**UNIVERSIDAD REY JUAN CARLOS**

**FACTULTAD DE CIENCIAS JURIDICAS Y SOCIALES**

**DEPARTAMENTO DE ECONOMIA APLICADA I**

**Tesis Doctoral**

# The Two Ludwigs

Mises, Lachmann, and the ongoing Methodenstreit
in the Austrian School of Economics

(Working Title)

**Autor: Brecht Lieven Arnaert**

**Directores: Dr. Eva María Carrasco Bañuelos y**
**Dr. León María Gómez Rivas – Tutor: Dr. Philipp Bagus**

MADRID

2021

Index

**Abstract**

In 1986 a bundle of subjectivist essays appeared under the name “Subjectivism, intelligibility and economic understanding: Essays in honour of Ludwig M. Lachmann on his eightieth birthday.” Containing contributions by pretty much all of the present-day theorists that recognize influence by Lachmann, it was met with severe criticism from Austrians of the Misesian persuasion. The goal of this dissertation is to explore the content and context of this debate, and to provide the beginning student of radical subjectivism with a bibliographical account of the arguments from both sides. The main conclusion that can be drawn is that the methodological debate is far from settled, and a new round may soon erupt – this time within the Austrian School itself.

*Keywords: subjectivism, Mises, Lachmann, Methodenstreit*

# General Introduction

Research Question – Analytical framework – Classical Hermeneutics – Modern Rhetoric – Postmodern Philosophy – Proto-classical Heuristics – Narrative Structure

## 1. Research question

Austrian Economics, as a theoretical current, distinguishes itself from other schools primarily by virtue of its method. As Ludwig Von Mises put it: *"What distinguishes the Austrian School and will lend it immortal fame is precisely the fact that it created a theory of economic action and not of economic equilibrium or non-action."* (Mises, 1978, p. 36) In a comprehensive article focusing on these differences, Dr. Jesus Huerta De Soto (Huerta De Soto, 1998, p. 75-113) lists nine main bones of contention between Austrian Economics and neo-classical, mainstream economics. The most important point, in our view, is the distinction between the scientific, objective, explicit knowledge of theorists, and the practical, subjective, implicit knowledge of the entrepreneur.

Mainstream economics is predominantly informed by the idea that objective models can be constructed around offer and demand, resulting in a hypothetical state that is called "equilibrium". In this state every need is fulfilled and every resource is used. Based on the well-known definition of Robbins (1932), economics is seen as the science that studies the utilization of scarce resources and how to put them to the best use, as seen from a (central) market-clearing perspective. It is essentially a static appreciation of what is needed (demand) and what is available (offer), and the role of the economist is mainly to calculate the best plan for the production and distribution of these values. It is static because it thinks that the economic problem is to choose from *given* options.

Austrian Economics, on the other hand, flatly denies that this is even possible. Its proponents stress the subjective, dispersed, tacit nature of knowledge in society (Hayek, 1945), and the impossibility of aggregating such knowledge into objective, centralized, explicit data sets. Value is expressed in ordinal manner – one likes ice cream more than fruit for dessert – and is held by individuals, while abstract data sets are expressed in cardinal manner – there is 5 % unemployment – and is held by no individual in particular. If we want to preserve some idea about how people value things, how the exchange of these values forms prices, and how these prices inform and direct production, we must be very weary of losing ordinal information by abstracting them in cardinal data sets.

This, of course, requires a totally different methodological approach, which has come to be known as the "individualist or compositive method" (Hayek 1979, pp. 151–2). The Austrian view tries to describe economic reality from the perspective of the individual, and builds up an understanding of the market process from there. Its language is not mathematical, but verbal. (Huerta De Soto, 1998, p.78) It is the subjective valuations of the individual that are the center of attention, and not the "objective" end result. Mathematical equilibrium models – that is: models in which the market is always perfectly cleared – may give some information, but in the end, these are static pictures of the economy. To really understand the market, we have to indeed look upon it as a process.

Up until here, the distinction between Austrian Economics and mainstream economics seems pretty straightforward. Mainstream economics seems to take the aggregate, macro-economic view as its starting point, while Austrian economics seems to take the individual, micro-economical valuations as its point of departure, and goes from there. This, however, does not mean that there would be no disagreement within the Austrian School. At least since the revival of the School in the mid-70's, the debate on method has taken on new forms. The goal of this dissertation is to throw new light on this ongoing discussion, and this by contrasting the views two of its main proponents: Ludwig von Mises (1881 – 1973) and Ludwig M. Lachmann (1906 – 1990).

Of those two, Ludwig von Mises is certainly the more famous one. Due to an institute dedicated to his name – The Mises Institute in Auburn, Alabama – his work and views are being spread all over the world (Callahan, 2004, p. 319). The proponents of this interpretation of the Austrian School distinguish themselves in the debate by opposing any government intervention, and they do this by adhering to a clear aprioristic stance on method (Rothbard, 1957; Hoppe, 1989): since the whole body of economic science can be derived from "the axiom of human action", there is no need for further social experiments. Markets need to be left free, and will in the end take care of themselves. In this view, there is sparse attention to institutions – the focus is above all on human action.

Ludwig Lachmann, on the other hand, is the lesser known of the two, and this primarily because he could be called somewhat eccentric, both in literal as in figurative terms. Although he knew Hayek at his years at the London School of Economics and spent one semester of each academic year at NYU after retiring, during most of his life he was living and working in Witwatersrand, South-Africa. (Lewin, 2018) This meant that he remained rather distant from the center of the debate, both in geographical terms as well as content-wise. The thought of Lachmann is not aprioristic at all, but inscribes itself in the far-less known hermeneutical tradition. He has always been seen as somewhat of a fringe theorist, at least when seen from a Misesian perspective.

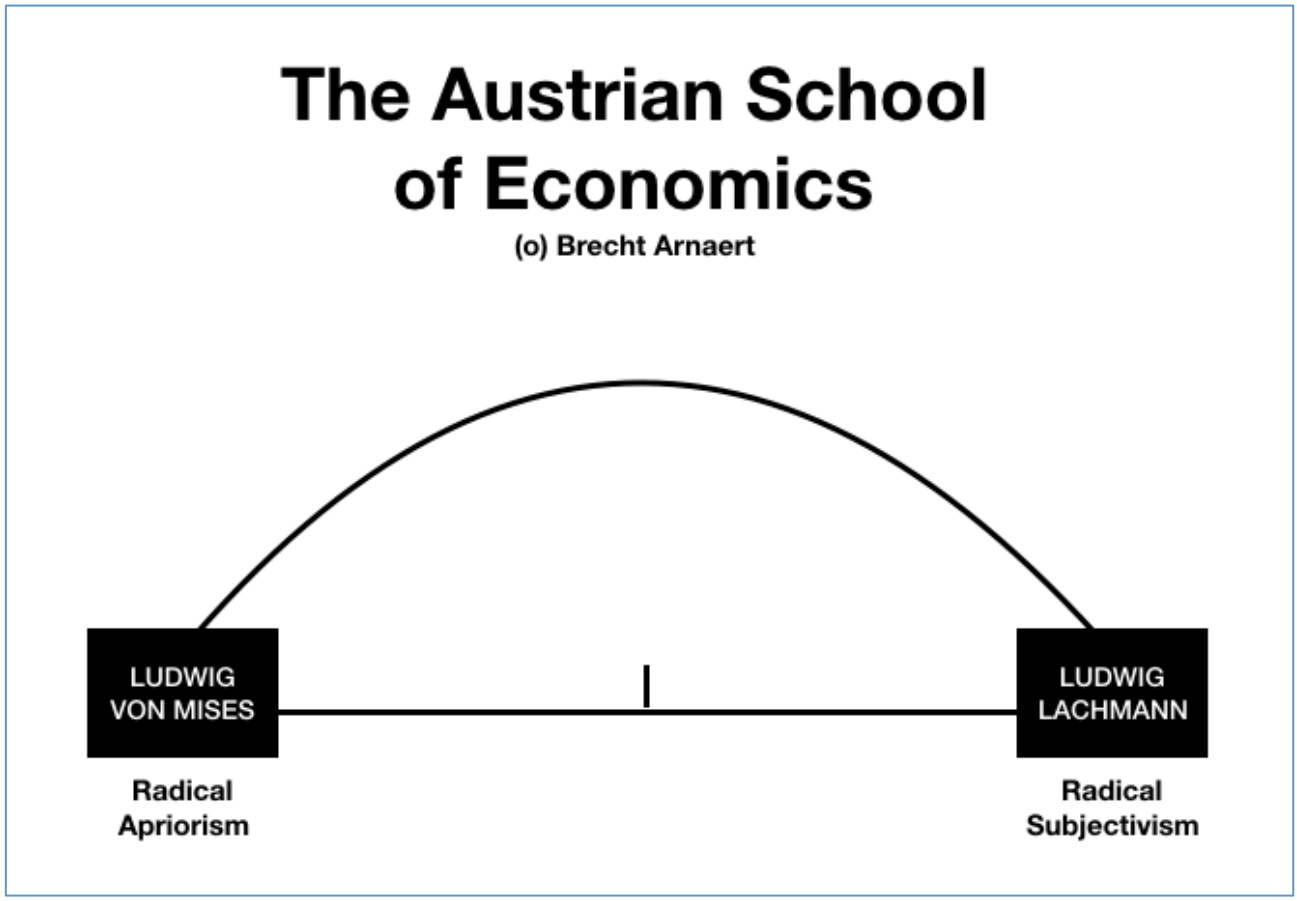


**Figure 1: Tentative orientation on the subject matter**

The reason I think it is interesting to contrast these two thinkers is because of a remark made by Hayek: *"It is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism."* (Hayek, 1979, p. 52) In a brief article, Lachmann takes up on that suggestion and takes the position that the revolution Menger initiated is far from complete (Lachmann, 1978). The Misesians, on the other hand, find that *"praxeology is the distinctive methodology of the Austrian School"* (Rothbard, 2011) and that with that, the methodological debate seems to be settled. "Man acts" (Linsbichler, 2019, p. 3 & Mises 2007 (1957), p. 179) and from there all economic laws can be derived.

As such, our central research question can finally come to the fore: "If Austrian Economics really is the subjectivist school of economics, then which one of these authors is the more subjectivist?" Is it Mises, positing a purportedly objective axiom from which all economic reasoning should start? Or is it Lachmann, who starts from the purportedly "Wertfrei" approach? If it is Mises, then how could he possibly defend subjectivism on an objective basis? And if is Lachmann, then how can he assure us that his approach does not derail into nihilism? Lachmann has certainly met with such criticisms. Rothbard discarded his views as *"nihilism, relativism, and solipsism."* (Rothbard, 1989, p. 46) and Hoppe even called it *"fatally dangerous nonsense"*. (Hoppe, 1989)

The Misesian view, on the other hand, did not receive such harsh criticisms, or at least not from within the Austrian research community. From a mainstream perspective, however, the Austrian approach is often equated with the Misesian approach, and, perusing his fundamental assumptions, it is quickly discarded in its entirety. Mark Blaug, the eminent historian of economics, described Mises' methodological views as "cranky and idiosyncratic" (Blaug 1980, p. 93) but did not offer any specific complaints. More famously, Chicago School economist Milton Friedman did take issue with a specific problem with Mises' writings: the fact that axioms, once they have been declared as "objective" by one of the proponents in the debate, can no longer be debated scientifically.

