



Reappraising Austrian Economics' Basic Tenets in the Light of Aristotelian Ideas

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Abstract. This paper sustains that reappraising Austrian economics in the light of Aristotelian ideas is not only possible but also fruitful. First, I draw a sketch of the essential features of Austrian economics. Next, I argue about the necessity for a thorough analysis of the notion of freedom, and I analyze Mises' conception. Next, I expose Aristotle's social, epistemological and economic thought related to Austrian main traits. An account of how the exercise of Aristotelian virtues may be synergic with economic coordination and a sketch of the consequences of the proposal on the teaching of economics are then provided. Finally, the conclusion shortly sums up the content and relevance of Aristotle's contribution.

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A great deal has been written, studied and argued about the influences of Aristotle's philosophy on Menger's thought. The Aristotelian treatment of topics such as essences, value, need, goods, ideas on society, and so on, sufficiently justifies those theses. This paper will precisely focus on Aristotle's role concerning Austrian economics, however in a different way from the Aristotle-Menger connection. Although Aristotle was not a professional economist, he stated seminal concepts of economics. The paper will show that these concepts were developed in an 'Austrian spirit'. Although social sciences did not yet emerge in Aristotle's time, he also proposed and developed an epistemological framework apt to them. The paper will argue that that framework, called 'practical science', adequately fits the epistemological requirements of Austrian economics. Moreover, those Aristotelian developments will prove to shed light on possible ways of solving some current Austrian debates.

I organized this paper in the following way. First, a brief sketch of the essential features of Austrian economics must be drawn. Second, a relevant—though often forgotten—notion underlying the core of Austrian economics, i.e., human freedom, will be stressed and briefly developed. Then, Mises' notion of freedom will be analyzed as both an example of the content of Austrian debates and as an introduction to the need for an Aristotelian perspective. Next, Aristotle's social, epistemological and economic thought will be explored in order to show how it corresponds to the main traits of Austrian economics. An account of how the exercise of Aristotelian virtues may be synergic with economic coordination and a sketch of the consequences of the proposal on the teaching of economics are then

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provided. Finally, the conclusion will emphasize on the relevance and content of Aristotle's contribution.

The Essentials of Austrianess

After the foundational works of Menger, Mises and Hayek from the 1970's to the present, Austrian economics has had a resurgence. Prof. Israel Kirzner has had a relevant role in that task. He stated basic the definitions in his article "On the Method of Austrian Economics" (1976), published in a 'defining work' *The Foundations of Modern Austrian Economics*.¹ Explicitly relying on Menger, Hayek and Lachmann contributions, he noted that the Austrian tradition had assigned "two tasks for economics explanations", and he distinguished "two basic Austrian tenets." In this article he not only defined main traits of Austrian economics but also determined the future research program of Austrian economics. The conclusive 'prophetic' affirmation of Kirzner (1976:50) embraces everything:

We have identified two requirements of economic explanations that Austrian economists consider important. We have also identified two basic tenets that seem fundamental to Austrian methodology. It turns out, however, that while one of these basic tenets, that of human purposefulness, is sufficient to sustain one of these requirements (that of making the world intelligible in terms of human action), the second, which asserts the unpredictability of human knowledge, is inconsistent with the requirement that economic explanations trace the unintended consequences of human action. It seems therefore that the future progress of the Austrian school in applying its basic methodological tenets requires some decision about the extent to which the second tenet about inconstancy of human purposes and knowledge can be upheld as a general proposition.

That is,

1. Economic explanations rely on human purposive action. 'Purposive' means stemming from an individual decision aiming at an end: a 'subjective' decision. Thus, subjectivism is a basic trait of Austrian conception of economics. Accordingly, Austrian economics refuses mathematical and mechanical explanations, which are inadequate for dealing with purposive human actions. Summing up, as Lachmann (1979:65) poses, "Austrian economics rests on subjectivism, a view of the social world in which human action occupies the central place."
2. Individual actions have unintended consequences. *The* traditionally considered unintended consequence was the tendency toward equilibrium. 'Kirzner's inconsistency' (the inconsistency pointed out by him in the above quoted paragraph) has not yet been fully solved and has originated two positions. One position prefers equilibrium over uncertainty, despite relaxing the firmness of equilibrium. The other position prefers uncertainty over equilibrium: the unintended consequences could not be foreseen. In either way, Austrian economics clearly focuses on market processes.

