

The four approaches to Austrian Social Theory

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Austrian economic theory is known for putting emphasis on the division of knowledge, discoordination of plans and discovery of the unknown. The purpose of the paper is to provide an introduction to the Austrian theory of society. Austrian economists have applied various approaches to explaining the nature of society. The only genuinely Austrian approach is the evolutionary social theory which examines the competition between societies as an open-ended process of discovering new social institutions. The contractarian, naturalistic and utilitarian approaches have advantages of their own, but they are of limited use because they seek good or natural social institutions solely on the basis of what is currently known to be good or natural.

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1 INTRODUCTION

'Austrian' social theory is one of the most interesting theories about society advanced by social scientists. Named after the Austrian *Carl Menger* who developed the first systematic account of the theory (1871; 1883), Austrian social theory is usually called 'economic' theory because it seeks to explain social phenomena as intended or unintended products of the rational actions of individual human beings.¹

The method of Austrian economics has been

applied mainly by economists, and most Austrian treatments therefore deal with such 'pure' economic phenomena as the market, money and prices. However, many Austrian economists have also advanced theories about society as a whole and social phenomena in general. My purpose in this paper is to introduce these theories.

Outside observers often consider Austrian economics a monolithic doctrine whose exponents share essentially the same conception of social phenomena. Actually, all the main individualist traditions of social philosophy are represented in the writings of Austrian economists, and no unanimity prevails as to which of them should be adopted. The traditions examined below include the evolutionary, contractarian, naturalistic and utilitarian approaches. I conclude that these approaches are complementary but that the only truly Austrian theory of society is the evolutionary approach which conceives social evolution as an open-ended discovery process. In order to understand the process idea of the evolutionary approach and the criticisms of the other three approaches, the method of Austrian economics is first briefly reviewed.

2 THE AUSTRIAN METHOD

There are in present-day economics several competing schools of thought which are based on different assumptions and which perceive society in a different way. Some Austrian economists have attempted to demonstrate that Austrian assumptions are the most truthful and produce the most reliable social theory (see *Hutchison* 1981, 219—224). Unfortunately, these economists have not been quite convincing. In this paper I adopt a more cautious methodological position and regard the Austrian school of economics as a Lakatosian research programme (see *Rizzo* 1982).

When Austrian economic theory is viewed as a system of statements logically derived from basic premises, the hard core is usually considered to consist of the axiom of human action (*Rothbard* 1976, 19). According to this axiom, it is typical of the human being that he behaves intentionally and aims to substitute a more satisfactory state of affairs for less satisfactory conditions until no opportunities for greater well-being are available. Strictly speaking, rationality is an *outcome* of the selective process of evolution that Austrian economists intend to explain and not its precondition (*Hayek* 1979, 75), but the competitive fight for survival has reinforced rationality as a successful trait of human nature to the extent that it can today be safely considered also an assumption.

The basic assumption of Austrian economics that men act purposefully is not unique to Austrian reasoning. Rational individual action is factually assumed in *all* modern economics and in particular in mainstream neoclassical economics. Since the conclusions of the various schools differ greatly from each other, there must be some further assumption in Austrian economics that gives rise to its peculiar conclusions. In my view, that further assumption is the truism that *men are different*. The assumption of differences among men immediately gives rise to the following six propositions.

1. *Men pursue different ends.*

It is part of our everyday experience of the nature of man that whereas one wants to attend operas another hates them and prefers to listen to jazz music.

2. *Men are self-interested.*

If men were perfect altruists, they would consider the ends of other men as valuable as their own, and the ends of all men would be perfectly identical. This contradicts the first proposition, which logically implies that men are at least partly self-interested.

3. *There are conflicts of interest.*

In economics the subsidiary assumption is usually made that the means needed to attain chosen ends are scarce. Therefore, all the different ends of men cannot be simultaneously attained and conflicts of interest inevitably emerge.

4. *Men know different things.*

Men are different also in the sense that the facts they know are very different and no two men possess exactly the same combination of facts. An important reason for the differences in knowledge is that in a society based on extensive division of labour men follow very specialized occupations.

5. *The plans of men are dis-coordinated.*

A logical consequence of the division of knowledge is that men cannot have perfect information of the plans of other men and they inevitably commit errors. For example, A may be ignorant of the plan of B to sell his car for 2000 marks and errs when he buys a similar car from C for 3000 marks.