For instance: in a debate with Walter Block, one of Mises' closest followers, Friedman starts the exchange by asking in what way Block would gradually establish his desired state of affairs. While the debate begins friendly, it quickly turns heated when, quite ironically, it is Friedman who says that Block completely misread Hayek. Friedman stresses that Hayek is not an aprioristic ideologue advocating a final state of affairs, (Block, 2006, p. 64) but merely a theorist that tried to show how the current sate of affairs could be improved. Block, from his side, does not even acknowledge that view of Hayek – which is Friedman's point – and merely starts stressing that this approach is not a good basis for achieving the desired final result. (Ibid, p. 68)

In other words: Block is so infatuated with his idea of an ideal society that he cannot understand the debate in any other terms. As such, the discussion is fruitless. The whole point of Friedman was that Hayek cannot be judged for not having a final desired state of affairs, since that was never his intent in the first place. Block, however, does not really capture the subtlety of that position. He can only see Hayek's view as "incompatible with a defense of free enterprise" (Ibid, p. 62). After a long and winding exchange – besides the point Friedman originally made – the only thing the latter can say is "Your tone is that of a theologian examining scripture, not a social scientist tackling existing institutions to improve them, or an open-minded analyst of partial improvements." (Ibid, p. 65)

As such, it would seem that the Austrian School of Economics is caught in a double chiasm: while the Misesians tend to defend the purity of their approach by focusing on epistemological apriorism of their leader, that leader is not being taken serious by the mainstream. And while Lachmann is not seen as a leading figure within the School, mainstream economists do have an ear for what he has to say. Must we then conclude that Lachmann is the odd duck within the School? Or is it rather Mises, for taking the School into an "idiosyncratic" (Blaug) and "theological" (Friedman) direction? These questions can only be answered by a deep analysis of the epistemological and even metaphysical assumptions of both authors. This is what I venture to do with this dissertation.

## 2. Analytical framework

Writing a dissertation on method is like building a ship at sea: while one is analyzing the validity of a certain method, one is already using a method to do so. If we would take the aprioristic method of Mises, the debate would be settled, here and now: Lachmann let himself be influenced too much by mainstream economists, and cannot really be called an Austrian. If we would take the hermeneutical method of Lachmann, on the other hand, the most poignant critique we could raise against Mises is that he advocated subjectivism on objectivist grounds – that is: on the conviction that his method is of purportedly "objective" and therefore absolute value. In short: whatever method we choose, we already confess to a certain paradigm, making "neutral" and "objective" analysis impossible.

This problem is fundamental, in the sense that it cannot be escaped. Maybe, then, it could be wise to take this observation – "one cannot *not* be subjective" – as our very point of departure. If we acknowledge, ex ante, that no point of view is entirely objective, but rests on deeper, implicit, and radically improvable assumptions, we might find a way to objectify our thoughts towards objective truth, without implying, however, that such total objectivity can ever be reached in our human form. Objectivity, in this view, could only take the form of a speculation, not of something that is within the reach of man. It would be an entirely transcendental notion – a belief that guides our scientific inquiry, without ever acquiring the status of a piece of knowledge that one can possess.

This, of course, is already a departure from Mises, who does believe that total scientific objectivity is possible. He believes, for instance, that the impossibility of denying the axiom of human action attests to that fact. As such, it would certainly not be correct to claim that the aforementioned point of departure would be an objective one. It is and remains a subjective way of looking at things, and any pretense of being anything more a perspective that can perhaps enrich our understanding would be out of place. What could perhaps be said about this perspective is that it is the "Wertfrei" one: it does neither exclude, ex ante, that Mises is indeed right, nor preclude that Lachmann would be wrong. The only thing we can say is that it allows us to understand each author in his own context.

This brings us to the basic method I have used to analyze both authors: that of "Verstehen", in the sense that Weber meant it: understanding the meaning of action from the actor's point of view, and this as best as we can. Too many times, social scientists use purportedly objective criteria to judge the rationality of an action while all they do is judge from their own subjective point of view. This, it must be stressed, not because they would consciously want to do this, but precisely because they are often not aware of their own bias. The act of Verstehen, then, is a deliberate postponing of any judgment – the classical epoché – and a genuine attempt to "get into the head" of the actor. What were his or her motivations? In which context did he or she take his action?

Interesting to note, in this regard, is that a total understanding of all the factors that moved a person cannot be achieved, and this for the simple reason that we can never be that other person. No matter how well we think to understand the subjectivity of the actor under scrutiny, and no matter how long the list of all the factors of which we think they led him to take a certain action, the result is still an image of his subjectivity, and not that personal subjectivity itself. As such, we can notice an intriguing symmetry between experiencing the total objectivity of truth, and experiencing the total subjectivity of another person: it cannot be reached by constructing a theory about it. At some given point, we must make a speculation about their essential nature.

All we have, in other words, are interpretations about something we cannot possibly know, at least not if knowing is defined as grasping something in its entirety. Just as we cannot get our head around the infinity of truth in an outward sense (that which lies past the last celestial body) nor can we logically grasp the infinity of truth in an inward sense – the essence of man. As such, modesty is required. All we can see are aspects of truth, and once this is accepted, the fundamental question is no longer what the final and certain truth is, but how to know the relative value of each perspective. How do we know when something is relevant in our quest for truth, or not? How do we navigate the many impressions we get from ourselves, and from others, transmitted trough language?

It is here that the Weberian outlook can help us out: "By indicating the magnitude of approximation of a historical phenomenon to one or several of our concepts we can order these phenomena." (Lachmann, 1971, p. 26) Weber believes that man can construct something he calls "Ideal Types", abstractions from reality that do not contain the full richness of that reality, but which can at least be guide us in our search for truth. What Weber does not explain, however, is why these abstractions should hold any truth at all. In the end, they too are made on the basis of contingent empirical experiences, and as such, there is no imperative reason why the stronger or weaker approximation of a historical phenomenon to these Ideal Types should be any indication of truth.

As such, I have spiced Weber with an extra assumption that can neither be proven, but about which I felt – to be precise: intuited – that it would help me achieve a profitable rendition of the problem at hand. That extra assumption is that the road to truth is *economical.* This intuition comes from the observation that good theory is often easy to understand, while complicated theory, often proves to be untrue. This could all be coincidence, but focusing on the matter more deeply, I have come to the following set of criteria: any theory that (1) explains more phenomena with (2) less contradiction and (3) more fertile implications is simply a better theory. Generally, its cost of acquisition is lower, its productivity is higher and its upkeep is cheaper because of the constant illustration of its truth.

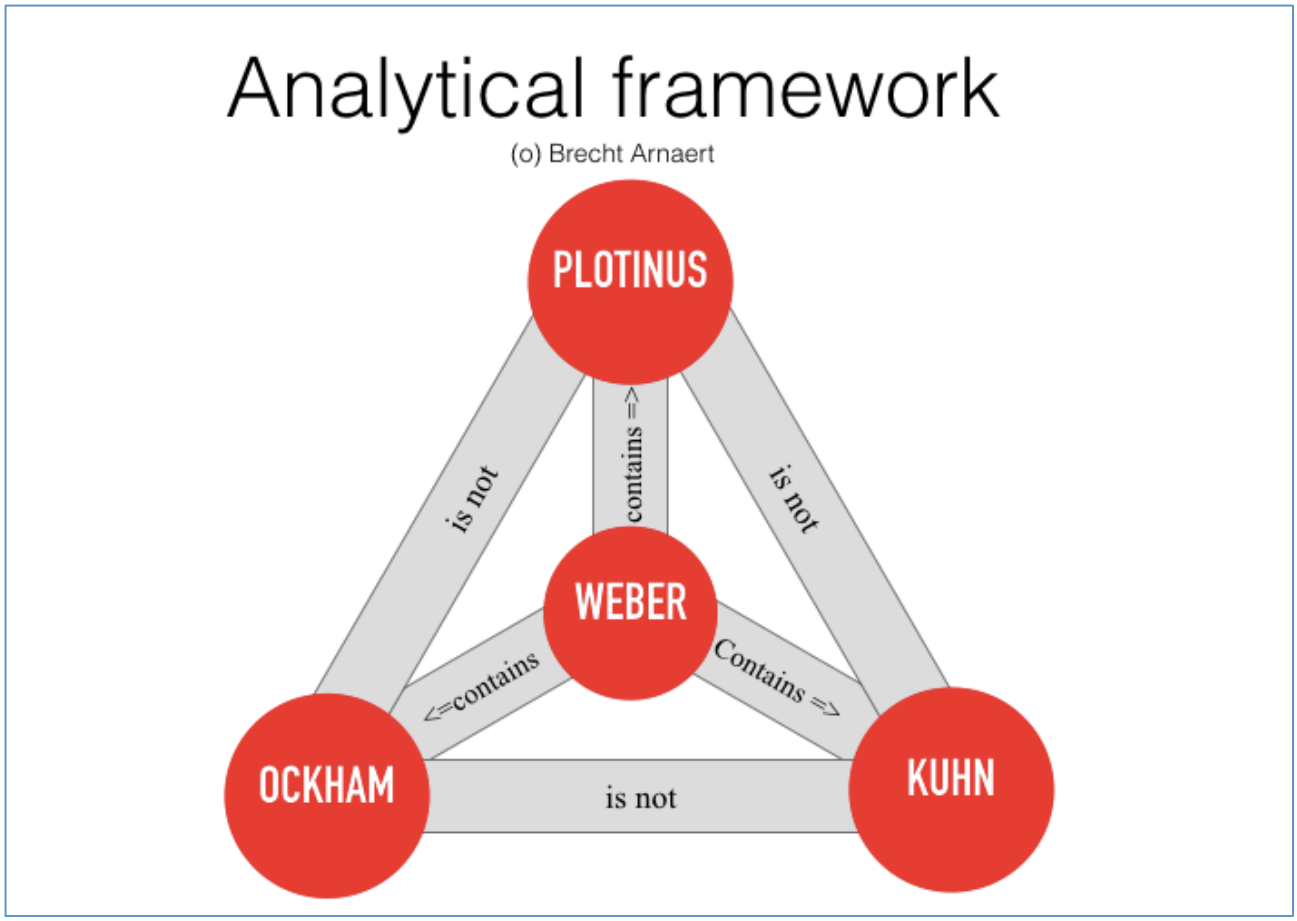


**Figure 2: Weber as the Wertfrei approach to the evolution of theory, explainable by Kuhn and Ockham**

Shadows of this assumption figure in William of Ockham's dictum that when two explanations are considered, one complicated and one simple, the simplest one is probably closer to truth. Using Ockham, however, is dangerous. Expounding on the debate between the nominalists and the realists would take us to far, but it can readily be acknowledged that there is a fine line between the genius of simplicity and the stupidity of over-simplification. The theory that cats can speak English but just never do when we are around, for instance, is a simple theory too, yet it does not contain much fertile tension. We could fathom that they don't want to because they think we are stupid, but somehow we feel that this fantasy doesn't solve any of man's quest for meaning.

As such, it must never be forgotten that William of Ockham was a Franciscan friar and a scholastic philosopher, and that any isolation of his dictum from the transcendental background in which he pronounced it, will lead to the said over-simplification. Stronger even: to make sure that his method is never used directionless, we must explicitly tie it to a transcendental framework. The Thomistic one would be the most obvious, and would allow us to tie in directly to the School of Salamanca. Nevertheless, I have chosen for an older framework still and this because it believes in the existence of simplicity in the most literal sense. To Plotinus (204 – 270) there is a supreme, transcendental reality he called "One", to be found behind the visible, material things we observe (Taylor, 1994).

This brings us to the third implicit assumption I have used to make my analysis: that infinity, truth, and simplicity are three exact synonyms. Plotinus' idea of the transcendental is one of infinity without borders, of total unity, a state of being in which there is no relation with any material object, and least of all with man and his many theories. As far as simplicity goes, this looks like a good candidate. Moreover, since nothing material is permanent in the light of eternity, and can for that reason not be permanently true either, the only phenomenon that does transcend this limitation seems to be infinity itself. As such, the corresponding vision is that only the infinite is true, and that means, per implication, that "true truth" is infinite.