3. Methodological individualism is the adequate method to analyze those social phenomena 'unconsciously' arising from (caused by) purposeful individual subjective actions and, thus, constituting the method of Austrian thought.
4. A final trait—although arguable—seems to be proper to Austrian economics: value-neutrality. It was defended by Menger, Mises and Hayek, and even now, “despite certain murmurings of apparent dissent on this matter within the ranks of contemporary Austrian economists, (...) *Wertfreiheit* is still stoutly upheld as an ideal (...)” (Kirzner 1994: 313).²

I'll show that all those traits were considered by Aristotle, even the latter. Moreover, I'll contend that Aristotle can teach us a lot in terms of understanding those traits.

To effectively see this process, we ought to follow the argument step by step.

Freedom as the Link *Par Excellence* Between Subjectivism and Uncertainty

The title of O'Driscolls and Rizzo's *The Economics of Time and Ignorance* mentions two causes of uncertainty: the passage of time and human ignorance. Radical subjectivists have claimed subjectivism as the central tenet of economics. All economic phenomena is filtered through the human mind. Radical subjectivists have claimed. On the grounds of this extended subjectivism, “the agent's task is not to estimate or discover, but to create.” (Littlechild 1986:29) According to Shackle, this creation or beginning originates in Imagination and Choice. Freedom explicitly enters the game (Cf. Shackle 1979: *passim*).³

James Buchanan has recognized the problem of the introduction of this essential element of subjectivism, i.e., freedom. It imposes constraints to 'positive economics.' Hence, he sustains that the *subjective* elements are defined within the boundaries between the positive science and moral philosophy. Buchanan recognizes that there are certain patterns of human behavior in economic interaction. They are reactions to stimuli, as if they were rats. However he stresses on other aspects that are freer. This position calls for a new conception of economics. Let us hear it from Buchanan (1982:17):

The residual aspects of human action that are not reducible to ratlike responses to stimuli, even in much more complex human variants, define the domain for a wholly different, and uniquely human, science -one that cannot, by its nature, be made analogous to the positive-predictive sciences of orthodox paradigm. There is surely room for both sciences to exist in the more inclusive rubric that we call economic theory.

Buchanan finally encourages scholars to advance in developing a methodological framework appropriate to subjective economics. As we will see, Aristotelian practical science offers a fully satisfactory answer to this challenge.

Freedom is also explicitly present in Lachmann's works, as the following quotations show. In his 1950 article “Economics as a Social Science,” he stated some tenets about human action and its sciences. “In choosing ends,” he wrote, “we are free. Choice indeed is a manifestation of Free Will. (...) It is the possibility of choice which makes [a problem essentially economic]” (1977:167). Thus, “as human action is governed by choice, and

choice is free, there can be no prediction of our actions” (1977:179). Therefore, “expectations must be regarded as autonomous, as autonomous as human preferences are (...) We cannot predict their mode of change as prompted by failure or success” (1976b:129). In another place he states: “Human action is not ‘determinate’ in any sense akin to the one [proper of] (...) natural science” (1971:36, cf. also 37). In his address to a conference on ‘Interpretation, Human Agency and Economics’ held at George Mason University in 1986, he stressed “our need for conceptual schemes more congenial to the freedom of our wills and the requirements of a voluntaristic theory of action than anything we have at present” (1990:137).

Rudy van Zijp (1995:423–424) has recently explained this question very well:

“In the social sciences,” he says, “indeterminateness may be due to two ‘sources’. It may arise for epistemological reasons, in the sense that the human mind is incapable of grasping social reality in all its complexity. (...) This position was held by Hayek (...) In contrast, Lachmann based his methodological dualism on a different argument. He seems to have regarded indeterminateness as part and parcel of social reality. That is, his methodological views seem to be based on an ontological claim.”

While Hayek, in a classical passage (1980:44 [1948]), argued in favor of an empirical tendency towards equilibrium, Lachmann, as van Zijp states (1995:427),

rejected the importance of the Hayek problem, and instead emphasized man’s freedom to choose and to act. In turn, this freedom means that future knowledge, and hence future actions, are indeterminate (...) Lachmann emphasized the realism of assumptions in order to establish a closer connection between economics and common-sense knowledge.