6. *All men are not equally capable of being innovative.*

In the past men have been capable of discovering new information, such as new products, and it is reasonable to assume that innovations will continue in the future. If the chance of discovering new information depends on what old information one happens to possess and if the old information is dispersed in the minds of many men, it logically follows that the ability to discover innovations differs among men.

From this list of logical deductions, we can infer the three social problems that any social system must be able to solve.

1. *The problem of conflicting ends* (proposition 3).

When there are no social institutions for conflict reconciliation, individuals reconcile their conflicts by resorting to physical force. Violence is, of course, one solution to the problem of conflicting ends. However, it is extremely wasteful to generate predatory and protective measures, and it is universally considered an inadequate solution. The problem of conflicting ends is ideally solved when a cheap solution is found to any emerging conflict and no one wants to change that solution.

2. *The problem of innovation* (proposition 6).

It is in the shared interest of the members of any society that innovations are discovered as quickly as possible because innovations improve the well-being of individuals. Since men are often unable to foresee what new informa-

tion they are going to discover, highly perilous innovations are possible. However, such innovations are probably never introduced because their use is not permitted by the method of conflict solution mentioned above.

3. *The problem of coordination* (proposition 5).

A piece of new information is of little use if it is known by no other than the one who has discovered it. Consequently, it is socially important that the new information be transmitted to the knowledge of all those whom it may affect. The problem of coordination is ideally solved if the plans of all individuals are continuously coordinated or equilibrated. In reality this ideal can only be approached and full equilibrium is never actually attained.

The Austrian theory of society seeks to determine through logical reasoning what kind of social institutions can promote an ideal solution for the three social problems. Explanations of how the ideal social system operates constitute the greatest contributions in Austrian economics, but these explanations fall beyond the scope of this paper. Austrian economists have employed mainly the following four social philosophies when constructing their views on the ideal society. The most prominent advocates of these approaches have been put in parentheses.

1. *evolutionary approach* (F. A. Hayek)
2. *contractarian approach* (James M. Buchanan)
3. *naturalistic approach* (Murray N. Rothbard)
4. *utilitarian approach* (Ludwig von Mises)

Below I examine what Austrians have found out when following these four approaches.

3 THE EVOLUTIONARY APPROACH

The Austrian assumption that men are different directly implies that men know different things. This proposition means, in turn, that objective facts, such as how long it takes for A to walk to work, are not known by everyone and that individual plans, such as the intention of A to jog to work, are often known by no one except the individual himself. A logical conclusion from the subjectivity of information is that only the individuals can usually know when their ends are in harmony and when their plans are coordinated. This being the case, there cannot be any objective criterion to establish when

the problems of conflicting ends and coordination are successfully solved in society. It is still more difficult to establish when the problem of innovation is ideally solved because no one can know undiscovered innovations and how many of them would be discovered under alternative institutional frameworks.

According to one of the most profound insights of Austrian economics, individuals reveal their subjective values and plans through action (*Mises* 1966, 95). An individual can state that he prefers opera to jazz, and he can boast of knowing where cheap cars are for sale, but such verbal statements have no social relevance if they do not lead to real action. Correspondingly, an individual cannot reliably express his taste for a particular social system by writing pamphlets about its superiority, unless he also acts on his conviction of a good society. In practice, the main device by which individuals can convincingly express their own views on the ideal society is to move to, or remain in, the society whose institutions they consider best to solve the social problems.

When individuals move from societies that in their subjective view are inferior into other societies that they consider superior, they cause the former to disappear and the latter to survive the selective process of evolution. According to the evolutionary criterion of goodness, competing societies manifest their superiority simply by being in existence. As the leading proponent of the evolutionary approach and an Austrian economist, *F. A. Hayek* states,

the cultural heritage into which man is born consists of a complex of practices or rules of conduct which have prevailed because they made a group of men successful (1973, 17).

It has been suggested that the idea of group competition, or 'group selection', implies a collectivist criterion of good society (*Vanberg* 1986, 84), but in my view the success of a group here simply means that the *members* of the group are satisfied and do not emigrate.

