. 22.

¹⁶ See Murray N. ROTHBARD, *In Defense of Extreme Apriorism*, in «Southern Economic Journal», 23, n. 3, January 1957. The fact that Rothbard held it to be «a law of reality», while Mises considered it to be «a law of thought», in no way affects the fact that both considered it to be a self-evident proposition, one which, in order to be grasped, required no specific understanding.

understanding¹⁷. Simply through introspection and by reflecting upon his nature and condition, man is, in other words, able to recognize that he has goals, that he implicitly ranks these goals from most to least preferred and that he consciously strives to satisfy them by employing what he thinks to be suitable means¹⁸. By thinking about the logical implications of this primordial and undeniable fact of reality, such categories as scarcity, exchange, cost, value, time, causality, uncertainty, profit and loss, etc, can be immediately ascertained and ultimately - with the addition of a few subsidiary postulates¹⁹ - the rest of economic theory can be constructed, through a process of verbal logical deduction.

To the extent that the starting point of economic theorizing - the existence of purposeful behaviour - is both incontrovertible and universal, all conclusions which logically follow from the concept of action - the laws of demand and supply, the theory of imputation, the time preference theory of interest - must be regarded as equally universal and certain. «Since we know absolutely that human action is purposive» Rothbard wrote «we know with equal certainty the conclusions at each step of the logical chain»²⁰. Just as the existence of purposeful behaviour can be grasped by any reflecting mind without the need for an economist to employ his tacit knowledge or his psychological skills, by the same token, hermeneutics is not required to formulate and validate propositions

¹⁷ This is why one can say that the action axiom fits the definition of a “synthetic *a priori* proposition”: a proposition which is as true as tautologies are, while at the same time providing new information about the real world.

¹⁸ On the concept of action as a common-sense principle, see David GORDON, *An Introduction to Economic Reasoning*, Ludwig von Mises Institute, Auburn (Alabama) 2000, p. 20-23.

¹⁹ Postulates of this sort would include firstly the fact that there are a variety of productive resources, and secondly that leisure is a consumer good. Although these postulates cannot be deduced from the axiom of action, they ought not to be treated as empirical in the way in which empiricist would have it. For as Rothbard wrote «they are so generally true as to be self-evident, as to be seen by all to be obviously true once they are stated [...] hence they are not in practice empirically falsifiable and therefore not “operationally meaningful”» (ROTHBARD, *In Defense of Extreme Apriorism*, cit., p. 106).

²⁰ Murray N. ROTHBARD, Preface to Ludwig von MISES, *Theory and History. An Interpretation of Social and Economic Evolution*, Ludwig von Mises Institute, Auburn (Alabama) 2007, p. XVI.

that are derived from the action axiom. To the extent that no flaw in the process of deduction from such axiom has been made, one must view such conclusions as non-hermeneutical, that is resting on apodictically true foundations. In the words of Peter Boettke «if no logical error has been made in the process of deduction from the axiom of action, the theories arrived at are aprioristically true and apodictically certain»²¹.

Economic laws, thus according to Mises, are not in any way arbitrary or unconstrained: they strictly follow the logic of action, and are thus - just as the logic of action itself - both non-hypothetical and empirically meaningful. Clearly, one cannot subjectively wish away the logical laws of action, nor observe a world in which the categories of action do not apply, because wishing and observing would themselves be actions, and therefore be subject to the same categorical laws. «As a matter of fact» writes Hans-Hermann Hoppe, «a situation in which these categories of action would cease to have a real existence could itself never be observed, as making an observation is in itself an action»²².

II

VERSTEHEN: WHAT FOR?

But what then about *Verstehen*? Isn't Ferlito correct when he writes that without *Verstehen* one fails to understand how actions are subjectively defined? No doubt, he is. The question he neglects however is: why should an economist care about this? Why should he care about how actions are subjectively defined? In claiming that «*verstehen* (understanding) [...] is central to the analysis of human action» Ferlito patently ignores the categorical distinction between praxeology and history²³. For, as Mises, explicitly wrote: «under-

²¹ Peter BOETTKE, *Living Economics. Yesterday, Today and Tomorrow*, The Independent Institute, Oakland (California) 2012, p. 206.