The last theorist that I needed to be able to compare Mises and Lachmann was Kuhn. If the process of theorizing is one of competing interpretations (1), and if the road to truth is economical (2), then the assumption becomes plausible that this process will be cyclical in nature. Kuhn speaks of "paradigm shifts" (Kuhn, 1962, p. 66) to indicate the moments where the fundamental assumptions of science change. In my view, this process is an oscillation between two poles: on the one hand, the overly optimistic view on the power of reason, which leads to what Hayek called "constructivist rationalism" (Hayek, 1967, p. 83) and on the other hand, the overly pessimistic stance on reason, which leads to what Rothbard called "nihilism, relativism, and solipsism." (Rothbard, 1989, p. 46)

In my research I have found that this epistemological business cycle has four distinct phases, each with their corresponding inflection points. The inflection points come when a new role is assigned to reason. The phases are: classicism, modernism, postmodernism and proto-classicism. Modernism starts when it is believed that reason can be separated from faith, postmodernism starts when it is believed that the products of modern reasoning inexorably lead to conflict, proto-classicism starts when it is believed that all reasoning is contingent, even its own and classicism starts when it is again believed that reason is indeed based on faith. This process, of reason reasoning about it's own status and function is not only cyclical, but it determines all other, lower intellectual cycles.

Because a good grip on this cyclicality is instrumental, not only for our own Verstehen, but also to understand the Verstehen both Mises and Lachmann had of others, the rest of this introduction will be devoted to the description of this cycle. First, I will discuss the four phases and their respective inflection points. This will take up the next four sections. Finally, we will come back to method, but then in a practical way. In the last section of this introduction, I will elaborate on the form in which I will present my research findings. My conviction is that if the Methodenstreit is really a never-ending story, then the best method to describe the conflict between the followers of Mises and those of Lachmann, is indeed that of a story. Form follows function.

## 3. Classical hermeneutics

We start with classicism, which is always characterized by an over-arching, holistic view. From this view everything is explained, even the explainer, and science, in its modern version, does not exist. There is no dichotomy between the natural sciences and the human sciences, since both are seen as probabilistic, and not certain. The only thing that is deemed certain is God, the One, or the infinite, and as such it will come as no surprise that hermeneutics, as a discipline, originated in a decidedly theological context. (Audi, 1999, p. 377) Theologians of all rank and file tried to interpret biblical texts so as to find out what God wanted from humanity, and in doing so, they implicitly followed a basic, simple rule: since God is all-good, he would never deceive mankind. (Jeanrond, 1994)

As such, the business of professing new knowledge about God's plans was quite a dangerous one: if your beliefs contradicted established tradition, this was as good as proof that your beliefs could not be true. If they supplemented established tradition, or in any way enriched it, this was as good as proof that your beliefs could be added to the canon. This view is still in swing today. The so-called "magisterium" of the Catholic Church refers to the church's authority to have the last word on the interpretation of the Word of God. From the horse's mouth: *"The task of interpreting the Word of God authentically has been entrusted solely to the Magisterium of the Church, that is, to the Pope and to the bishops in communion with him."* (Pope John Paul II, 1992, thesis nr. 100)

Observing this attitude, one could easily fall prey to the illusion that this is merely some crude form of historicism. Since the interpretation of new phenomena does not happen following merely logical rules, but is mainly done by seeing if it contradicts knowledge that was established earlier, there is simply no guarantee that the system of beliefs thus achieved is not entirely contingent. It might for instance be that there is no God, and that the set of ideas that the prelates have been defending for ages is nothing but an auto-legitimizing set of beliefs, holding no necessary truth-value whatsoever. If that is true, the Church has gone on a violent rampage, using the idea of the divine as a backdrop from which to legitimize its power, based on nothing but ideological conviction.

In reality, however, things are not that simple. The key insight, it must be stressed, is that a purely logical legitimization of truth is not possible either. What the Church teaches is that the validity of logic, in and of itself, rests on an implicit, underlying, and radically improvable, nor disprovable notion. If we no longer believe in this notion, then the healthy use of reason devolves into its diabolical counterpart: the idea that we can construct truth in the same way as if we would construct an edifice. Truth, in that (modern) view, is a theory, and one that needs to be defended. That is what Hayek referred to as "constructivist rationalism" (Hayek, 1967, p. 83) and which he pointed out as the main reason for all kinds of totalitarian ideologies.

The key idea behind all those ideologies, then, is that the use of logic alone – of so-called "pure logic" – is enough to find truth. Is it any coincidence that the Catholic Church maintains that man's primary sin is pride? It is indeed a classical tragedy that many who think to be smart, turn out to be foolish. This is what Hayek called "the fatal conceit" or arrogance: the idea that conscious, logically designed changes to the societal structure would be more effective than just letting society run its natural course. (Hayek, 1988) Instead of accepting the wisdom gathered in institutions that have emerged from the unconscious action of generations, man thinks he is smarter, and thinks he can redesign the way social reality works.

The Church is unequivocally clear about this folly: *"Pride goes before destruction, and a haughty spirit before a fall"*. (Proverbs 16:18) Man, in trying to find an explanation, must also use his intuition, and when it comes to this ability only the humble can come to true knowledge. Professing that all human action can be explained from a logical axiom, then, is surely not humble. It can even be seen as reckless, especially when one considers that the logical undeniability of an axiom does not constitute proof for its truth. Is it not extraordinary to observe that Mises, who can be seen as a high ranking intellectual, seems to be wholly unconscious of the fact that the validity of logic itself demonstrably depends on the belief in a transcendental notion the Church identified centuries ago?

The transcendental notion we speak of is the belief that the universe shows regularity. Generally called "The Logos", it always figures in some shape or form in classical culture. In Catholic lore, the wisdom that can be harvested by believing in this notion has been codified in the story of Christ, who incarnated, suffered, died, resurrected and went to heaven. From a modernist point of view, this is nothing but a story, and no scientific credence should be attached to it. But knowing that Christ is also explicitly associated with the Logos as a principle (see for instance John 1:1 and Revelation 19:13) a more symbolical reading of the same story is possible: not just about the death and resurrection of a person, but *of the death and resurrection of reason itself*.

This theme, of man's logical faculty suffering under inherent contradiction, then dying to later only resurrect with greater power, is an anthropological motif in all cultures. Campbell, for instance, argued that the great enduring myths from around the world all share an underlying structure he calls the "monomyth", regardless of their origin or time of creation. (Campbell, 2008, p. 1) The central pattern in all of those myths is that of "The Hero's Journey" (Ibid, p. 63), where a young individual, mostly masculine, feels he has to embark on a perilous adventure without knowing the real reason why. On his quest he encounters all kinds of riddles until his mission is finally revealed: to slay an adversary, so that the potential this enemy is withholding from the world, can be released.

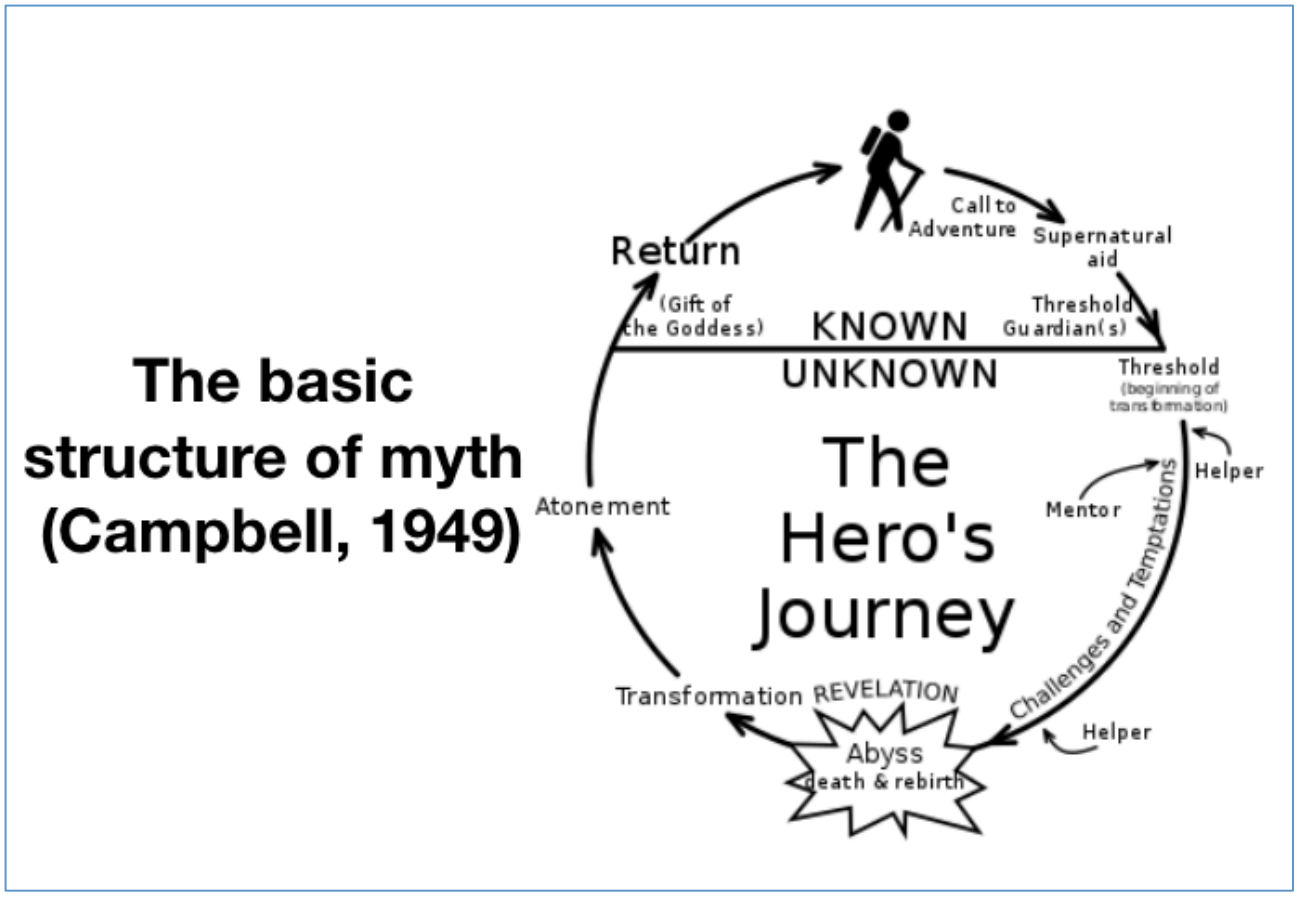


**Figure 3: The path of every theorist: while seeking to conquer the unknown, truth suddenly reveals itself to him.**

Campbell links these various renditions of the same story to the theory that mankind is connected by what Jung called the "collective unconscious": *"It must be pointed out that just as the human body shows a common anatomy over and above all racial differences, so, too, the psyche possesses a common substratum transcending all differences in culture and consciousness. I have called this substratum the collective unconscious. This unconscious psyche, common to all mankind, does not consist merely of contents capable of becoming conscious, but of latent dispositions towards certain identical reactions. Thus the fact of the collective unconscious is simply the psychic expression of the identity of brain-structure irrespective of all racial differences."* (Jung, CW 13, par. 353)

Central to Jung's theory of the psyche is the difference between the Self, which he considers to be the core of the human psyche, and the ego, which he considers to be merely the image of that core, or at least the image of what the person has been able to discover about that core on his journey through life. The hero's journey, in other words, is the journey within: *"The various lines of psychic development start from one common stock whose roots reach back into all the strata of the past."* (Ibid.) The mighty adversary that our hero needs to overcome, in other words, is himself, and more precisely that part of himself that sees the world in safe, dualistic, logical terms. The adversary that he needs to overcome, in short, is the confines of his own logical thought.