In accordance with one of the Austrian propositions, individuals have different tastes and their capacity to appraise the performance of social systems is different. It can therefore be expected that all societies surviving the competitive process are not identical. In the Austrian view, such variation in the available alternatives is a great virtue of competition because individuals can then become alert to new solutions to social problems and eventually change their old views on the good society.

The evolutionary approach involves a logical problem that makes its reasoning appear circular. As economists have explained at least since Adam Smith, competition produces good overall results only when it proceeds under expedient social institutions. Competition in the market produces no better results than struggle in the nature if, for example, businessmen are allowed to blow up the factories of their rivals or to shoot all those entering the industry. Accordingly, the societies surviving the evolutionary process are not truly good societies if they have performed better than others by warring against their neighbours or by prohibiting emigration. The problem of the evolutionary approach is that in order to find the best institutions for the competition between societies we should know the best institutions for the competition *within* societies, but the latter information is clearly unattainable without the former. A practical conclusion from this reasoning is that the institutions of competition we currently know could perhaps be considerably improved even if we do not quite know how to improve them.

Many social scientists argue that the competition between societies can be very inefficient (Etzioni 1987, 511). For example, the competition is hampered by indivisibilities in the institutions offered by societies, natural barriers to movements of people and lucky possessions of natural resources. In the Austrian view, these arguments exaggerate the inefficiencies of competition because they are based on an inadequate conception of competition.

In most of the literature on economics, and presumably that of other social sciences, competition is considered a method to utilize existing information to serve the given ends of individuals and to produce particular outcomes known in advance to be optimal. Austrian economists do not deny that an important function of competition is indeed to strive for static efficiency, but in their view a considerably more important function of competition is to strive for *dynamic* efficiency. This means that competition is a process in the course of which individuals discover new information and become alert to new yet unknown ends, and which therefore produces surprising outcomes not known in advance (Hayek 1968, 180). Even though competition between societies is not capable of producing perfect adjustment to known information, it may perform well if it generates more new information than any con-

ceivable alternative institution. In the Austrian view, competition is a highly innovative procedure because all individuals throughout the earth are able to express their ideas, and maximal use is made of the information dispersed in the minds of countless individuals.

I examine lastly the practical question what kind of a society is considered good in the evolutionary approach. Like all propositions of pure Austrian theory, the answer is fairly nihilistic because we have to concede that *any* social institutions produced by an unhampered process of competition are good in the subjectivist sense.² For example, the institutions of the market are extensively applied in societies whose members could easily escape them by emigrating, but violations of these institutions, such as taxation and other government intervention, also appear to survive the same competitive process. Extremely interventionist social systems, such as the socialist Soviet Union, have survived in the past because of artificial barriers to exit, but they might exist even when emigration were totally free.

More concrete suggestions about the institutions of the good society are provided by the other three approaches of Austrian social theory, which we next proceed to examine.

4 THE CONTRACTARIAN APPROACH

Competition involves enormous costs because individuals can express their new ideas and present their changing tastes only by moving from one society to another. The costs of competition could be removed if individuals were able to change the institutions of their *own* societies to correspond to their personal endeavours. Competition works through the individual actions of the people, but if the members of a society want to deliberately change the institutions of their society they have to act collectively and make some kind of a *social contract*.

I argued earlier that when men know different things there cannot be any objective information about what constitutes a good society. A logical consequence of this Austrian insight is that we can be confident of the capacity of a social contract to improve the institutions of a society only in the special case that there is *complete unanimity* about the formulation and enforcement of the contract. Even if only one individual disagrees, there is no certainty that

the social contract promotes the overall welfare because it is always conceivable in principle that the institutional changes produce more harm to the individual not agreeing than they produce benefits to all the others. As the leading contractarian economist, *James M. Buchanan* maintains,

conceptual agreement among individuals provides the only benchmark against which to evaluate observed rules and actions taken within those rules (1977, 11).³

The prospect of a group of individuals reaching agreement about the introduction of a social institution depends greatly upon whether the institution is aimed to solve the problem of conflicting ends, innovation or coordination. If the aim of an institution is merely to promote coordination, once it has been discovered, it is automatically accepted and no special contracting or enforcement is needed because a coordination of plans benefits all those who are involved. An example of a fairly pure institution of coordination is the custom of driving on the right side of the road, which thus becomes probably established through the individual or spontaneous actions of the drivers as soon as they learn to act upon it. In practice, there are hardly any institutions of coordination which would not hurt at least some individuals or which could not be replaced by other institutions that produce a different distribution of benefits. Still greater conflicts are associated with the introduction of institutions that promote the discovery of innovations. We conclude that problems are encountered in particular when agreement is sought about the introduction of social institutions whose function is to solve conflicts of interest.