²² Hans-Hermann HOPPE, *In Defense of Extreme Rationalism: Thoughts on Donald McCloskey's in "The Rhetoric of Economics"*, in «Review of Austrian Economics», 3, 1989, p. 201.

²³ See Ludwig von MISES, *Theory and History. An Interpretation of Social and Economic Evolution*, Ludwig von Mises Institute, Auburn (Alabama) 2007 [1957].

standing does not deal with the praxeological side of human action. It refers to value judgments and the choice of ends and of means on the part of our fellow man. It refers not to the field of praxeology and economics, but to the field of history»²⁴.

Economic analysis - being a subset of praxeology - does not deal with the study of action in its concrete manifestation. It seeks to study the necessary implications that follow from the nature and essence of any action, and thus it ignores the particular content of the ends that given individuals pursue, the motives that led them to select those ends, and the meaning they attached to their particular action. In the words of George Selgin, «praxeology does not address the content of individual preferences or the particular motives that give rise to those preferences. It is concerned with the pure logic of choice. Concrete individual ends and values have historical but not theoretical significance...»²⁵.

An example might help to elucidate this point. Suppose that I was to conquer Italy, restore the monarchy and appoint myself King. Suppose further that on my first day as King - on February 19th 2018 - I were to promulgate an edict that increased the minimum wage to \$100,000 an hour. How would an economist approach this? Equipped with the law of demand - which he derives from the praxeological truth that man economizes on his means - he will conclude that such a policy, other things being equal, will create more involuntary unemployment than there would have been in its absence: all those workers whose discounted marginal value product is less than \$100,000 will now find themselves priced out of the market.

Important is to note that the economist formulates propositions of this kind- which are of a qualitative and at the same time exact nature- by appealing to a general law, without making any reference to the particularities of the historical event. In other words, the economic law that wages set above the marginal productivity of labour, *ceteris paribus*, will create more involuntary

²⁴ Ludwig von MISES, *The Ultimate Foundation of Economic Science*, Van Nostrand, Princeton (New Jersey) 1962, p. 50.

²⁵ George A. SELGIN, *Praxeology and Understanding: An Analysis of the Controversy in Austrian Economics*, in «Review of Austrian Economics», 2, 1988, p. 23.

unemployment than otherwise, holds whether the King decided to pursue such policy out of benevolence, or out pure hatred for the poor; whether he was motivated by altruism or by greed; whether he was aiming at increasing his power, or simply at enriching workers; whether the workers viewed him as a champion of the working class, or as their enemy. In deriving cause and effect relationships, the economist, simply stated, treats the value judgments and the motives behind the choice of ends and means of particular individuals, as given data-his conclusions are exclusively derived from the study of action in its universal form and structure, and from the application of such a priori knowledge to the situation at hand. As Joseph Salerno neatly explained, «economics does not inquire into the individual's motivations in valuing and choosing specific ends [...] the truth of economic theorems is substantiated apart from and without reference to specific and concrete historical experience. They are conclusions of logically valid deduction from universal experience of the fact that humans adopt means that they believe to be appropriate in attaining ends that they judge to be valuable»²⁶.

The historian faces a categorically different situation. Unlike the praxeologist, who deals with the general features of action and accounts for the causes and consequences that necessarily follow from any action, the historian deals with the contingent features of any particular action, trying to explain what were the causes and consequence of the specific event under examination²⁷. In order to carry out a correct interpretation of these concrete events, he surely must take into consideration the laws of Praxeology and other theoretical disciples²⁸. For example, in trying to explain the German hyper-inflation of 1921-23, an historian must be equipped with

²⁶ See Joseph SALERNO, Introduction to Murray N. ROTHBARD, *A History of Money and Banking in the United States*, Ludwig von Mises Institute, Auburn (Alabama) 2005, p. 13.