What has been said may seem to be obvious. Nevertheless it is not so. It is argued that subjectivism and freedom survive behind stochastic models and predictions. The reason why this is partially true is that tendencies rely on both, habits configured by free actions and average free actions. Free options are incorporated into data and into relations established in the model. However, these models are developed according to rational choice theories in which freedom is not denied, but left aside, ‘iced,’ ‘paralyzed.’⁴ I would call this position a ‘hidden-freedom reasoning’ concept of economics. However, real freedom and an undetermined openness, real acting economy surpasses the possibilities of models. The arising problem is: What kind of science could manage such an indetermination? One that simultaneously owns a broader rationality and also embraces the former. In my opinion, Austrian economics ought to work in such a frame adequate to a real acting person. That is, I believe that for Austrian economics to focus on human action, it needs to consider its traits. Thus, it cannot turn its back on freedom, as neoclassical theory does. Therefore, it is relevant to manage a full concept of freedom.

As an example of the “matching freedom with rationality problem,” I will analyze Mises’ concept of freedom in the next Section.

Mises on Freedom

However, before analyzing Mises' notion, let me clarify what freedom means here. This could actually be a nuisance, for it assumes I am taking a position in a difficult philosophical discussion: free will vs. determinism controversy. As I have already stated, I believe that economics supposes commitment to this basic—often hidden—notion, namely freedom. I consider that Austrian economics should freedom encompass into their analysis. Let me at least assume it. Freedom in this paper is an analogous term: its most inner meaning is a radical openness of mind and will towards reality. The second analogous meaning is *liber arbitrium* or freedom of choice, an inner capacity of will to decide, a power to will. Of course, will is conditioned in its decisions by sociological, psychological and physiological antecedents, as well as by previous habits. However, will is not totally and univocally determined by them. Decisions are not uncaused: they are caused by the person who wills, conditioned as it were. In the human realm, 'to be caused' is not equivalent to necessity. (I am adopting a causal indeterminist position—which may include agent causation, as Chisholm 1995 contends.)⁵ Choice is, as Shackle maintained, like a beginning. The former kinds of freedom are innate.

Acquired freedoms are two: moral inner freedom—the capacity to act rightly, and external—political and economic freedoms, a power to do. These latter freedoms find their sources in the former. I am aware of the oppositions that might arise with such set of definitions, but let me suppose them as they were *ceteris paribus* clauses, and let us now analyze Mises'.

Criticisms against Mises are a proof of Austrian economics vitality.⁶ Austrian debates essentially follow the paths drawn by the already mentioned tension pointed out by Kirzner. Mises is criticized from different points of view for the results and extent of that tension. For many authors like Lachmann—and even Hayek—Mises was a rationalist (cf. Lachmann 1982:31 and 37). To be a rationalist is not in itself a problem. The real problem is to have a narrow scope of the notion of reason. Hence, I would rather say and try to prove that Mises was an intellectualist. As will be shown, he adopted a formal concept of rationality, coherent with his belief in an active role of reason and a weak role of will.

According to Lachmann's interpretation, Mises apodictic theory stems from Menger's exact orientation of science. Expectations à la Shackle are left out in both cases: "(...) it is possible for us in 1982," Lachmann says, "to view Mises's neglect of expectations from a Shackleian perspective and find it justified. 'Time is a denial of the omnipotence of reason' (Shackle 1972:27). Who could blame a stout rationalist for ignoring phenomena concomitant to elusive Time?" (Lachmann 1982:37). Accordingly, Mises lays out a construct such as the generally criticized⁷ "evenly rotating economy," which offers what he was looking for, i.e., security. But, in this way, his theory risks losing its principal worth, namely a sound insight into human action, which may finally become denaturalized. In fact, praxeological laws do not leave room for freedom. David Gordon, categorically asserts: "Mises was a determinist,"⁸ whereas Mark Addleson states that he was a conductist:⁹ Actually, Mises says: "The sciences of human action by no means reject determinism" (1985:93 [1957]). Addleson (1986:11) suggests that

The reason Mises views the market process in deterministic terms is associated with his particular approach to the meaning of action as reflected in his lack of concern with the underpinnings of choice and, especially, in his neglect of ends in the planning and decision-making process.