Individuals do not accept without resistance, either physical or moral, case-by-case reconciliations of conflicts because if they could directly reach such agreement their ends would already be uniform and the Austrian assumption of the diversity of ends would not be valid. Instead, it is conceivable that individuals attain unanimity about the introduction of a method of conflict resolution whose particular outcomes, such as to which concrete cases it will be applied or which interests it will protect, are not yet known at the moment of introduction (*Brennan and Buchanan* 1985, 29). The kind of institutions which are in this sense abstract and do not enable a prediction of the particular outcomes of their application can be called *rules* if rules are defined as regularities in the actions

of individuals who behave repeatedly in the same way in different situations. It is interesting to note that even *Hayek*, who is principally known as a proponent of the evolutionary approach, sometimes makes use of the contractarian argument and states, for example, that “we can hope to reach agreement by discussion, to settle conflict of interests by reasoning and argument” only by appealing to “common principles” (1960, 114).

Even if a rule is unanimously approved by the individuals of a society, they still have in their private interests to attempt a violation of the rule when they become involved in a concrete case that they know they will lose. Enforcement mechanisms of many kinds tend to evolve in society, but it seems possible to attain sufficient compliance with the conflict rules of society only when an external agent, the government, is invested with the power to use compulsion in the enforcement of the rules.

It can be expected that when the individuals choose among themselves a group of government agents and empower them with the monopoly of compulsion, some further conditions are imposed on the rules in order to forestall misuse of the governmental power. First, the government is probably obliged to apply the rules equally to all individuals so as to forestall deliberate discrimination. Second, only such rules are probably approved whose application is unambiguous and leaves no room for discretionary interpretation (cf. *Hayek* 1960, 208—209). Rules which are abstract, equal and unambiguous could be called *general rules*. The main finding of the contractarian approach of Austrian economics is that the individuals can probably attain unanimity only about the introduction of social institutions which are general rules of this kind.

A great problem of the Austrian-contractarian theory of general rules is that we are not aware of any complete and expedient system of rules which are perfectly general. Completeness means that the rules enable reconciliation of all emerging conflicts, and expediency means that the rules enable a simultaneous solution of the social problems of innovation and coordination. The social system that comes closest to such an ideal is the *market system*, amended by a general rule of taxation. Even this system of rules can probably never obtain unanimous approval because people who are already born know most of their strengths and weaknesses and therefore have at least to some ex-

tent divergent expectations about the impact of the rules on their own future. For example, a person born in a poor family knows that he will benefit less than the others from the right of inheritance, and a person suffering from a serious illness knows that he will never greatly benefit from the right to sell his own labour services.

There are various possibilities to solve the dilemma of divergent expectations. First, it might be argued that even though the individuals do not expect to benefit equally from the market system, they approve the system if they expect to benefit more than under any other rules of equal generality. For example, the person born in a poor family would probably, even though not certainly, benefit from a law that assigns the property of the deceased to the government, but he does not necessarily approve such a law if it cannot be derived from some general rules that produce better overall outcomes than the market system.

Second, the individuals may approve the rules of the supplemented market system even when the rules do not strictly speaking promote their private interests if there is a strong collective morality that enjoins the individuals to choose their social institutions on the basis of the interest of the average individual. The individuals make then their choices as if they were totally ignorant of who they are in the actual society and, in other words, as if they were behind the *veil of ignorance*. The best-known advocate of this contractarian argument is John Rawls, who comes very close to suggesting the market system in his famous 'first principle'.⁴ Even *Hayek* makes use of the contractarian argument when stating that "we should regard as the most desirable order of society one which we would choose if we knew that our initial position in it would be decided purely by chance" (1976, 132). It should be obvious that the idea of collective morality as a salvation of the contractarian approach in no way implies that anyone has a right to coercively impose the 'constitutional attitude' on the individuals (*Buchanan* 1977, 12) or to enforce social institutions solely on the ground that they would probably be approved by individuals with such an attitude (295).