²⁷ See Jorg Guido HULSMANN, Introduction to Ludwig von MISES, *Epistemological Problems of Economics*, Ludwig von Mises Institute, Auburn (Alabama) 2003, p. XLVII-L.

²⁸ For this reason Mises wrote that «history can never really be history without the intellectual tools provided by the theory of human action. History must rest on theory, not to alienate itself from its proper tasks, but on the contrary, in order more

sound monetary theory. Were he to blame the general spike in prices on greedy businessmen trying to loot the public, he would be just as unscientific and wrong as a meteorologist who tried to explain the phenomenon of rain by appealing to supernatural forces.

Yet, while the knowledge he gets from non-historical sciences is necessary for him to conduct correct historical analysis - and avoid empirically correct yet logically flawed interpretations - it is not sufficient. Historical facts always conserve an element of individuality that cannot be accounted by theory: particular individuals at a given moment in time made certain choices, held particular ideas, had specific visions and gave a definite meaning to their deeds²⁹. The crucial task of the historian is then, according to Mises, to unravel «what was the meaning the actors attached to the situation in which they found themselves and what was the meaning of their reaction and, finally, what was the result of these actions»³⁰.

It is clear that he cannot answer these questions by appealing to a general law, as the economist does. If, for example, in setting a \$100,000 minimum wage on my first day in office a Historian ascertains that my end was to marginalize female workers, he doesn't get this knowledge from a general rule of the sort that «all kings who impose a minimum wage on their first day in office aim at marginalizing female workers». For arriving at such conclusions, he employs the cognitive act of *verstehen*, the task of *Verstehen*, being, precisely «to fix the valuations, the aims, the theories, the beliefs, and the errors, in a word, the total philosophy of the acting individuals and the way in which they envisaged the conditions under which they had to act»³¹.

Moreover, given the complexity of each historical event, the method of specific understanding is an essential tool that guides the historian in making judgements of relevance, and discriminate

than ever to discharge them in the true sense of history» (MISES, *The Ultimate Foundation of Economic Science*, cit., p. 136).

²⁹ On this point, see Pietro MONSURRÒ, *Introduzione alla Scuola Austriaca di Economia*, Leonardo Facco Editore, Treviglio (Bergamo) 2017, p. 106.

³⁰ MISES, *The Ultimate Foundation of Economic Science*, cit., p. 43.

³¹ Ludwig von MISES, *Social Science and Natural Science*, in Richard M. EBELING (edited by), *Money, Method and the Market Process: Essays by Ludwig von Mises*, Kluwer, Boston (Massachusetts) 1990.

among the various causal factors that are at work in a concrete circumstance. Returning to the above example, suppose that within a few months of my reign, a revolution ensues: people are seen rioting on the street, students are filmed occupying universities, cars are being burned, and within a couple of hours the king is decapitated. A future historian (say 40 years from now) who will be confronted with the task of explaining this individual event, must not only discover the causal factors behind it, but also assign to them their respective degrees of importance. Sure: he must know that a government imposed increase in labour costs, leads, *ceteris paribus*, to fewer people being employed and to greater impoverishment than otherwise, but he cannot extrapolate from this general law whether the widespread state of unemployment was an important factor in fostering the rebellion against the King. Even if one can say that high unemployment rates contributed to the uprising, nothing can objectively determine whether - among a multitude of other causal factors - that was the most decisive one. Say, for instance that along with imposing minimum wage laws I had, during my brief reign, concluded an arm deal with Iran which gave people the psychological impression that I had sold out to the extremists: the extent to which the latter or the former were more relevant in bringing about the revolution, cannot be established by theory, but only by *verstehende* insight. As Rothbard wrote «historical events are complex results of numerous causal factors: praxeologic, psychologic, physical, chemical, biological etc. The historian must determine which science and its laws apply, and more difficult, the extent to which each causal factor operated in the events he is attempting to explain or predict... But there is no exact, scientific way of deciding the precise extent of importance to be assigned to each factor»³².