Plenty of reasons could explain such a position. Nevertheless, an important one may be that his determinism was closely related to an intrinsic human freedom denial. Hence, let us analyze some of Mises's texts from his paragraph on freedom in his magnum opus, *Human Action*, and other related texts of *Theory and History* and *The Ultimate Foundation of Economic Science*.

First of all, for Mises "Primitive man was certainly not born free." Then, what is freedom according to Mises? "A man is free," he adds, "in so far as he is permitted to choose ends and the means to be used for the attainment of those ends" (Mises 1966:279 [1949]). Then, he says that "there is no kind of freedom and liberty other than that the market economy brings about" (1966:283 [1949]), and that the individual "is free in the sense that the laws and the government do not force him to renounce his autonomy and self-determination to a greater extent than the inevitable praxeological law does." (Mises 1966:281 [1949]) The reason is that, as he asserts, "a man's freedom is most rigidly restricted by the laws of nature as well as by the laws of praxeology," (1966:279 [1949]. Cf. also 885) to such an extent that

we may or may not believe that the natural sciences will succeed one day in explaining the production of definite ideas, judgments of value, and actions in the same way in which they explain the production of a chemical compound as the necessary and unavoidable outcome of a certain combination of elements (Mises 1966:18 [1949]).

Mises's very definition of action reads: "Action is (...) the ego's meaningful response to stimuli and to the conditions of its environment; it is a person's conscious adjustment to the state of the universe that determines his life." (Mises 1966:11 [1949]) From the former quotations we may conclude that Mises manages a univocal concept of external freedom as the absence of coercion. Since all personal action is rational, there is no room for 'irrationality,' except for interfering with other peoples' actions, which are themselves praxeologically determined. In sum, according to Mises, freedom consists of avoiding obstructions to acting deterministically. Such a concept is a weak approach to freedom.

The former stems from Mises's intellectualism. What do I mean by 'intellectualism'? To assign a predominant role to reason as the source of human action. In effect, in *Theory and History*, he says that "Choosing means is a matter of reason, choosing ultimate ends a matter of the soul and the will;" (Mises 1985:15 [1957]) and "Action"—he asserts in *Human Action*—"means the employment of means for the attainment of ends." (1966:13 [1949]) Therefore, "Action and reason are congeneric and homogeneous." (1966:39 [1949]) The only thing will should do concerning action is "to behave according to the decision made." (1966:13 [1949]) This is what Mises calls "activistic determinism": "If you want to attain a definite end, you must resort to the appropriate means; there is no other way to success." (1985:177–178 [1957]) Either there is no room for freedom "during" action, or for

a dynamic consideration of human action. According to classical anthropology, rational will and freedom originate and inform all human action, from beginning to end.¹⁰ Meanwhile, for Mises, “the incentive that impels a man to act is always some uneasiness,”¹¹ a rather sensitive feeling, not a positive will of an end. Neither is freedom present for Mises “before” action. Values and ultimate ends are not freely chosen.

All his [Man's] actions are the inevitable results of his individuality as shaped by all that preceded. An omniscient being may have correctly anticipated each of his choices (...) Actions are directed by ideas, and ideas are products of the human mind, which is definitely a part of the universe and of which the power is strictly determined by the whole structure of the universe (1978:57 [1962]).

Every freedom is just appearance stemming from the ignorance proper of individuality.¹²
In sum,

The offshoots of human mental efforts, the ideas and the judgments of value that direct the individuals' actions, cannot be traced back to their causes, and are in this sense ultimate data. [the lack of such knowledge generates the epistemological differences between natural and human action's sciences (Cf. 1978:58 [1962])]. In dealing with them we refer to the concept of individuality. But in resorting to this notion we by no means imply that ideas and judgments of value spring out of nothing by a sort of spontaneous generation and are in no way connected and related to what was already in the universe before their appearance. We merely establish the fact that we do not know anything about the mental process which produces within a human being the thoughts that correspond to the state of his physical and ideological environment.” (1985:78 [1957])