There is a more fundamental problem in the contractarian approach which is easily recognized in Austrian theory but which is seldom examined in social sciences. Through deliberate social contracting, it is only possible to in-

troduce institutions which are known to be good under the *existing and known* information (*Hayek* 1973, 10). So far as truly innovative social institutions and true social reforms are concerned, it is almost impossible to attain unanimity about their introduction because new ideas are usually first accepted by only a minority of broad-minded individuals (*Hayek* 1960, 112). In the market order, anyone convinced of his new idea is free to test it in the open market without a prior permission of the others, but when collective action is required similar innovativeness cannot be expected. It may be, therefore, that the contractarian criterion of good society is in practice applicable only when social institutions already generally known to be good are selected, such as when old moral principles are restored after they have been eroded (*Buchanan* 1986, 190).

A somewhat surprising conclusion from this Austrian reasoning is that the true long-run interests of the individuals might be served if broad-minded statesmen put into effect social reforms which are violently resisted at first but which after some experimentation are gradually approved and perhaps even imitated elsewhere. In order to call forth institutional innovations, it may be necessary to permit the governments of the competing societies to introduce new institutions without the consent of the inhabitants and to rely instead on the disciplining device of emigration for prevention of abuse. This goes against the currently popular ideology of democracy, but for evolution to be successful it does not matter *how* the new social institutions are discovered.

We conclude that even though the contractarian approach has a strong subjectivist flavour, it fails to grasp the significance of dynamic efficiency emphasized by Austrian economists, and it is therefore inadequate as a consummate Austrian theory of society. The same shortcomings reside in the naturalistic approach which we examine below.

5 THE NATURALISTIC APPROACH

According to the third approach of the Austrian social theory, we need not wait for the products of evolution nor arrange referendums to find out what constitutes a good society. Instead, we can deduce the ideal social institutions by logical reasoning from the basic assumption of economics that men are rational.

The approach can be called 'naturalistic' because the institutions of society consistent with the rationality of man are deduced from the nature of man and are therefore as natural as the rational man himself.

The fact that man is rational and capable of intentional action implies that man is capable of pursuing ends and knowing things. As we remember, in Austrian economics it is further assumed that men pursue different ends and know different things. In order to formulate purposes for his actions and to know something, man must possess a mind capable of logical reasoning. The first logical conclusion from the assumption of the rationality of man, or his 'nature', is that everyone must have a private property right to his own mind in order to be a man. This idea of the basic human right of freedom of thought is so natural that it has to my knowledge never been questioned by any reputable economist.

In order to use one's mind one needs a body, and so one must have a private property right to one's own body to be a man. As the leading Austrian proponent of the natural rights doctrine, *Murray N. Rothbard* puts it,

the right to self-ownership asserts the absolute right of each man, by virtue of his (or her) being a human being, to "own" his or her own body (1978, 28).

As an alternative to the private property right system, it could be theoretically conceived that all bodies are in collective ownership. However, such a system would violate the nature of man because to be able to think everyone would need the permission of all the others and in practice no one could do anything (*Rothbard* 1982, 46). It could also be conceived that in order to act only some would need the permission of some others. Sometimes this may offer an objective principle, such as when newborn babies, lunatics or other mindless human beings are concerned, but normally men cannot be objectively distinguished and all have to be given an equal freedom to use their bodies.

Whereas the right to use one's mind can be unlimited, the right to use one's own body must be constrained because there are many ways a man can use his body to violate the rights of other men. As a consequence, in order to be consistent with the nature of all men, the right to use one's body must mean that man is free to use his body in whichever way he wants provided he does not violate the equal liberty of the other men to use their bodies.

The principle that everyone possesses the right to his own body is logical not only because it is consistent with the nature of man but also because it is logically indisputable. If someone attempts to dispute the principle, he indicates that he has a reason and a right to his body which is fundamental to exercising that reason, and he implicitly refutes his own argument (*Hoppe* 1989, 132).

In order to use one's body and to be man, one needs material resources, such as food and land, and must therefore have property rights to such resources. As it presumably cannot be deduced from the nature of man to which material resources property rights should not be specified, it is usually concluded that *all* material resources have to be in someone's private possession. The proponents of the naturalistic approach suggest that the initial distribution of rights to material resources should be implemented according to the principle of finders-keepers. This moral principle can be justified at least on the following grounds.