It is thus, for this reason, that History cannot, according to the Austrians, be considered an exact science like the natural sciences, or like Economics. Those, who like Ferlito and the German Historician before him, claim that *Verstehen* is crucial for Economics, fail to recognize, that the method of specific understanding cannot

³² Murray N. ROTHBARD, *Praxeology: Reply to Schuller*, in IDEM, *Economic Controversies*, Ludwig von Mises Institute, Auburn (Alabama) 2011 (1989), p. 116.

lead to the discovery of any general law and rule. *Verstehen* is precisely what historians appeal to when trying to dissect the individuality of an event, after they have exhausted the non-hypothetical propositions gathered from Praxeology and other non-historical sciences. As Mises's maintained, «whoever declares that the method of historical understanding... is appropriate also for economics should be aware of the fact that this method can never lead to the discovery of empirical laws. Understanding is precisely the method that the historical sciences (in the broadest sense of the term) employ in dealing with the unique, the non-repeatable, that is, in treating what is simply historical. Understanding is the mental grasp of something that we are unable to bring under rules and explain through them»³³.

III HERMENEUTICS AND THE DISAPPEARANCE OF ECONOMICS

Although Mises's categorization of Economics as an *a priori* science - who's propositions are the result of rigorous deductive reasoning from a few firmly established starting points - has often be labelled "extremist" and "dogmatic", he was perfectly in line with his predecessors³⁴. Of this he was perfectly aware. As he wrote in 1933 «if today we may take the view that the subject of our science is human action, without fear of thereby arousing more hostility than that which every scientific theory encounters, it is because of the work of several generations of scholars»³⁵.

³³ Ludwig von MISES, *Epistemological Problems of Economics*, Ludwig von Mises Institute, Auburn (Alabama) 2003, p. 12.

³⁴ «Nassau Senior, Destutt Tracy, J.B. Say, John Cairnes, Carl Menger, Lionel Robbins, Frank Knight» writes Peter Boettke «were all apriorists of some sort of another. Economic theorems, these writers contended, were derived from "self-evident" axioms. Far from out of step, this is the way that economic theorizing was done by classical and neoclassical economists for more than one hundred years» (BOETTKE, *Living Economics. Yesterday, Today and Tomorrow*, cit., p. 210).

³⁵ MISES, *Epistemological Problems of Economics*, cit., p. 19.

Similarly, he reiterated in *Human Action*, that «in asserting the a priori character of praxeology we are not drafting a plan for a future new science different from the traditional sciences of human action. We do not maintain that the theoretical science of human action should be aprioristic, but that it is and always has been so»³⁶.

What united Mises and the Austrians with the founders of political economy was the recognition of regularity in the marketplace: a regularity that could be grasped by applying one's reasons upon the nature of reality. The recognition that even the social realm is governed by laws which cannot be overridden, brought writers of the time to conclude that the main task of political economy was to enunciate these general and inviolable principles, and show how they necessarily set limits to the arbitrary intentions of sovereign rulers. A case in point is J. B. Say, founder of the French liberal school and a precursor of the Austrians in many ways³⁷. In his *A Treatise on Political Economy* (1803) Say wrote «all that can be required from political economy is to furnish government with a correct representation of the nature of things, and the general law necessarily resulting from it [...] Should these be despised or neglected, the governments as well as the people, will be the sufferers. The husbandman who sows tares can never expect to reap wheat».

To the extent that these general laws are derived from «a correct representation of the nature of things», Say, argued, they do not require «the support of proofs or illustrations; because they will be but the expression of what everyone will know, arranged in a form convenient for comprehending them, as well as in their whole scope as in their relation to each other». According to the French economist one can firmly conclude that the whole edifice of Economics, provided that its principles are arrived at through correct

³⁶ Ludwig von MISES, *Human Action. A Treatise on Economics*, Ludwig von Mises Institute, Auburn (Alabama) 1998, p. 40.