Thus, for Mises uncertainty ultimately stems from ignorance. Once the former is overcome, a unique best way of performing actions arises. In that way, his intellectualism (mis-appraisal of the role of will in human action) slides him to a sort of rationalism: the reduction of all kinds of rationality to technical or instrumental rationality. He reasoned this process in a seminal work, his *Grundprobleme der Nationalökonomie* (cf. Mises 1960:82 [1933]). Are we probably simply facing a ‘freedom-hidden reasoning’ concept of economics? In my opinion, that is not the case. I think it is not his notion of economics (/rationality) what is limiting the extent of his view of human action (/freedom). On the contrary, his undervalued notion of human action (/freedom) is limiting the scope of his notion of economics (/rationality). I think that the former is proving that freedom matters, and showing that economics cannot be done without having dived before into the deep waters of anthropology for economics is conditioned by it.

Yet, it may be argued that Mises's *ERE* is only considered as a useful tool. However, wider and more useful types are to be found in order to achieve a more thorough analysis, one which Austrian economics greatly deserves. Leaving anthropological problems and apriorism aside, Mises's framework is not essentially mistaken. He outlined a fruitful perspective of economy as human action. I think that this perspective should be followed, however, as a

stepping stone for further developments, considering an enriched notion of human freedom and action.¹³

Austrianess and Aristotle's Social, Epistemic and Economic Thought

We should be extremely satisfied with the praise-worthy Austrian open-mindedness. Some years ago, Louis Spadaro (1977:210) said that “As new implications of subjectivism unfold, the conceptual-analytical-methodological framework of Austrian theory may require extensions, and even revisions, for purposes of consistency and coordination.” And Mario Rizzo (1996:vii) recently wrote, “Austrian economics *is* broad because it *needs* to be broad in order to be interesting and in order to grow in the knowledge it conveys. Narrow Austrian economics cannot ask interesting questions and cannot give interesting answers.” It should be opened to intellectual interaction, which may enrich it; for example, for me, with Aristotle's social and economic teaching and with his epistemology of classical practical sciences.

Aristotle on Society¹⁴

Aristotle considered reality to be orderly. He designed a system for describing this order of reality. According to his physical theory, even physical hazard does not impede cosmic order. For Aristotle, order in human affairs is not a deed but a task. This task is to seek happiness through virtues. (He also posed a theory of what happiness is.) As Rasmussen and Uyl (1997:29) state, “effort is needed for reason to discover the goods and virtues of human flourishing as well as to achieve and implement them.” Virtues are not isolated, but they are a system. They are coordinated by justice—a personal virtue of the will which regulates the social aspect of the whole—and prudence or practical wisdom—the personal habit of the mind that discovers and facilitates orderly and fair actions. Hence, a just and wise person naturally seeking a good, unintentionally seeks the good of the whole society. Aristotle ends his argument asserting: “Thus it follows that the end of politics is the good for man.” (*Nicomachean Ethics*, (NE): I, 2, 1094b 6–7).

For Aristotle, the work of prudence is personal, essentially free and variable according to circumstances. What is prudent for one person may not be so for another. However, the coordination of free prudent different actions leads to social coordination. Aristotle coherently thought that economic coordination is also possible when people prudently decide and perform economic actions, in accordance—only when necessary—to social coordination. As expressed by Rasmussen and Uyl (1997:28) for Aristotle, “human beings cannot flourish in isolation. Our fulfillment demands a life with others.” As human beings are essentially political, i.e., social, a wise agent considers other people: the consequences on their well-being and their possible reactions. Let us remember that, etymologically, co-ordination means ‘to give an order together.’ Within this framework, however, it might happen that coordination can never be reached (surely, not completely.) Three reasons may be pointed out. Ignorance and time, as mentioned, are signaled in the title of O’Driscoll and Rizzo’s, already classic book (1996). We struggle against them conveying information. But the story does not end

at this point. Freedom, the third reason, is intertwined with ignorance and time, stemming interpretations and acts that may not lead to coordination. These misleading interpretations, decisions and actions are consciously, semi-consciously or completely unconsciously guided by will. As will is not mind, the solution must be more than merely informing. A teaching-learning process must take place so that people individually and freely decide to act in the right way. It is the teaching-learning process of acquiring habits. These are the habits which will facilitate acting rationally, both in a narrow and in a broad sense. That is, people ought to get used to analyzing their consciences and freely deciding to obey the traditionally called 'economic rationality', in the light of this new broader economic rationality, informed by virtues through prudence. This teaching process may go beyond classrooms. However, I think a lot may be done through changes in teaching I will mention below. I can hear a lot of voices claiming this is not economics. Call it 'political economy', if you please.¹⁵