This ties back neatly into the Christian story of the Logos, in which a person must die (transcend) in order to be able to reveal its true potential: that of a enlightened being, capable of bringing meaning to the world. I hold that in just the same way, the death (transcendence) of our mere logical black-or-white reasoning is required, at least if we want to see method resurrected into a mode of analysis that infuses our initial, logical understanding with deeper, psycho-logical meaning. To be blunt: there is no way we can truly understand the actions taken by the objects we prefer to call human, if we have not yet come to a full understanding of ourselves – if we have not yet transcended the confines of logic – if we have, in short, not taken the "interpretive turn" (Prychitko, 1994)

These might seem like distant reflections of an overly theoretical nature. But if we observe Mises, who, just like Lachmann, talks about "Verstehen" (Mises, 1998, p. 49) we do notice a difference between the two. While to Lachmann, understanding the subjective actions of the economic actors is everything, Mises insists that "we must conceive, not merely understand" (Mises, 1998, p. 483). He is not the theorist that starts from a holistic, cyclical overview and can relativize the importance of his own reasoning. He is the modern, linear thinker, who still believes that truth is a position that can be achieved and possessed. This has led some observers to question the overly adulating renditions of Mises as being a great thinker. (Raico, 1975, p 21)

This is not to say that Lachmann would be better than Mises, or would be a fully classical theorist, fully aware of the cyclicality of the intellectual process. He does not recognize the importance of the Logos, nor do the theorists he borrows from. His position, in my view, is that of a postmodern intellectual, sensing that neither modernism nor postmodernism can be true, and trying to find a way out. He eventually didn't, but at least he kept insisting on the need to be consistent in our subjectivism: not just in economics, of which his contribution to capital theory is the most noteworthy application (Lachmann, 1956) but even in method itself. At some given point, he even says that the revolution Menger had initiated has not yet been completed (Lachmann, 1978).

It is this strain of thought that I have come to pursue, and which has led me to a cyclical approach in my analysis. Neither Mises nor Lachmann holds the final truth on methodological issues, because truth is not final to start with. It is infinite, as mentioned above. As such, we will not have to choose whether Mises is entirely right or Lachmann is entirely right; we will be able to show how they were both right, to some degree, and in their own context. This again ties in neatly with Weber, where the text of an author is considered unintelligible without its con-text, understood as the whole of factors that made a person to come to his convictions. If the theoretical process is indeed cyclical, then both Mises and Lachmann simply identified some aspect of the whole.

## 4. Modern rhetoric

Modernism is the belief that reason can be separated from faith. It is the belief that logic stands on its own, needs no further foundation, and is omnipotent. This belief usually comes along in times of great affluence, where the source of wealth – the belief in the Logos – is no longer recognized as such, but seen as some kind of archaic remnant – a trivial notion next to others. It is believed, in short, that belief is not important. It is no longer understood that the very belief in the regularity of the universe, as such, is the power creating order, and that any other belief empowers chaos. This magical view on reality is disavowed by modern man. What he wants is fast and practical results, and philosophical speculations on things that cannot be proven are seen as a waste of time.

As such, according to modern convictions, the logical mind is free to think whatever it wants, and from this creativity, which is now no longer geared into one direction, very practical advances can indeed come forth. The shackles of old have been thrown of, and material progress is no longer limited by dogma and "superstition". The concomitant problem, however, is that with this freedom, man progressively forgets how to value these results in the light of his highest goal as *man qua man*. Total freedom can easily equal total disorientation, directing resources away from what is essential. The intellectual bust, then, comes from the growing disconnection between what is possible by man and what is good for man.

On the intellectual plane, it is a time of sheer arrogance, ending, without exception, in some form of positivism, and eventually war. Modernists usually shun metaphysics, and act as if logic alone can save the day. They think that the impossibility of negating the validity of logic without making use of logic is enough proof for its independent existence. They do not seem to grasp that even if the validity of logic cannot be logically negated – a negative proof – this proves nothing about the positive validity of their paradigm: all perceived causality may still merely be correlation. To wit: it is not because Phenomenon B has always followed Phenomenon A, that it may validly be inferred that A *caused* B. Their co-appearance may have been coincidence, every single time.

The irony of modernity, then, is that it thinks of itself as being very scientific, while it is merely rhetorical, and that all truly scientific approaches – that is: approaches in which any attempt to construct theory on the basis of logical certainties is met with due skepticism – are cast aside as *"nihilism, relativism, and solipsism"* (Rothbard, 1989, p. 46) or even "*fatally dangerous nonsense*" (Hoppe, 1989). While it is correct that in the postmodern debate a lot of nihilism has infiltrated the ranks of serious thinkers – the "work" of Sartre would certainly be a case in point – it is too easy to simply dismiss any attack on the modern paradigm as nihilism. The problem is and remains that from the undeniability of logic, it does not follow that theories built on it have imperative quality.

In other words: a theory built on a logical axiom does not have to be true. It may be consistent, and may even explain a lot of phenomena, but at least one phenomenon can never be explained in terms of mere logic: why the universe would or even should show regularity. That is anybody's guess. As elaborate as any logical theory might be, it can never be exhaustive. It can never comprehend in logical terms what can only be understood in psycho-logical terms – that is: in terms of belief. At least since Hume (1711-1776) we should be very wary of concluding that relations are governed by causality, merely because we can observe a correlation. It is the underlying belief in the regularity of the universe, *and only this belief*, that gives meaning to these correlations.

One of the great ironies of modernity, for instance, is that it claims to be secular, but that it is just as "religious" in its zeal to condemn any other beliefs, just as any dogmatic religion would do. McCloskey succinctly observes the essence of the matter: *"From a philosopher's point of view the worst flaw in the hostility to the "metaphysics" that modernism sees everywhere is that the hostility is itself metaphysical."* (McCloskey, 1983, p. 486) In other words, modernity is a religion, in and of itself, and even a hermetical one: their bias is that they have no bias. They are trapped in a logical matrix of their own making, and there is consequently no logical way to escape from this, except the psycho-logical way: following up on the intuition that something is amiss.

A case in point would be Auguste Comte (1798–1857) who promoted the idea that the methods of the natural sciences – the business of making positive propositions about reality and then test them by means of experiment – could also be used in the humanities. It was the birth of the so-called "social sciences" (Kuper, 1996) a term formerly used to refer only to sociology, which was the name Comte later gave to his idea of a "social physics". It was the study of society as a machine, in which each individual could be seen as a component. The term "social engineering" comes from the idea that through experiment, some parts of that machine could be redesigned, and the whole then again "tested" to see whether the new design functioned better than the old one.

To legitimize this view, Comte speculated that humanity had gone through three distinct stages: the theological stage, the metaphysical stage and finally the "scientific" stage. (Cohen, 1994, p. 35-39) First, according to Comte, man's place in society and its restrictions upon man were legitimized by an appeal to God. Then, those same duties and societal order were legitimized by an appeal to some higher metaphysical principle: not God, but for instance the notion of human rights. And finally, still according to Comte, man came to his senses, understanding that he could find solutions to social problems himself and bring them into force by law, despite the proclamations of human rights or prophecy of the will of God. This was the "positive" stage: entirely of man's own making.

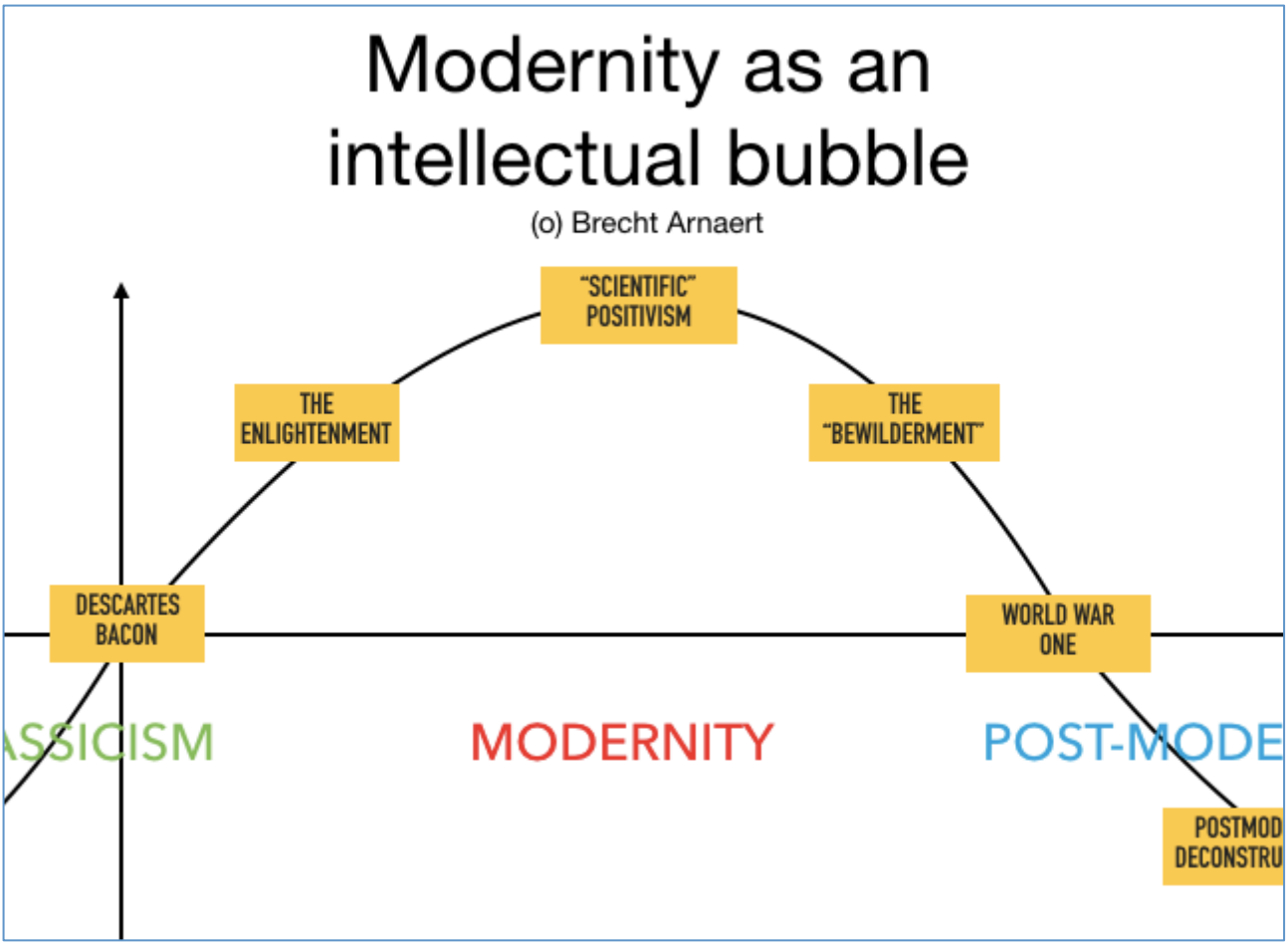


**Figure 4: Modernity as a classical departure from classicism, and the cultural disorientation that results from it.**

Nevertheless, as positively engineerable as Comte may have seen society, he developed a religion of his own, purportedly only with the superficial aim of fulfilling the cohesive function that was once held by traditional worship and certainly not – or so he believed – to exhibit some kind of transcendental belief of his own. (Davies, 1997, p. 28) Merely like an engineer would look at a car and see that its bodywork had some function in keeping its parts together, albeit ever so small, Comte convinced himself that a layer of religious discourse on top of his scientific vision would help his ideology to become more accepted. He called it "La Religion de l'Humanité" (The Religion of Humanity) and its church was called "The Positivist Church" (L'Église Positiviste")

Comte's positive religion was *"a complete system of belief and ritual, with liturgy and sacraments, priesthood and pontiff, all organized around the public veneration of Humanity"*, (Ibid, p. 29) referred to as the New Supreme Great Being, being humanity as a whole. He later even came to supplement this "Nouveau Grand-Être Suprême" with two other deities, whom he called "Le Grand Fétish" (the Earth) and "Le Grand Milieu", (Cosmic Space) as such arriving at a new positivist trinity, not unlike the Holy Trinity of the Catholic Church. At the centre of this purportedly secular worship he put Clotilde de Vaux, as some sort of Maria, and in 1849, he introduced the "positivist calendar", in which months were named after history's greatest leaders, thinkers, and artists.