³⁷ According to Larry J. Sechrest, «Say leads from A.R.J Turgot and Richard Cantillon to Nassau Senior, Frank A. Fetter, Carl Menger, Ludwig von Mises, and Murray Rothbard» (Larry J. SECHREST, *Jean-Baptiste Say. Neglected Champion of Laissez Faire*, 2000; available at <https://mises.org/library/jean-baptiste-say-neglected-champion-laissez-faire-0>).

logical deduction from these undeniable facts of reality, «rests upon an immovable foundation»³⁸.

The realism, essentialism, and apriorism, which one finds in authors like J.B. Say, John E. Cairnes and Nassau Senior³⁹, is also clearly present in Menger⁴⁰. In similar fashion, the founder of the Austrian school, believed that the task of Economics, was to investigate «the general nature and the general connection among economic phenomena»⁴¹. In his 1871 *Principles of Economics*, by breaking down complex human phenomena into its simplest constitutive elements, Menger attempted to «demonstrate [...] that the phenomena of economic life, like those of nature, are ordered strictly in accordance with definite laws»⁴². These laws which Economic science could discover through verbal logical deduction from a few undeniable starting points, were defined by Menger as “exact laws”: exact because, as Lawrence White noted, they «follow

³⁸ Jean- Baptiste SAY, *Treatise on Political Economy*, Augustus Kelley, New York (N. Y.) 1964 [1880], p. LXI.XXVI.

³⁹ For an overview of the similarities between these thinker's method and the Austrian economists, see Murray N. ROTHBARD, *Praxeology as the Method of the Social Sciences*, in IDEM, *Economic Controversies*, Ludwig von Mises Institute, Auburn (Alabama) 2011 (1989), p. 29-58; see also HOPPE, *Economic Science and the Austrian Method*, cit., p. 10-13.

⁴⁰ Although Menger broke away from the classical school of economics - and in particular the Smithinan/Ricardian version of it - with his marginalist and subjectivist approach to value theory, he appreciated their breakthroughs in the theory of price determination and monetary calculation, as well as their recognition that the laws of economics are based upon immutable cause and effect relationships. His main aim, was not to demolish their edifice but to build it on firmer foundations by incorporating their insights into a general theory of human choice. As Joseph Salerno emphasized, «Menger's ultimate goal was not to destroy Classical economics, as has sometimes been suggested, but to complete and firm up the Classical project by grounding the theory of price determination and monetary calculation in a general theory of human action» (Joseph SALERNO, *Carl Menger. The Founder of the Austrian School*, in Randall G. HOLCOMBE, (edited by), *Fifteen Great Austrian Economists*, Ludwig von Mises Institute, Auburn (Alabama) 1999, p. 71).

⁴¹ Carl MENGGER, *Investigations into the Method of the Social Sciences with special reference to Economics*, with a new introduction by Lawrence H. White, edited by Louis Schneider, New York University Press, New York (N. Y.) 1985, p. 48.

⁴² Carl MENGGER, *Principles of Economics*, New York University Press, New York (N. Y.) 1976, p. 48.

necessarily from the essential nature of the facts involved, and thus are invariably true regardless of time and place»⁴³.

From looking at Mises and Menger's view on the foundations and task of economic science, one can see how, in line with the founders of political economy «the Austrians» as Thomas Woods observes «posit a universe of order that reason, properly exercised, is able to apprehend»⁴⁴. The belief that the world is both orderly and purposeful, is a crucial point for Science in general and economics in particular, because order implies laws and regularity which the human intellect is able to grasp. «Without such orderliness» writes Austrian economist Shawn Ritenour «it would be impossible to have any sort of science. There would be no scientific laws. All would be chaos»⁴⁵. From Menger to his 20th century followers then, the basic premise has been that reality exists, and while its laws are open to discovery by the human intellect, they are not in any meaningful sense created by it. As a consequence, according to the Austrian economists, Barry Smith underlines, even «universals of Economic reality are not arbitrary creations of the economist. They are not created in any sense. They [...] are discovered through painstaking theoretical efforts»⁴⁶.

It was necessary to outline this crucial fact, because Hermeneutics attacks this kind of realism, questioning precisely the existence of an objective economic reality - independent of people's subjective interpretations - on which meaningful propositions can be founded. As David Gordon in fact notes, Hermeneutics professes the view that «human action cannot be understood by scientific laws, but must be grasped in an act of intuitive apprehension»⁴⁷.