In my opinion, we are facing a good explanation of how the unintended consequence of individual actions is (or is not) social and economic coordination. If everybody freely acts rationally—in the broad sense that includes the narrow rectified—, coordination will be unintentionally achieved. In this explanation uncertainty persists, even if ignorance is overcome, for freedom is always present. As long as human freedom is radical, the only way in which unintended consequences will lead to coordination will be individually following the corresponding moral standards. I will try to illustrate how this happens in a later section.

In other words, once the information-conveying requirement is accepted and assumed, coordination, as a result of individual actions, is possible because the subjective aspect of prudence is the application of an objective set of socially recognized values to concrete situations and actions. I would like to express my thanks to Israel Kirzner, who gave me permission to quote some of his phrases from a personal letter on this topic (July 23, 1998, emphasis on the original):

You suggest that “‘moral coordination’ is an implicit condition for economic coordination.” Now I have, in other papers, expressed my agreement with the central idea with which you conclude your letter: “Economy does not run without a common *ethos*.” Like you, I do not believe that a market economy (and the economic coordination it is able to achieve) is feasible, as a practical matter, without a shared moral framework. So that I agree that a condition for the *practical achievement* of economic coordination is (what you call, if I understand correctly) ‘moral coordination’.

Kirzner's agreement is important. However, he stresses that a common ethos only conditions a practical fact. He adds that “a condition for the *practical achievement* of economic coordination is (what you call, if I understand correctly) ‘moral coordination’.” I agree. But I would like to point out that what Aristotle may precisely contribute is a notion of practical science and of economics as a practical science, as we will see below. In this framework, not only the definition of coordination but also the know-how to practically achieve it is a matter of science. This know-how needs a scientific incursion in the field of values, which constitute the mentioned social *ethos*.

Aristotle on Epistemology of Social Sciences

Aristotle and modern practical science supporters sustain that a rational research on values is possible. Practical science is the Aristotelian antecessor of social science.¹⁶ It is an essentially moral or evaluative science. A strong movement of rehabilitation of practical science has recently arisen, mainly in Germany. A collective work edited by Manfred Riedel (1972–1974), entitled *Rehabilitierung der praktischen Philosophie*, could be mentioned as a hallmark of this trend. They conceive the practical paradigm as a reaction against the modern prevailing requirement of value-neutrality in the realm of the social sciences. For this latter position, scientific reason was only applicable to means. The ends were a matter of private decision, which surpassed the limits of science. Nevertheless, since human action is essentially free and therefore essentially moral (freedom entails commitment, moral responsibility), sciences whose subject is an aspect or sector of human action have to include, they argue, ethical considerations as well. Some years ago, before theory-ladenness was commonly accepted, Leo Strauss, a predecessor of the above-cited movement, stated (1959:21):

It is impossible to study social phenomena, i.e., all important social phenomena, without making value judgments. (...) Generally speaking, it is impossible to understand thought or action or work without evaluating it. If we are unable to evaluate adequately, as we very frequently are, we have not yet succeeded in understanding adequately. The value judgments which are forbidden to enter through the front door of political science, sociology or economics, enter these disciplines through the back door.

If these values, which inevitably tinge all social thinking, are not rationally found and established, then we are confronted with ideology. The answer to this challenge in our area is an evaluative economics. In my opinion, this proposal may perfectly fit in with the Austrian concern with human action. We are in fact returning to Buchanan's challenge. We are dealing with a broader notion of economics closely linked to social and political moral thought. The borderlines of these disciplines are ambiguous. In this conception, economics is neither exact nor separate.

I'm not alone in this view. Hausman and McPherson surveyed recent work by economists and moral philosophers that borders the two disciplines: "In defending their model of rationality, economists wind up espousing fragments of a moral theory." (1996:7) "[E]conomics remains partly a moral science." (1996:8) As John Tiemstra (1998) commented, "the values and worldviews that imply certain policy conclusions also form the foundations of the economic analyses that justify those conclusions."¹⁷ We will return to Tiemstra at the time of practical teaching suggestions.