In other words: in Comte, a complete schizophrenia can be noted between on the one hand his anti-metaphysical zeal, accepting nothing which cannot be empirically demonstrated, and on the other hand his running desire for transcendence, creating a religion of its own. As such, there is a gap between what he officially (nominally) says he wants to achieve, and what he actually (really) does. He *says* he wants to come to a scientifically grounded society where theology and metaphysics is banned, but what he *does* is to engage in a metaphysics of his own, with a host of not-so secular activities, like lyrical adorations of the cosmos, rituals in honour of the earth, and so-called "Platonic" celebrations of the love for his muse.

McCloskey observes the same when it comes to positivist thinkers in economics. She observes how *"they claim to be arguing on grounds of certain limited matters of statistical inference, on grounds of positive economics, operationalism, behaviourism, and other positivistic enthusiasms of the 1930s and 1940s. (...) But in their actual scientific work they argue about the aptness of economic metaphors, the relevance of historical precedents, the persuasiveness of introspections, the power of authority, the charm of symmetry, the claims of morality".* (McCloskey, 1983, p. 482) There is a wide gap between their "official" rhetoric – what they supposedly do – and what McCloskey calls their "genuine, workaday rhetoric" – what they really do, in the facts.

If we see modernity as the widening of that gap – as the intellectual bubble that has been blown by severing the (nominal) actions performed by the logical part of our mind from the (real) actions performed by the psycho-logical part of our mind – then we should maybe reconsider the status of the period that came after modernity. While postmodernity is regularly seen as the destruction of all that has been achieved by modern science, we might just as well see it as the painful but necessary process of de-construction after the modern bubble has burst out of its own accord. After more than a century of revolutions in which everybody was "positively" sure he was right – something I have come to call "the Great Bewilderment" – modernism exploded in the catastrophe we call WW1.

In other words, it is too easy to conclude that postmodernity destroyed modernity. On the contrary: it appears that modernity destroyed itself, and that postmodernity is merely the act of disassembling the remnants of its exploded fallacies. Speaking in metaphors, we could say that modernism is like a fortified wall that used to protect a singular truth, but which has now crumbled because of its weak foundations. Postmodernism, then, is the process of tearing down the rest of it, obviously not as an attempt to destroy it, but with the intent of using its building material in a new way. Saving the proverbial bricks, to lay a new road to truth. How that road must be constructed and to where it must lead is not clear. But at least the materials are freed up again, and the potential is there.

## 5. Postmodern philosophy

As such, it is important to distinguish mere de-struction, which is the unthinking act of applying brute force to an object causing it to break, from de-construction, which is the act of carefully disassembling a complex whole into its constituent parts in order to see how it works. The former requires no skill, because the result is not something one intends to preserve anyway, but the latter does, because an incomplete deconstruction might lead to new errors when re-assembling what one has found. One really has to check each and any so-called "fundamental" assumption, simply to see whether or not there is not some other more fundamental premise lurking below it. Only when an item cannot be deconstructed any further, one may say to have touched "rock bottom".

It is safe to say that in the multitude of postmodern philosophers, Jacques Derrida (1930 – 2004) was probably the only one who condensed this rather dispersed and critical attitude into a particular and recognizable method. He called his technique "différance" (Schultz & Fried, 2016, p.12) which mainly consists of consciously focusing on the different connotations a word can have, while at the same time deferring judgment on its "real" denotation. That way, hidden ironies come to light, and it is by purposefully stretching such ironies – all the while maintaining the official discourse – that different meanings of a word can come to the fore (Balak, 2006, p. 51). Différance, then, is a literary technique: by playing with language, its radical contingency can come to the surface.

In this way, Derrida was able to deconstruct one of the most profound metaphors of modernity: that of foundation. The idea that all thought must have a foundation, to his mind, was defective, because the search for this foundation, ironically, only reveals that there is no foundation. For a modernist, this is pure horror. He cannot even fathom that theoretical reality might not have a fixed foundation, and sees this as the essence of nihilism. But for a classicist, to whom cyclical thought comes natural, this postmodern critique is at best trivial. They understand that the very insight that there is no foundation, paradoxically, *IS the foundation*, in and of itself. Or to say it with Heraclitus: *"Panta Rhei"*. Everything evolves. All is transitory. No classical thinker had any problems accepting that.

As such, we can begin to understand how postmodernism is not so much a destructive phase, but rather a deconstructive one, which already bears in itself the seeds of a new phase, which we could call the proto-classical phase, for lack of a better term. The suffix "proto-" means as much as "not yet" or "still becoming". A proto-type is an invention that already works, but that is not yet ready for mass production. The same goes for the proto-classical attitude vis-à-vis intellectual history: only some of the late postmodernists can indeed see that Fukuyama was wrong to announce the end of history and the last man (Fukuyama, 1992) but it is highly likely that the recognition of this error might some day be commonplace, even among the masses.

Postmodernity, in other words, is merely one of the four phases of each epistemological cycle. First there is classicism, which is a worldview that is inspired by the whole and the logos. Then, due to the marginal utility of leisure, it is classical for man to no longer value the wisdom that brought him to this luxury position, and to start experimenting with new thoughts. That is the moment where modernism sets in, and a linear view on intellectual development is gradually substituted for the cyclical appreciation of thought. Eventually, during a moment of crisis, the linear paradigm crashes, after which a postmodern phase of deconstruction follows in which man tries to find the causes for this intellectual bust. Finally, man re-discovers classical wisdom, through a proto-classical process.

Before we can get there, however, we must find out how the postmodern phase can come to an end. That is much easier said than done. Postmodernists find themselves between a rock and a hard place. While their critiques on modernity may perhaps be valid, they can't propose anything else. If they would try to, they would find themselves in lethal contradiction with all of their precepts. It is important to understand that postmodernism is not just a critique on the failed attempt of modernity to provide science with a *logical* foundation. If that would be true, it would just be one ideology displacing another. No. Postmodernism is the rejection of all foundation, lock stock and barrel. As such, it is impotent when it comes to replacing the metaphor of foundation with a new one.

As such, we can almost hear the Misesians think: "Well, if you don't have an alternative, then maybe the best thing to do is to remain silent" From this perspective, it would seem that they indeed have a point. There is one specific action, however, one specific mental feat we can perform, which will not only show that Misesians are too adamant in their judgement of postmodernism, which would be trivial, but which can actually make postmodernism transcend into the next phase, which, I would humbly submit, is not a trivial finding at all. That action, to wit, is the one action that postmodern philosophers have not yet undertaken and the lack of which is the cause the oft-felt impression of gratuitousness of this paradigm: to deconstruct the theory of deconstruction.

The case is rather simple: if it is true that all logical theories need to be deconstructed, then certainly the theory of deconstruction – which is also merely a logical theory – cannot escape this demand. If one would want to make an exception for this theory while maintaining that all theories need to be deconstructed, then much can be said about this theory, except that it is universal. As such, the only consistent thing to do is to indeed deconstruct that very theory, and see what comes from it. The biggest fear, of course, is that the deconstruction of deconstruction will lead to meaninglessness or worse. But the result, most surprisingly, is the exact obverse of what could be expected: once this step is taken, bafflingly, *a universally true axiom is revealed.*

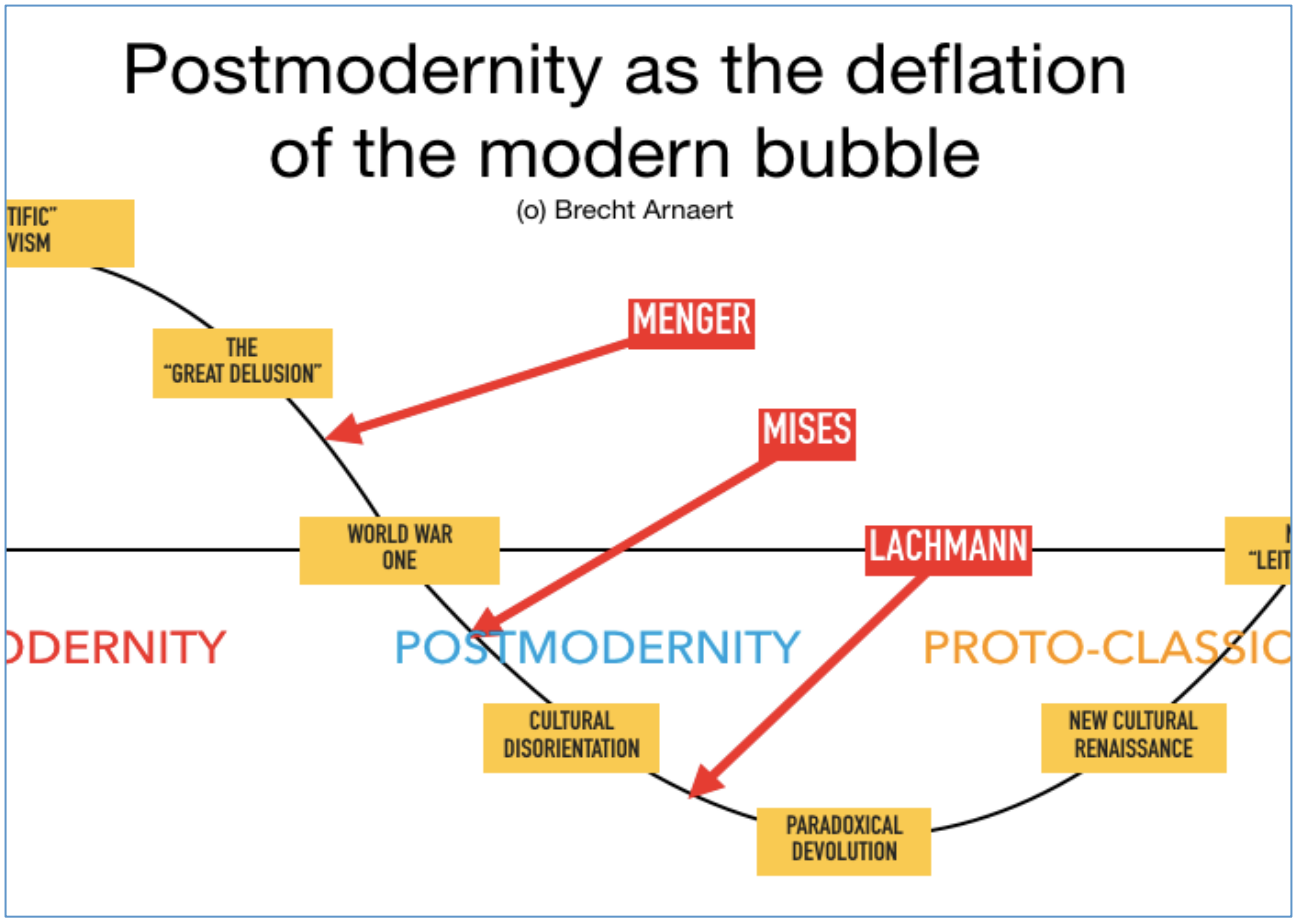


**Figure 5: Postmodernity as the purgatory of modernity: the disorientation after a bust.**

This axiom, however, is of a wholly different nature than the logical axioms we were used to during modernity. It is psychological in kind, and can therefore not be expressed in in a strictly logical manner. It can only be expressed in a manner that involves the belief that gives rise to the validity of logic. In other words: if it combines both logic and psychology. The only stylistic device that is able to perform such a feat is that of the paradox, from Greek para- 'distinct from' + doxa 'opinion'. Those are the kind of propositions that seem contradictory at first, but no longer do, especially not when we contemplate their meaning a while longer: then they suddenly seem logical again, but now in a deeper, transcendental sense. Paradoxes, then, are not contradictions, but only seeming ones.