The reason why no common ground exists that could serve as a basis for truth-telling propositions, lies in Hermeneutics fundamental

⁴³ Lawrence H. WHITE, *The Methodology of the Austrian School Economists*, 1988; available at <https://mises.org/library/methodology-austrian-school-economists-0>.

⁴⁴ Thomas E. WOODS Jr., *The Church and The Market*, Lexington Books, Lanham (Maryland) 2005, p. 19.

⁴⁵ Shawn RITENOUR, *Foundations of Economics. A Christian View*, Wipf & Stock, Eugene (Oregon) 2010, p. 10.

⁴⁶ Barry SMITH, *Austrian Philosophy. The Legacy of Franz Brentano*, Open Court, Chicago (Illinois) 1994, p. 313.

⁴⁷ GORDON, *An Introduction to Economic Reasoning*, cit., p. 181.

assumption that the nature of knowledge is intersubjective and contextual which means, as Pierre Perrin notes, «that the knowing subject's beliefs about the world depend crucially on the historical and cultural context in which the subject evolves»⁴⁸. Convinced that man is inextricably bound to a specific historical and cultural context, nobody, according to the followers of this creed, can gain access to knowledge through objective lenses, and say anything that transcends the temporary coming together of the subjective minds engaged in a conversation. «Knowledge» writes hermeneutic apologist Joshua Lee Harris «is always both knowledge from a certain tradition and knowledge for a meaningful end» as such, he adds «genuine conversations [...] can never lose sight of their situatedness between these mutually constitutive elements of rationality»⁴⁹.

Given that any conversation can never lose sight of its situatedness, because any attempt of understanding is, as Gadamer stated «essentially, a historically, effected event»⁵⁰ truth becomes as Andrzej Wierciski notes «a matter of mutual agreement between partners engaged in dialogue and seeking common understanding». To the extent that truth for the Hermeneutician is then, as Rothbard put it, «the shifting sands of subjective relativism, based on an ephemeral 'consensus' of the subjective minds engaging in the endless conversation»⁵¹ the categories of absolute and of *a priori* are to be rejected. Nothing about reality can be known objectively and with certainty. As Andrzej Wiercinski concludes «due to the processual nature of hermeneutic truth and the temporality and finitude of human being, there is, and can be, no final or absolute truth; it is a matter of openness to the ever-new experience. No absolute truth means for philosophical hermeneutics that it does not have the final word, because there will be no final word; understanding is a never-ending process»⁵².

⁴⁸ Pierre PERRIN, *Hermeneutic Economics: Between Relativism and Progressive Polylogism*, in «The Quarterly Journal of Austrian Economics», 8, n. 3, Fall 2005, p. 21-38.

⁴⁹ Joshua Lee HARRIS, *Gadamer, Lavoie and Their Critics*, in «Journal of Markets and Morality», Volume 19, n. 1, Spring 2016, p. 61-78.

⁵⁰ Hans Georg GADAMER, *Truth and Method*, Continuum New York (N. Y.) 2006, p. 300.

⁵¹ ROTHBARD, *The Hermeneutical Invasion of Philosophy and Economics*, p. 126.

⁵² Andrzej WIERCINSKI, *Hans Georg Gadamer and the Truth of Hermeneutic Experience*, in «Analecta Hermeneutica», Volume 1, n. 1, 2009, p. 14.

Now one can see, straight away the vulnerability of the Hermeneutical position. For if there is no absolute truth, then how can a hermeneutician give this very same statement the absolute status it wants to? And if he is akin to make an exception for this very proposition, why not make an exception for other like statements, such as: individuals act; whatever is consumed now cannot be consumed later; taxes discourage production; price controls diminish the gains from trade, and many other absolutely true propositions?