First, it might be argued that those in greatest need of material resources expend resources of their mind and body most in order to appropriate material resources, and those individuals should therefore obtain the resources they find. There are, of course, exceptions such as when findings are made by clever, strong or lucky individuals, but so far as these cases cannot be distinguished by the application of some other principles consistent with the nature of man, the principle of finders-keepers has to be universally accepted.

Second, it seems plausible to argue that a man obtains a moral title to an unowned resource of nature by mixing his spiritual or bodily labour with it and by making it, as it were, part of his own body (*Rothbard* 1982, 33). This Lockean idea implies that no one can become the legal owner of, say, a vast area of land by simple announcement, but he must indicate his differential link to the land by, for example, bringing it under cultivation.

Third, the principle of finders-keepers can be conceived as an analogical extension of the principle of self-ownership. The right to possess one's own mind and body is logical, and therefore consistent with the nature of man, in the sense that one is the *prominent* owner of oneself by being the first on the spot before anyone else (*Hoppe* 1989, 12). Analogously, one who is the first to pick the driftwood on an unowned shore after high tide is the prominent

owner of the driftwood because there is no one else who could be said to have a better right to the driftwood (*Sugden* 1986, 95).

Fourth, Austrian economists would argue that the discoverer of a natural resource gets possession of it simply because without his alertness the resource would not perhaps exist in the economic sense at all and no one could gain advantage from it (*Kirzner* 1989, 150). In the other three justifications of finders-keepers ethics, it is usually thought that the unowned natural resources are somehow already known and it is only necessary to find a principle by which the obvious conflict of the discoverers' interests can be cheaply reconciled. In reality, the existence of unowned natural resources need not be known by anyone before alert entrepreneurs discover them. The immorality of deviating from the principle of finders-keepers is best seen when a resource discovered by an entrepreneur is assigned to someone else who could not have even imagined that the resource existed before the entrepreneur made his discovery.

The principle of finders-keepers has been criticized because it may give rise to situations where some men are, for various reasons, incapable of discovering enough material resources to survive or otherwise realize their lives as men. Deplorable situations like this could be prevented if the community had the right to coercively transfer some of the material property of the rich to the needy, and part of the material resources were, as it were, in collective ownership. A problem of this collectivist idea is that a mixed system in which only part of the material resources is in private possession cannot probably be justified by any principle consistent with the nature of man. A system in which all material resources are in collective possession is theoretically conceivable, but it violates the nature of man because *no* resources could then be rationally utilized and *no* men would be able to survive.

Just as in the case of one's body, he who has discovered a material resource is free to use it in whichever ways he wants provided he does not by so doing violate the equal rights of other property owners. An implication of such freedom is that the owner of a resource is allowed to transfer it to anyone he wants without a prior permission of the others, with or without compensation, provided again that no one's rights are violated. In the naturalistic order, free-

dom of contract thus prevails (*Rothbard* 1978, 39).

We have now deduced by pure logical reasoning the institutions of the social system which is consistent with the nature of man and seems to be the only natural social system. It is somewhat misplaced to call the natural social order 'good' as nothing has been said about its outcomes, but it is certainly good in the same sense as the rationality axiom of economics is good, and at least the natural law elucidates "what ends man should pursue that are most harmonious with, and best tend to fulfill, his nature" (*Rothbard* 1982, 10). According to the arguments above, the natural social order is founded on the principles of private property and freedom of contract, and it is identical with the pure market order.

In the natural social order there is no apparent role for the government. First, individuals have a natural right to use compulsion when protecting their property rights (*Rothbard* 1982, 77), and so the monopolizing of such compulsive activities is not morally acceptable. Second, taxation violates private property, and the government cannot do without it even when it confines itself to enforcing the rules of the market. Although a moral justification cannot be found for a government that violates the rights of its subjects without their consent, there is nothing to prevent the individuals from forming *voluntarily* a collective organization called government. Some Austrian economists argue that in the natural social order several competing governments, or protective agencies, would emerge (*Rothbard* 1978, 219). Yet, in the absence of experience this cannot be predicted with any degree of certainty.