If we now indeed deconstruct the theory of deconstruction, what we end up with is exactly such an experience. At first it seems that the only conclusion that can be reached after having deconstructed the theory of deconstruction is a seemingly trivial remark: "Nothing is certain". But it is my finding that this phrase, which is quite common in colloquial speech and may therefore sound of little profundity, actually harbours great wisdom. If nothing is certain, it must duly be contemplated, then this really means nothing. Not even uncertainty? At first, the question comes across like a joke. It does not seem to be more than a funny irony. But the more one contemplates the matter, the more one realizes that if the statement wants to be true, it must be untrue.

Modern minds will discard this as a sign of total meaninglessness. In a purely logical sense, things can indeed not be true and untrue at the same time. But the whole point is that logic, in and of itself, is just as much predicated on a non-logical basis, by which is meant: a basis that can neither be proven, nor disproven. In other words: the basis of logic is just as meta-logical or meta-physical as the conclusion above. The perception that this conclusion must be erroneous, merely because it yields a union of opposites, can only come from someone who does not yet see that this conclusion does not show error, but merely indeterminacy. If it would show that the statement is OR true, OR false, we could indeed say that an error has been made. But it doesn't. It says both. It's undecided.

This logical indeterminacy can easily be illustrated with the paradox at hand. If we are not certain that uncertainty exists, for instance, then we should not be able to say anything definitive about uncertainty. If we could, then at least something would be certain: that uncertainty exists, and this while the paradox expressly states that nothing is certain. But, surprisingly, we can say something with certainty about uncertainty: that its existence is uncertain. So at the same time, uncertainty is certain and also uncertain, and strangely enough, this does not mean that the paradox would be wrong, but precisely that it is right: this is indeed what was expressed all along. In short: either way you look at it, no logical analysis of the paradox is possible, and nevertheless it seems to be true.

The longer we contemplate these matters – which we only later understand to lie at the heart of why the modern paradigm eventually failed – the more one becomes aware of the quirky psychological effect that the contemplation of paradox has on our psyche – something akin to the flipping of our mind. We start realizing that this "flipping of our mind" is not just a figure of speech but something that *really* happens. We *really* feel how the act of contemplation differs from the act of thinking. Thinking happens at a distance from that which is being thought about. Our mind does not flip. The contemplation of paradox, however, is a wholly different experience. It is much closer by, to such an extent even, that our mind seems to form part of that which is being thought about.

The more we play with paradox, the more we physically feel (even though this physical sensation is located in our mind) how our mind flips back and forth. During this process one cannot identify what is happening, for one is too engaged with trying to grasp the paradox in a logical sense. It is only gradually that one comes to understand that in contemplating paradox, we force the logical or conscious part of our mind, which is finite, to fall into line with the psycho-logical or unconscious part of our mind, which is infinite, or … true. By contemplating paradox, we briefly touch infinity, and this experience has as a result that logical border between the conscious and the unconscious part of our mind breaks down. In other words: by contemplating paradox, we transcend logic itself.

## 6. Proto-classical heuristics

We cannot further indulge in the intricacies of paradoxical thinking without losing track of what we originally set out to do: to compare the views of Mises and Lachmann. But before we can do that, we must show that the intellectual process is indeed fully cyclical. If not, our Weberian approach could not really be value-free. It would still lead us to a linear conclusion – a proverbial end point of reasoning where truth awaits us, in order to be possessed. By now, however, it should be clear that truth possesses us, in the sense that infinity comprises everything, even the thinker. If we want to use Weber in truly Wertfrei-fashion, we should be able to show that all is indeed cyclical, and that different aspects of truth are discovered in different phases of the cycle.

In this regard, it is important to focus on the phase that connects postmodern thought with classical thought: proto-classicism. If we see modernism as a collective revolution of the intellectuals against the Logos of the classical world, then proto-classicism is best understood as the personal devolution of individuals from the chaos of the postmodern world. Based on the acceptance that there are some phenomena that cannot be understood by logic alone, the mind turns away from the noisy spectacle of intellectual debate and turns inward, towards the meaningful silence of ones own intuition. This silence, more than anything, is what guides the researcher to truth. It is the language of simplicity that allows us to distinguish complexity from complication.

If the paradox can be accepted that nothing is certain, not even uncertainty, then as a consequence it is understood that the best theory can do is to give us an ever-better rendition of reality, until we reunite with truth. Indeed: if only infinity is true, then no theory can be true for the full 100 %. This might seem like a sad state of affairs, but it also has a positive side: if no theory is 100 % true, this also means that no theory is 100 % untrue, or put differently: that every theory holds at least some truth. The proto-classicist is someone who even values error, because it at least teaches us what truth cannot be. Stronger even: it is precisely by studying error, and eliminating it, that the road to truth is laid bare. If modernism is positivism, then classicism is negativism.

The relevance for economics is that this process is entirely entrepreneurial in nature. Much like there are many ways to make a profit, there are many roads to truth, and this for the same reason: each individual has his own unique perspective on it. It will come as no surprise, then, that this phase of the ever-recurring epistemological business cycle is the most liberal of all phases, in the sense that proto-classical thinkers accept no centrally imposed method. In their search for truth they are not married to one methodological theory, because they duly realize that it is itself uncertain. They simply use any practical trick that works in delivering a more profitable rendition of reality, with profit defined as “whatever brings the achievement of my personal objectives closer”.

These practical tricks are what we call “heuristics”: method-agnostic ways of discovery. They are not guaranteed to be optimal, perfect or totally logical, but nevertheless sufficient for reaching an intermediate, short-term goal. Examples are case-by-case-analysis, using a rule-of-thumb, planning backwards from the desired result, thinking in worst-case-scenario’s, assuming a different premise to see alternative routes towards a solution, adapting a plan while executing it, and many more. In general, heuristics are a combination of an inductive element and a guiding principle, often deduced from ones intuition. It is the quick-and-dirty way of reaching a better understanding, in which we cannot always explain how we came to a conclusion. All we know is that the results were valuable.

The parallels with entrepreneurship in the regular market are obvious. Just like a fisherman throws his nets into the water, not knowing how much he will catch, the proto-classical thinker projects his hypothesis into reality, not knowing if he will make sense (catch some meaning). When defending his view, he neither knows if the investment of his time and reputation will be worth his trouble. He must take a risk, based on the scarce information he has. But when his hunch pays off, and the hypothesis indeed seems to explain more phenomena than any other theory, he will as a rule receive credit from his competitors, which translates into more influence the next time he ventures a new hypothesis, or discredits another.

As such, it would seem that we could profit from Hayek’s seminal insight that the market problem is an information problem (Hayek, 1945) and more precisely by extending it to the production of knowledge itself – that is: by letting it transcend. His view was that next to the explicit, centralized, theoretical body of knowledge we call science, there exists an implicit, dispersed, practical body of knowledge which is just as important, if not more. This kind of knowledge is that of time and place, perceived differently by each individual. According to Hayek, the market is the process whereby this dispersed, personally held information is integrated into information of the generally available kind, expressed as a single signal: price. The market is a price-discovery mechanism.

If we now revisit our two earlier ideas and contrast them with the Hayekian idea, the proto-classical view becomes abundantly clear. One the one hand, we had the proposition that no theory has a truth-value of 100 %, which means that all ideas in the intellectual market have at least some value. On the other hand, we had the proposition that truth is a synonym of infinity. If we now see infinity as the collection of all realities, we can also see it as the perfect integration of all the truth-value that is still dispersed. The central proto-classical hypothesis, then, is that just as the concrete, applied market process integrates all dispersed information into one single price, the abstract, intellectual process integrates all perspectives into one single explanation – a theory about *everything*.

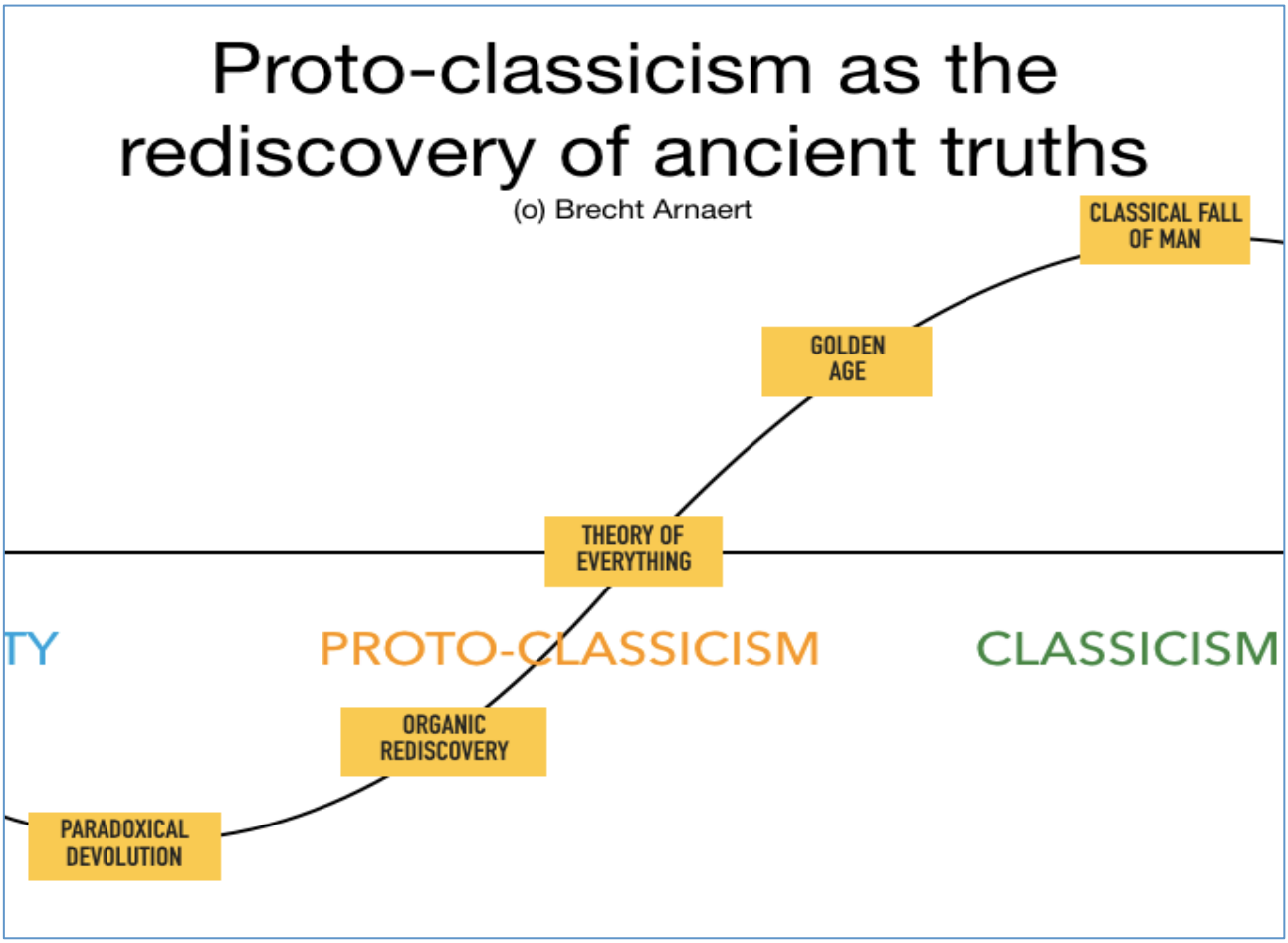


**Figure 6: When the paradox of radical uncertainty is accepted, postmodernity transcends into proto-classicism**

The term "everything", to wit, does not merely denote the collection of all things. It indeed denotes every object, but also every space that is to be found between, within, behind, beyond and even within the objects we observe. It is, in other words, a synonym of infinity itself. As such, a strange realization comes to the fore: if the end goal of all theorizing is a theory of everything, and if this term, everything, is a synonym of infinity, then the end goal of theorizing is infinity itself, which is no longer an epistemological category, but a transcendental notion we originally only believed in for practical purposes. It would seem, then, that by believing in the existence of infinity, in some strange way, our whole theoretical apparatus is spontaneously geared towards it.