The repercussions of the idea that no man can abstract himself from his boundaries of time and place, as Barry Smith suggests, is that objective science in general and value-free economics in particular are impossible endeavours: all theory is necessarily value laden, contextual and perspectival⁵³. An economist, in other words, is never able to give an objective account of real-world phenomenon; he can at best produce an interpretation from a particular perspective. As Don Lavoie wrote, as opposed to traditional Austrianism «hermeneutics argues that economics (and Science in general) does not supply us with an objective reproduction of Economic reality as it is in itself. It creatively produces an interpretation from a particular perspective»⁵⁴.

The objective existence of reality - the basic premise from which the classical economists and the Austrians have constructed their theoretical edifices - is thus thrown out of the picture. As hermeneutical philosopher G. B. Madison maintains, aping Nietzsche, «there are no facts in themselves [...] Facts are products of interpretation»⁵⁵. To the extent that all facts are the products of interpretation, and interpretations can never be detached from the interpreter's system of beliefs and values, no economic proposition can claim to be purely descriptive, and thus the idea of *Wertfreiheit*, which has been dominated social sciences ever since the times of Max Weber, is questioned. As hermeneutic guru David Prychitko has argued, «the distinction between positive and normative eco-

⁵³ See, on this point, Barry SMITH, *On the Austrianness of Austrian Economics*, in «Critical Review», 4 (1-2), 1990, p. 212-238.

⁵⁴ LAVOIE, *The Interpretative Turn*, cit., p. 55.

⁵⁵ Gary B. MADISON, *Getting beyond Objectivism*, in Don LAVOIE (edited by), *Economics and Hermeneutics*, Routledge, London - New York 1990, p. 34-58.

nomics, between the facts of economic life and the economist's judgment of those facts, is questionable. Facts are interpreted through theory. And theory itself is based upon implicit ethical assumptions and value judgments. Our method has not established value freedom in the past and I believe it will continue to fail in the future»⁵⁶.

The next, inevitable step is the outright rejection of universal economic laws. Given that Economic Reality does not objectively exist, in and of itself, but is completely shaped by how historically and culturally formed communities interpret it, one cannot rule out, according to hermeneutics, the possibility that the laws of economics vary from culture to culture. As G. B. Madison concluded, the most fundamental implication of hermeneutics for economics is that «economic reality [...] does not exist, in any purely objective sense of the term... It is dependent on, is the expression of, is the way in which a community of human agents interpret and arrange their collective being [...] Different cultures do this differently and thus it would not be surprising if the 'laws' of Economics were to vary from culture to culture»⁵⁷.

Given the above contentions, one must regard the association of hermeneutics to Austrian economics, as patently absurd and intellectually dishonest. The Austrian School developed precisely in opposition to all of these ideas, which the hermeneutical economists hold so dearly, stressing the fact that economic propositions - to the extent that they are the result of rigorous deductive reasoning from axioms apprehended by reflecting upon the nature of reality - are both value free and true in an absolute sense. «Carl Menger, but above all Mises and his followers» Thomas Woods recalls «sought to ground economic principles on the basis of absolute truth, apprehensible by means of reflection on the nature of reality»⁵⁸.

The anti-hermeneutical stance of the Austrian economists was evident since the beginning. In opposition to the anti-theoretical

⁵⁶ David L. PRYCHITKO, *Toward an Interpretative Economics: Some Hermeneutical Issues*, in «Methodus», December 1990, p. 69-72.

⁵⁷ MADISON, *Getting beyond Objectivism*, cit., p. 34-58.

⁵⁸ WOODS, *The Church and The Market*, cit., p. 236.

and relativistic outlook of the German Historicists, who went as far as to reject the laws of demand and supply⁵⁹, Menger, Bohm Bawerk and Wieser, claimed not only that an objective world independent of people's interpretations exists out there, but that such a world presents highly intelligible structures that enables the economist, through the employment of reason, to derive universal and time invariant laws of cause and effect. According to Mises the defense of objective economic laws, by the founders of the Austrian school against the epistemological relativism of their opponents, cannot be overly emphasized. As he wrote in his reconstructive work on the birth of the Austrian school, «the Austrian economists *unconditionally* rejected the logical relativism implied in the teachings of the Prussian Historical School. As against the declarations of Schmoller and his followers, they maintained that there is a body of economic theorems that are valid for all human action irrespective of time and place, the national and racial characteristic of the actors, and their religious, philosophical, and ethical ideologies. The greatness of the service these three Austrian economists have rendered by maintaining the cause of economics against the vain critique of Historicism cannot be over-rated»⁶⁰.