While examining alternative approaches to Austrian social theory, we have already encountered the idea of a government that derives its moral legitimation from unanimous approval. As we remember, in the contractarian approach an institution of conflict invested with the monopoly of compulsion is morally acceptable only when it has been unanimously approved by all individuals. There remains an important difference between the contractarian and the naturalistic adherence to the unanimity principle because the individuals are assumed to possess rights of a different kind when they enter the social contracting. In the contractarian approach the individuals are assumed to have no other rights than what they manage to acquire and maintain by themselves in the anarchic

state of nature (*Buchanan* 1975, 24). In the naturalistic approach the individuals are already assumed to have highly sophisticated human rights, which do not exist in the contractarian view until the individuals decide to unanimously introduce them. Scientific inquiry is probably incapable of establishing which *status quo* of the two available alternatives is to be considered decisive when the moral force of a collective agreement is appraised.

The similarity of the contractarian and naturalistic approaches means that both are vulnerable to the same Austrian criticism. Whereas the main defect of the contractarian approach is that it urges the individuals to choose social institutions which they *currently* know to be good, the naturalistic approach is defective mainly because it urges the social philosophers to advocate institutions which they *currently* know to be natural. It is not surprising that the doctrine of natural law is disapproved by those Austrians who have truly understood the extent of our ignorance and the vagueness of what is good and natural under circumstances where new and unexpected information is continually discovered. Consequently, for *Hayek* "there is nothing 'natural' in any particular definition of rights" (1960, 158), and the evolutionary approach has "as little to do with the rationalist theories of natural law as with legal positivism" (1976, 60).

There is one approach to Austrian social theory left, and we turn next to an examination of this utilitarian approach.

6 THE UTILITARIAN APPROACH

Utilitarianism is an influential social philosophy which probably affects the thinking of every social philosopher. According to the basic postulate of utilitarianism, any emerging conflict of interests should be solved by protecting the interests of the party whose end promotes the total utility or the general well-being the most.

We know from Austrian economics that the value of individual ends and the utility they produce are subjective. Consequently, it is impossible to reconcile conflicts on a case-by-case basis by means of the utilitarian precept. Instead, it can perhaps be established through scientific reasoning how an informed person selected at random would reconcile a conflict of *some general type* in which he knows to be

involved but not on which side. We can immediately see that the kind of utilitarianism consistent with Austrian economics is *rule utilitarianism* in which one searches for optimal rules of conflict rather than for case-by-case solutions to particular conflicts. The person choosing the rules must be selected at random so that disagreements due to differences in general knowledge can be minimized, and the person must not know his own position so that biased choices in favour of vested interests can be avoided.

One of the unsolved problems of the utilitarian approach is who should be selected as the representative individual. Utilitarian philosophers usually select themselves as representatives of the people and pronounce as scientific truths their own ideas on the good society. For the purposes of practical policy, such pronouncements are of little use if there are disagreements among philosophers as to which social institutions promote in the best possible way the general welfare.

A more fundamental problem of utilitarianism is that neither the representative individual nor the individual currently known to be the wisest is in fact capable of deliberately choosing the social rules that promote his or the others' true long-run interests. As it is explained in the Austrian theory of evolution, the search for good social institutions is an open-ended process of discovery in the course of which entirely new information and surprising outcomes come out. Before the new institutions are discovered, they cannot be deliberately chosen because they are by definition not yet known by any human being. Consequently, it may be more important to create favourable conditions for unexpected institutional discoveries *in the future* than to choose the best social institutions out of the alternatives known *today* to exist. Again, we conclude that the fundamental Austrian insight into ignorance and discovery cannot be properly understood without the evolutionary approach which was the first theory of society we examined in this paper.

As an illustration of utilitarian thinking, I take up the acceptability of slavery. According to the evolutionary approach, if slavery does not produce unexpected gains of which we are so far ignorant, people probably cause slavery to disappear by not daring to live in societies where they can at any time be enslaved against their own will. Societies permitting slavery can survive the process of evolution if the people al-

ready enslaved reproduce, but this happens only because the prerequisite for the competitive process, free emigration is not permitted. According to the contractarian approach, people probably never approve a social contract that allows coerced slavery because even if it produced good average outcomes it would be too hazardous in individual instances. According to the naturalistic approach, coerced slavery is inconsistent with the nature of man by violating the principle of private property and it cannot therefore be accepted irrespective of which choices the people make in moving from one society to another or in agreeing upon a social contract. It is usually argued that even voluntary slavery is not acceptable either because man loses then finally his free will which contradicts his nature (Rothbard 1982, 40, 135), or because slave contracts may involve such serious errors as to render them involuntary (Kirzner 1979, 202).