If the former is true, what will happen with the value-free requirement? We have to interpret this concept in another way. Value-neutrality will not be 'officially' leaving values aside, but 'impartially' reasoning about them. Values, I insist, cannot be avoided. Thus, they are to be scientifically considered. In fact, current new revisions of Weber's thought points out that *Wertfreiheit* means 'impartiality' in the context of German academic fights.¹⁸

John Finnis has worked on the concept of value freedom. How could we neutrally describe social facts? Neutrality in the 'concept-election' in social sciences is only achievable through

the scientific definition of the standards of rational practical reasonableness. And he clarified (1984:12):

By 'practical' (...) I mean 'with a view to decision and action'. Practical thought is thinking about what (one ought) to do. Practical reasonableness is reasonableness in deciding, in adopting commitments, in choosing and executing projects, and in general in acting. Practical philosophy is a disciplined and critical reflection on the goods that can be realized in human action and the requirements of practical reasonableness.

That is, the way to resolve the value-free problem is not to put away values—which is impossible but to reason about them, and thus rationally determine the set of them at the roots of economics. We may think, for example, that real concern about human rights supposes a set of attitudes and habits in the economic realm. Further detailed analyses should come after the acceptance of this framework. This is a work and a teaching that, in my opinion, could not be denied to students of economics. It must be done in the interdisciplinary field in which economics cannot be separated from moral sciences. In a different and brilliant way, Hilary Putnam reaches the same conclusion about overcoming fact/value dichotomy through ethical objectivity (1990:Chapter 11).

A last remark on the epistemological framework required by Aristotelian social theory is that it actually constituted the ancient antecessor of methodological individualism. Social analysis begins in individual actions and ends. Societies, Finnis sustains following Aristotle, cannot be adequately described, explained, justified or criticized unless they are also centrally understood as the development of free choices. This individual decisions and actions are free and personal but not individualistic, for they consider and are oriented, through prudence and justice, towards others within the framework of a social or political conception of the human beings' nature.

Up to now, in my opinion, we are complying with the conditions of Austrian economics, as described in the Introduction. In the next section, I will offer a systematic summary of the traits of practical sciences, noting how they fit Austrianess.

Characteristics of Practical Sciences

Although we have expanded on the concept of practical science, we will now briefly complete the framework by mentioning its main traits.

First, practical science acknowledges the inexact character of its conclusions due to the contingency of human action, which stems from its freedom and singularity. Aristotle asserts in his *Nicomachean Ethics* (I, 3, 1094b 11–27):

Now our treatment of this science will be adequate, if it achieves that amount of precision which belongs to its subject matter. The same exactness must not be expected in all departments of philosophy alike, any more than in all the products of arts and crafts (...) We must therefore be content if, in dealing with subjects and starting from premises thus uncertain, we succeed in presenting a broad outline of the truth: when our subjects and our premises are merely generalities, it is enough if we arrive at generally valid conclusions.

This belief seems to be extraordinarily coherent with the Austrian emphasis on subjectivism. Science should not be demanded more than it could provide relating to the nature of its subject. This limitation is not shameful since it does not derive from a weakness of science, but, as Aristotle also says, from “the nature of the case: the material of conduct is essentially irregular” (*NE*: V, 10, 1137b 17–19). That is, uncertainty stems from an ontological reason (ultimately human freedom) and is an essential feature of economic actions that will always be present. This is a confirmation and extension of subjectivism in a genuine Austrian spirit. This trait does not oppose an acceptable apodictic certainty of Mises-Rothbard’s Praxeology (cf. Endnote 2), as this apodictic character applies to the formal, not to the material content, and here we are focusing precisely on the inexactness of the conclusions’ material subjective content.

Once the former has been established, a second feature directly follows it. Practical science must be closely connected to the concrete case. “Now no doubt,” Aristotle says, “it is proper to start from the known. But ‘the known’ has two meanings—‘what is known to us,’ which is one thing, and ‘what is knowable in itself,’ which is another. Perhaps then for us at all events it is proper to start from what is known to us” (*NE*: I, 4, 1095b 2–4). An adaptation to the particular case, considering its cultural and historical environment, is necessary. This way of knowing is familiar to the inclusion of factors such as Institutions of recent Austrian developments. A wise mix of adequately chosen scientific types and historic, cultural and empirical elements is the clue to a correct interpretation of economic human action.