The possible bounty of such an approach is, as far as I have been able to ascertain, close to infinite. The day we would have found this "Grand Theory of Everything" would not just be the day where we could explain the genesis, development and telos of the material objects we observe. That would be a very limited view on what "everything" means. If we contemplate the depth of that notion, we start understanding that such a theory would truly explain everything, and amongst that even the explainer, or, in other words: man himself. For the first time in recorded history, then, we would be able to explain human action, not just in our limited, uncertain and human terms, but in terms of infinity itself – in terms of the Absolute, or in other words still: in absolute terms.

The latter may come as a surprise. Was the proto-classical approach not precisely predicated on the idea that no theory could be entirely true? How then, could we possibly derive propositions that are absolutely certain? Is this not a contradiction? The answer to this question would of course be yes, were it not for the fact that the belief in the existence of infinity is not even a scientific theory to begin with, but merely a personal faith in the existence of a certain metaphysical reality. As such, it is not a contradiction to claim that some certainties can be derived from this reality, provided that it is kept in mind that these certainties are still contingent upon that belief. The moment this belief is gone, so is the certainty. In other words: the certainty is created by the very act of believing itself.

One could take issue with this solution, and argue that any third-rate ideologue could use it to construe his own "certainties" apart from reality, but that would come down to missing the point entirely. The difference between believing in the existence of something particular and believing in the existence of infinity is that the former belief can always be invalidated by something outside of observed reality, while the latter cannot suffer from such invalidation, and this for the simple reason that there is no extra reality outside infinity. The belief in infinity, in other words, is the only one that enables man to truly transcend his logical contingency. True beliefs, in this regard, are beliefs that are geared towards infinity. Conversely, whatever seeks to distance itself from it cannot be true.

As such, proto-classicists are certainly not nihilists: it is not because one believes that no theory can be entirely true, that one cannot believe in the existence of truth as a metaphysical notion. Stronger even: it is the very belief in the existence of this notion that allows proto-classicists to judge which of the many renditions of reality is the most profitable one. If it were not for this notion, the three aforementioned economic criteria for better theories would be useless. There are several theories that (1) explain more phenomena with (2) less contradiction and (3) more fertile implications that are nevertheless still false because they turn out to be only valid for a short period of time. It is only by taking the eternal validity of infinity as ones guiding star, that this problem can be overcome.

Much more could be said about this phase, but the central point has been made: the moment one accepts the paradox of radical uncertainty the result is anything but the death of theorizing. For all practical purposes, one could actually say that it comes down to its very rebirth. Since modernism was completely detached from transcendental reality, and postmodernism was merely the process of clearing up the ensuing mess, it is safe to say that proto-classicism is the first phase that is again productive in bringing man closer to truth. This process will go on until a theory is found explaining everything, harboring no contradiction, and yielding an infinite wealth of implications. The moment this "Holy Grail of Theory" is found, to wit, is the moment the classical phase re-begins.

## 7. Narrative structure

With that, we have come full circle – or better put: full cycle – which means that we can indeed use Weber in a truly value-free sense. If the intellectual process could not be proven to be cyclical, then the accusations of nihilism that Weber has suffered (Eden, 1983) could indeed hold sway. But now that we have been able to prove that (at least to my taste) any such accusation can be answered ex ante: it is not because everything is in constant flux, that there would be no pattern to this flux. It is not because the Weberian analysis refuses to pass judgment on any particular author that this would come down to nihilism. In other words: we can now employ Weber in full confidence that his Verstehen-method is nothing but the classical practice of epoché – postponing judgment.

Stronger even: it is safe to say that the postmodern practice of "bracketing" in phenomenology (Christensen & Brumfield, 2010) is exactly the same thing. This involves systematic steps to "set aside" various assumptions and beliefs about a phenomenon in order to examine how the phenomenon presents itself in the world of the participant – on a subjective level. Though we must be well aware that we can never actually reach the full subjectivity of another person, this is a general predisposition one must assume before commencing phenomenological study. We must transcend our personal biases and assumptions in order to explain a phenomenon in terms of its own inherent system of meaning. Only then can we do justice to both Mises and Lachmann.

With that, a preliminary conclusion can already be shared: the ongoing Methodenstreit within the Austrian School is pretty much senseless. Every academic year, considerable energies are spent on attacking and defending the Misesian version of apriorism against enemies "foreign and domestic". Not merely Keynesians or monetarists are feeling the heat, but Lachmannians too. Whether it is Gordon (1986) or Rothbard (1989) or Albert (1988, 1989) or Hoppe (1989) or Perrin (2005) they are all equally critical against Lachmann (1978) and the people that are to a greater or lesser degree inspired by his work. McCloskey (1983) or Lavoie (1985), Ebeling (1986), Boettke (1994) or Prychitko (1994), all of them are regarded with the same hostility.

This is not to say that the Lachmannian side is "right". Quite the obverse: though he understood that finding the right logical axiom would not save the day and a much more subjectivist approach was needed, he neither succeeded in demonstrating that leaving logic aside would not lead to nihilism. He, too, lacked the transcendental framework of thought from which subjectivism could be put forth as the objectively best method to arrive at truth. In the end, that is the key issue: how can we even speak of "profitable" human action if we do not know where *man qua man* is going? Only a "Grand Theory of Everything" can deliver such answers. Until then, we only have heuristics, of which trial and error guided by intuition is the most important one.

The importance of finding this "Holy Grail of Theory", however, must be relativized just as well, because it would surely not mean that the intellectual process is over. Paradoxically, its incredibly high value turns into a practical problem: since it harbors an infinite wealth of fertile implications, it cannot give us any direction. Only our personal experiences can. Deduction, it must be stressed, is not a process that can be totally isolated from empiry either. At a minimum, we need experiences to guide our deductions, and since experiences are always personal and thus subjective, a whole new phase of intellectual competition starts. The most classical moment of classicism, then, is that man falls from grace, in search for new implications. Old wisdom is forgotten, and modernity begins.

The importance of these contemplations may escape the reader momentarily, but will become clear if we think about the way in which we can present cyclical research findings in a meaningful way. If intellectual history is indeed nothing but a never-ending story running from phase to phase, then one thing should be clear: I cannot make the error of wanting to present my findings in a linear way. Classical (actually: "modern") research reports do try to take this "objective" stance, but mostly fail miserably. Stronger even: a brief study on the form in which scientific discourse is presented has led me to the conviction that there is no real difference between the structure of an academic paper and the structure of a fictional story: both have protagonists, a conflict, climax and resolution.

At first, this may be surprising. The distance between stories about knights slaying dragons and stories about how the Keynesian paradigm came to a grinding halt may seem unbridgeable. But on closer scrutiny, intellectual battle is just as real as any physical battle. The only difference is the level of abstraction at which this battle takes place. Authors speak about "strategy" and "defense", about "launching an attack" and about "dominating" the paradigm, but when they do, they are not referring to something non-existent. The feelings of rage and competition and wanting to "beat" the other guy, if only proverbially, are very real. As such, we cannot neglect this dimension: academia is not a peaceful undertaking, but a form of sublimated war, waged in literary terms.

Therefore, I considered it instructive to peruse literary theory, and to my surprise I found that in 1900, German novelist and playwright Gustav Freytag presented a ontology of drama. According to him, all stories exhibit five, and exactly five phases. (1) First, there is the exposition of the players and their context. (2) Then some conflict or problem is introduced to which the protagonist must respond. (3) Then there is a phase of rising action in which the conflict is brought to a climax, which can either turn out good or bad for the protagonist. (4) Then there is a phase of falling action, in which the tension of the climax is released, often called the catharsis (5), and finally, the story concludes by unravelling some of the mysteries not yet answered. (Freytag, 1900)

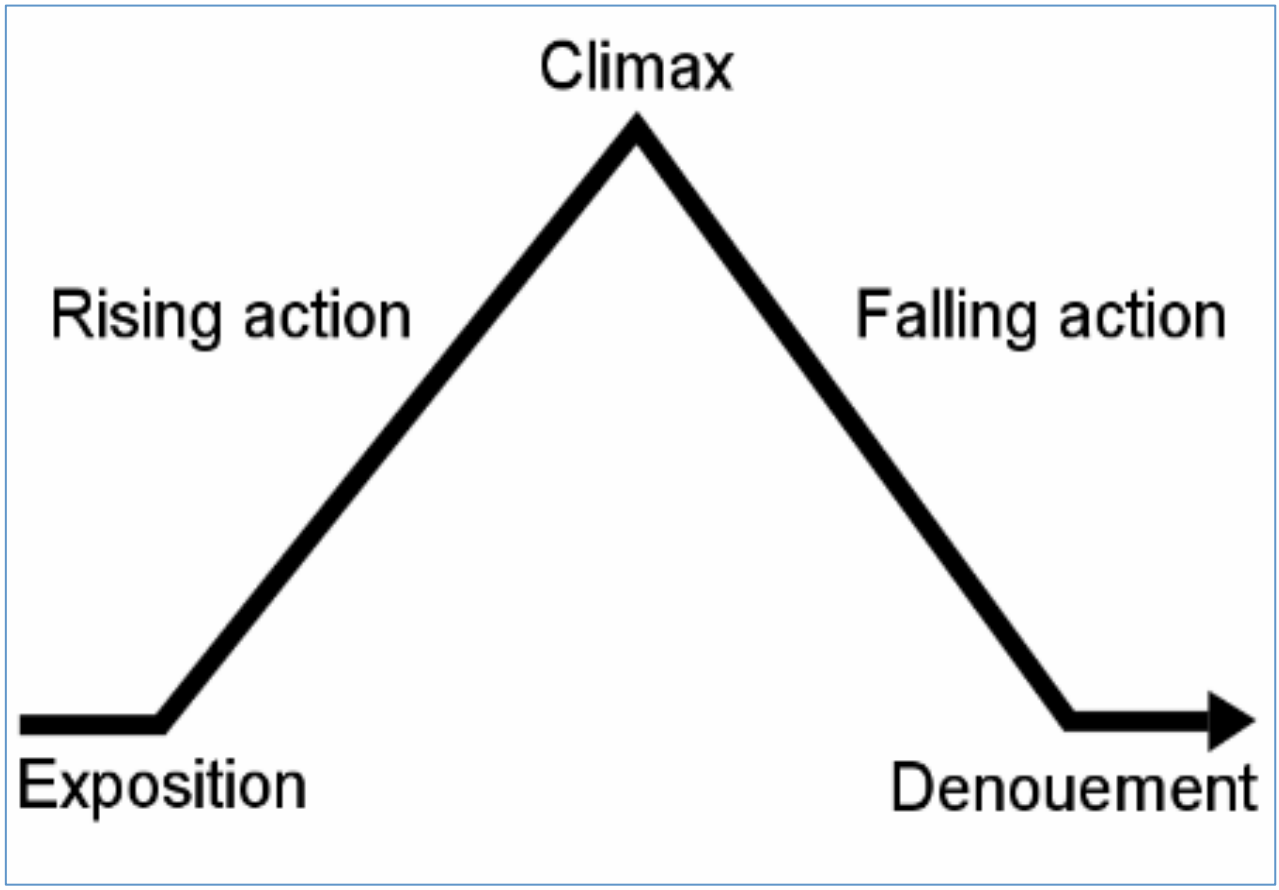


**Figure 7: the universal structure of stories, as typified by Gustav Freytag**

The parallels with academic writing are obvious. (1) First, there is the exposition of the present state of theory and the key players in it. (2) Then there is an observation that is seen as conflictive with that theory. (3) Then arguments are being explored on both sides, with the heaviest arguments coming last and leading to a climax. (4) Then this climax is explained, often by pointing out a central piece of information that was missing in the analysis of the theoretical adversary and which was responsible for his tragical defeat. (5) Finally, the whole discussion is recontextualized in terms of whoever won the debate. In other words: the best economic writing casts the adversary as a tragical figure, cast at the mercy of his victors.