IV CONCLUSION

I have here decided to focus more broadly on Ferlito's methodological apparatus, in an attempt to show how Hermeneutics stands to Austrian Economics, as Schmoller stood to Menger. In short, if the Austrian believes that one can arrive at objective and universally valid economic propositions, by spelling out the nature of action and proceed by deductive reasoning⁶¹, the Hermeneutician, on the

⁵⁹ See GORDON, *The Philosophical Origins of Austrian Economics*, cit., p. 8.

⁶⁰ Ludwig von MISES, *The Historical Setting of the Austrian School of Economics*, Ludwig von Mises Institute, Auburn (Alabama) 1984, p. 43.

⁶¹ Upon writing his great treatise on Economics, Murray N Rothbard said he «realized that it is possible to begin with one simple, self-evident assumption: human

contrary, holds the view that the study of human action cannot proceed methodically and scientifically, given that no objective common ground exists for the foundation of truthful propositions. As a consequence for the Hermeneuticians, economic laws cannot claim any objectivity and universality.

There are things, that one can appreciate in Ferlito's book: chapter 2, for instance (although I do not understand why the author seems not to notice that Mises's view of the entrepreneur is characterized much more by the bearing of uncertainty than by a simple ability to discover exogenous profit opportunities) gives a valuable account of Schumpeter's and Kirzner's theories of Entrepreneurship. This being said, the underlying methodological foundation does not pass the test: to the extent that Ferlito embraces epistemological subjectivism he cannot be considered an Austrian economist.

This, in no way means that Austrian economists have not do not, or must not disagree with their mentors. As Jorg Guido Hulsmann recently noted, «one of the worst things that can happen to an intellectual movement is that it turns into some sort of a museum»⁶². Yet, what makes an economist a member of a school of thought is his general acceptance of the core tenets of that school, and the core tenet of the Austrian School is not its emphasis on subjectivism, tacit knowledge, market process, spontaneous order and all the other common shibboleth, but first and foremost the recognition that Economics is an objective, *a priori* science built upon the universal formal fact of human action. As Jeffrey Herbenner has in fact reminded us «the Austrian tradition is identified by and built upon praxeology—the application of deductive reasoning to the irrefutable fact of human action. This method is the red thread that runs from Menger to Bohm-Bawerk to Mises to Murray Rothbard and the modern practitioners of Austrian economics. Working within this tradition, economists have produced

existence, and deduce all propositions of economics from it. The essence of human existence is human action, and once action is defined, all further [economic] truths can be deduced by logical implication» (Joseph STROMBERG, Introduction to Murray N. ROTHBARD, *Man, Economy, and State. A Treatise on Economic Principles with Power and Market. Government and the Economy*, Ludwig von Mises Institute, Auburn (Alabama) 2004, p. XIX-LXXXVIII).

⁶² See <https://www.youtube.com/watch?v=wCoOps5lrCs> min. 4'30.

a great edifice of irrefutable, universally applicable economic theory»⁶³.

To the extent that a hermeneutician rejects the praxeological framework he cannot be considered an Austrian economist, for economists steeped in this tradition, as Walter Block observes «do criticize each other's work, but only within the general framework of praxeological Austrianism. If they question the general framework of praxeological Austrianism, they are to that extent not Austrian economists»⁶⁴.

⁶³ Jeffrey HERBENER, *Ludwig von Mises and the Austrian School of Economics*, in «The Review of Austrian Economics», Volume 5, n. 2, 1991, p. 50.

⁶⁴ See Walter BLOCK, *Rejoinder to David Prychitko on Austrian Dogmatism*, in «Reason Papers», 34, n. 2, October 2012, p. 162.