In utilitarian philosophy, slavery is opposed because the harm inflicted upon the slaves obviously far exceeds the minor benefits of the others. Ludwig von Mises, the best-known Austrian proponent of utilitarianism, even argues that it may be in the *private* interests of the slave-owners to release their slaves. The productivity of forced labour is low as the product is not collected by the labourers themselves, and so the slave-owners may be able to increase their profits by freeing their slaves and cooperating with them through voluntary contracts of, for example, tenancy (Mises 1966, 631). The position of Mises has been criticized by those Austrians who adhere to the doctrine of natural rights and who consider, accordingly, freedom valuable for its own sake (Vaughn 1976, 109). Such criticisms are, however, irrelevant for Mises who explicitly states that in the treatment of slavery "no metaphysical subtleties concerning the essence of freedom" are required (1966, 633).

Also otherwise, Mises concludes on the basis of his utilitarian inquiry that the pure market economy is the most expedient form of social organization (1966, 845). However, even though Mises is certainly one of the most uncompromising defenders of the free market among modern economists, he appears to be prepared to allow exceptions to the rules of the market whenever he deems that such intervention promotes the general welfare, and he thus appears to approach act utilitarianism. In his words, "the decision about each restrictive

measure is to be made on the ground of a meticulous weighing of the costs to be incurred and the prize to be obtained" (748). He argues that "no reasonable man could possibly question this rule", but in fact it is no rule at all as its application is based on subjective information not accessible to government agents. Like most Austrian economists, Mises approves a government that at least enforces the rules of the market (149), and he also approves "modest" taxation (740). Again, he approaches act utilitarianism by striving for neutral taxation that affects the operation of the market as little as possible, and not for just taxation that is practised according to rules (737).

Since the practical conclusions of both Mises' praxeological analysis and the theory of natural law are rather similar, it has sometimes been concluded that the praxeology of Mises is in fact a natural law philosophy (Gonce 1973, 501). This interpretation is incorrect because, as we have seen, the *method* of attaining the conclusion about the superiority of the market is completely different in the two social theories. Mises explicitly points out that "the teachings of utilitarian philosophy and classical economics have nothing at all to do with the doctrine of natural right", and private property and freedom are recommended "not because they are natural and just, but because they are beneficial" (1966, 175).

7 CONCLUSION

At first sight the evolutionary, contractarian, naturalistic and utilitarian approaches to social philosophy employed by Austrian economists seem to imply fundamental differences of view and even conflicting conceptions of society. They are, however, complementary and provide a full understanding of society only when employed in combination.

The evolutionary approach offers the most genuinely 'Austrian' theory of society. In this theory, no external standards are imposed on the search for good social institutions, except the preconditions of free emigration and peaceful coexistence, and the selection of the good society is conceived as a spontaneous process of discovery whose final outcomes are largely unforeseen. As the evolutionary approach is tautological by approving any social institutions that survive the free evolution, and as it gives no role for the specialists in social the-

ory, it is understandable that these specialists have developed complementary approaches.

According to the naturalistic approach, men have certain natural rights, and so their explicit permission is needed if Institutions of conflict are introduced that may violate their natural rights. The contractarian approach makes use of the same unanimity principle when appraising the morality of conflict institutions, but the conclusions about the good society are somewhat different from those of the naturalistic approach because of the different conception of the rights in the *status quo*. As the individuals may have problems knowing how the alternative social institutions work and which of them would be the best choice, they may turn to the utilitarian approach for advice. All the four approaches are thus needed, and indeed all Austrian economists have probably employed most or even all of them in their treatises.

NOTES

- 1 For the 'economic approach' see Rowe (1989, 13).
- 2 For a criticism of the Austrian nihilism see Buchanan (1977, 32).
- 3 There are also many other Austrian elements in the economics of Buchanan. See Baird (1989).
- 4 "Each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others" (Rawls 1971, 60).

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