Applied to this inquiry, I would therefore suggest the following structure (1) first, I will provide a rough sketch of the context in which Ludwig von Mises lived: the intellectual foes he fought against, his battles, his passions. (2) Then, I will the same for Ludwig Lachmann, but also show how his view constitutes a conflict with the Misesian view on method. (3) Thirdly, I will discuss the growing disagreement between these two camps, leading to a climax (4) Then, I will show where the catharsis can come from: to understand that this conflict is not fundamental, but comes forth from a lack of cyclical thinking. (5) And finally, as a preliminary conclusion, I will show how by taking the cyclical view, both groups can work together to further the Austrian paradigm.

This will be rounded up by a general conclusion, in which I will not only present a recapitulation of the lessons learned but will also ventilate some of my own ideas on how Austrian Economics can again migrate to the centre of the debate. Key to that strategy would be to contemplate the nature of uncertainty on a much deeper level, and to explain human action as primarily motivated by the desire to mitigate that uncertainty. It is my firm belief that Mises' dream of coming to an integrated theory of human action – praxeology – is possible, but that it cannot be done by starting from an "apodictic" truth. Only if we put uncertainty at the centre of the debate, can we start to understand the human condition, and from there also derive what human action truly consists of.

This will be a plea, in other words, to look upon economics in a more philosophical way, paired to a plea to look upon philosophy in a more economical way. If economics is detached from a deeper vision on the essence of man, what we get are cardboard actors in a theoretical theatre of which we are the directors – not real people. If philosophy is detached from practical usefulness, what we get are pointless experiments of social engineering in which we are the subjects – not practical theory. If the Austrian School of Economics ever wants to deliver tutors of princes again (Menger) and Ministers of Finance (Böhm-Bahwerk) we will have to come to terms with challenges that are bigger than economics alone. In short: we will have to lead the proto-classical effort.

But those are suggestions we can discuss after having answered our initial research question: "If Austrian Economics really is the subjectivist school of economics, then which one of these authors is the more subjectivist?" Lachmann? Or Mises? The short answer to that question is that both can be seen as equally subjectivist, at least when we do an effort to understand them both in their own context. Mises, in his time, had the virtue of calling out the inconsistencies of the socialist theories. Lachmann, in his time, had the virtue of pointing to philosophical problems that undermine the certainties on which Mises had built. But none of them can be said to have possessed the full truth, and therefore no strife within the Austrian School should take place.

This research report, then, will take the form of a classical tragedy, but then a double one. It is not merely the case of one protagonist (Mises) going out to solve a difficult problem (positivism), but lacking a crucial piece of information to do so, and failing as a consequence. No. There is another protagonist (Lachmann) which sets out to solve the exact same problem (how to come to an objective science of subjectivity) and fails for the exact same reason. The long answer, therefore, is that Lachmann is just as much a tragical figure as Mises for lackeing the full, cyclical oversight that is needed to see each other as allies moving into the same direction: away from positivism. It is this long answer that we will now start to elaborate.

**Bibliographical references**

Albert, H. (1988). “Hermeneutics and economic – a criticism of hermeneutical thinking in the social sciences”. Kyklos 41(4).

Albert, H. (1989). “Hermeneutik als Heilmittel? – Der ökonomische Ansatz und das Problem des Verstehens”, Analyse und Kritik 11.

Audi, Robert (1999) “The Cambridge Dictionary of Philosophy” (2nd ed.). Cambridge: Cambridge University Press.

Balak, B. (2006) “McCloskey’s Rhetoric. Discourse ethics in economics”, London & New York: Routledge

Blaug, M. (1980) “The Methodology of Economics: Or How Economists Explain”, Cambridge: Cambridge University Press, 1980

Block, W (2006) "Fanatical, Not Reasonable: A Short Correspondence between Walter Block and Milton Friedman." Journal of Libertarian Studies 20, No. 3 (2006): 61–80.

Boettke, P.J (ed) (1994) “Market Process: Essays in Contemporary Austrian Economics”, Cheltenham, UK: Edward Elgar Publishing

Callahan, G. (2004), “Economics for Real People”, Auburn, Alabama: Mises Institute.

Campbell, J. (2008) “The Hero with a Thousand Faces”. 1st edition, Bollingen Foundation, 1949. 2nd edition, Princeton University Press. 3rd edition, New World Library, 2008.

Christensen, T.M., Brumfield, K.A. (2010). “Phenomenological designs: The philosophy of phenomenological research”. In C.J Sheperis, J.S Young, & M.H. Daniels (Eds.), Counseling research: Quantitative, qualitative, and mixed methods. Upper Saddle River, NJ: Pearson Education, Inc.

Cohen, H.F. (1994) “The Scientific Revolution: A Historiographical Inquiry”, Chicago: University of Chicago Press

Davies, T (1997) “Humanism, The New Critical Idiom”. Drakakis, John, series editor. University of Stirling, UK. Routledge

Ebeling, R. M. (1986). Towards a hermeneutical economics: Expectations, prices, and the role of interpretation in a theory of the market process. In I. M. Kirzner (Ed.), Subjectivism,

intelligibility and economic understanding: Essays in honour of Ludwig M. Lachmann on his eightieth birthday. New York: New York University Press.

Eden, R. (1983) “Why wasn’t Weber a nihilist?” – paper presented to the Annual Meeting of the American Political Science Association, Chicago, III.

Freytag, Gustav (1900) [Copyright 1894], Freytag's Technique of the Drama, An Exposition of Dramatic Composition and Art by Dr. Gustav Freytag: An Authorized Translation From the Sixth German Edition by Elias J. MacEwan, M.A. (3rd ed.), Chicago: Scott, Foresman and Company

Fukuyama, F. (1992) “The End of History and the Last Man”, Free Press.

Gordon, D. (1986). Hermeneutics Versus Austrian Economics. In Working Paper Series Mises Institute.

Hayek, F. A. von (1979) “The Counter-Revolution of Science: Studies on the Abuse of Reason”, 2nd ed., Indianapolis: Liberty Press

Hayek, F. A. von (1988) "The Fatal Conceit: The Errors of Socialism". Chicago: The University of Chicago Press.

Hayek, F.A. von (1948) “The use of knowledge in society”, in Hayek, Individualism and Economic Order, Chicago: University of Chicago Press.

Hayek, F.A. von (1967) “Studies in Philosophy, Politics and Economics.” Chicago: The University of Chicago Press

Hoppe, H.H. (1989). “In Defense of Extreme Rationalism: Thoughts on Donald McClosky's The Rhetoric of Economics”, The Review of Austrian Economics Vol. 3

Huerta De Soto, J. (1998) “The ongoing Methodenstreit of the Austrian School”, Journal des Economistes et des Etudes Humaines, Volume 8, numero 1, Mars 1998, pp 75-113.

Jeanrond, W. G. (1994) “Theological hermeneutics: development and significance”, London: SCM Press

Jung, C. G., Collected Works of C.G. Jung, Volume 13: Alchemical Studies, Edited and translated by Gerhard Adler R. F.C. Hull, Bollingen Series, Princeton: Princeton University Press

Kuhn, Thomas S. (1962) “The Structure of Scientific Revolutions” (1st ed.). University of Chicago Press.

Kuper, A. (1996) “The Social Science Encyclopedia”, 2nd edition, London: Taylor & Francis

Lachmann, L. M. (1956) “Capital and its structure” London: Bell and Sons

Lachmann, L. M. (1971) “The Legacy of Max Weber”. Berkeley: Glendessary, 1971

Lachmann, L. M. (1978) "Carl Menger and the Incomplete Revolution of Subjectivism." Atlantic

Lavoie, D. (1985). The interpretive dimension of economics—Science, hermeneutics and praxeology. In Center for the Study of Market Processes Working Paper Series.

Lewin, Peter (2018) "Ludwig Lachmann – Enigmatic and Controversial Austrian Economist", lead essay in Liberty Matters-series on www.libertyfund.org [Posted: July 1, 2018]

Linsbichler, A. (2019) “Austrian economics without extreme apriorism: construing the fundamental axiom of praxeology as analytic”, Springer journals, published online 12th of March 2019

McCloskey, D. N. (1983) "The Rhetoric of Economics". Journal of Economic Literature. 31 (2): 482–504

Mises, L. von (1978) Notes and Recollections, Libertarian Press, South Holland, Illinois.

Mises, L. von (1998) “Human Action, The Scholar's Edition” Auburn, Alabama: Ludwig von Mises Institute

Mises, Ludwig von, (2007) [1957] “Theory and history, An Interpretation of Social and Economic Evolution”, Auburn, Alabama: Ludwig von Mises Institute

Perrin, P. (2005). Hermeneutic economics: between relativism and progressive polylogism. Quarterly Journal of Austrian Economics, 8(3).

Pope John Paul II, (1992) “Catechism of the Catholic Church, Second Edition”. Vatican Publishing House, 2012

Prychitko, D. L. (1994). Ludwig Lachmann and the interpretive turn in economics: a critical inquiry into the hermeneutics of the plan. Advances in Austrian Economics, 1, 303-19.

Prychitko, D. L. (Ed.) (1995). Individuals, institutions, interpretations: Hermeneutics applied to economics. Aldershot, UK: Avebury Publishing.

Raico, R (1975), "Ludwig von Mises," in The Alternative: An American Spectator (February 1975): 21–23. Made available online January 2019.

Robbins, L. (1932, 1935, 2nd ed.). An Essay on the Nature and Significance of Economic Science, London: Macmillan.

Rothbard, M.N (2011) “Praxeology: The Methodology of Austrian Economics”, in: Economic Controversies, Auburn, Alabama: Ludwig von Mises Institute

Rothbard, M.N. (1989). The hermeneutical invasion of philosophy and economics. Review of Austrian Economics, 3(1).

Rothbard, M.N. (1997) [1957]. “In Defense of Extreme Apriorism.” Reprinted in: “The Logic of Action One.” UK: Edward Elgar Publishing Limited, pp.100-108.

Schultz, W. & Fried, L.L. (2016) Jacques Derrida (Routledge Revivals): An Annotated Primary and Secondary Bibliography, London & New York: Routledge

Senior, D. (ed), Collins J. & Getty, M.A (2016) “Catholic Study Bible” 3rd Edition, Oxford, UK: Oxford University Press

Taylor, T. “Collected Writings of Plotinus”, Frome: Prometheus Trust