While inexactness and closeness to reality are features which derive from the freedom and singularity of human action, the ethical engagement of practical science arises as a consequence of its other side, namely, morality. However, let us bear in mind that economics is not Ethics. Political Economy is a moral science as far as it is a practical science. While Ethics studies the ethical problem in itself, political economy studies the economic problem—as Politics and Law do with their corresponding subjects. These specific problems cannot be isolated from ethical aspects. Aristotle has smartly distinguished between Ethics—which is a science—and practical sciences, which are ethical as much as they consider ethical aspects of the analyzed subject. These ethical aspects are, as I said, essential to human action. In transitive human actions, a triple rationality may be distinguished: practical or moral, technical, and logical. Practical *inmanens* rationality permeates the whole action to the extent that the existence of a purely technique *transiens* action cannot be sustained. Whatever may be the action, it is always essentially ethical. Since human action is ethical, and since economic action is human action, therefore political economy has an ethical commitment. Concerning our field of study, Gilles-Gaston Granger (1992:80) states that, within the economic area, braiding the different perspectives of rationality seems to be necessary in order to attain an effective definition of concepts. I have already exposed my argument on the compatibility of this characteristic with Austrian economics.

A fourth trait of practical science is its pragmatic aim. An abusive theoretical intentionality has invaded the realm of the social sciences. This process is connected to the already mentioned modern process and has led economics to a certain sterility, which is evident in the mainstream economic literature.¹⁹ A social science may have a theoretical aim, but it is always virtually oriented to action due to the essentially practical character of its subject,

which defines its epistemological status. On this point, we share Austrian criticism, of mainstream developments.

Last but not least, we ought to mention the methodical devices proper to practical sciences. The bibliography on this topic is abundant and could be summarized in an interesting proposal of methodological plurality. In his *Politics* and *Nicomachean Ethics*, Aristotle admirably combines axiomatic deduction, inductive inference, dialectic arguments, rhetoric suggestions, imagination, examples, and topics. In a prudential science of this kind, all these instruments add up. Methodical strategies separately developed in different economic currents are amalgamated in this approach, which takes any dogmatic methodological reductionism away from the social and economic sciences. This trait matches the recent Neo-Austrian concern about integrating new methods and epistemological points of view.

Aristotle on Economics

This is the right place to insert a short description of Aristotle's theory of economics. First, we should stress that Aristotle's *oikonomike*—the Greek adjective usually used by him—is more than household management, as many economic historians believe. Aristotle pointed out that *oikonomike* deals with the house and also with the *polis*.²⁰ Second, Aristotle considers *oikonomike* to be the use of the things necessary for Good life, i.e., the life of virtues. *Oikonomike* can only be aimed at the good; it is essentially moral, because it is an act—*energeia*—belonging to the *praxis*, i.e., the practical category. On the contrary, according to Aristotle, chrematistics is a technique subordinated to economics dealing with the acquisition of those things used by *oikonomike*. It is not essentially oriented towards the good. Therefore, while for Aristotle a harmful *oikonomike* is unthinkable, two kinds of chrematistics can be considered: a subordinated, limited and natural one, and a wicked, unnatural, unlimited one. Thus *oikonomike* is an act, the right act of using things in order to achieve the good, i.e., virtuous life. Therefore, virtue is needed as a habit that facilitates the performance of this act. Besides, *oikonomike* was embedded in its political environment.²¹ Summing up, Aristotle's *oikonomike* is an ethical act with an inner relation to the historical, cultural, social and political factors surrounding it.²² As Newman (1950:I, 138) stated, "Political economy almost originated with him." "Economic science," adds Peter Koslowski (1985:2), "is an integral part of the hierarchically ordered sciences of human action and societal interaction." Aristotle poses an example of practical analysis of an economic issue in his market analysis in the *Nicomachean Ethics* (V, 5). Hereby, he concludes that the principle ruling demand, and therefore prices and wages, is *chreia*, which means economic necessity. *Chreia* is relative and subjective, but intrinsically moral. It should not be forgotten that this chapter on economic exchange belongs to his treatise on justice and that justice is the main social virtue.

Aristotle's *oikonomike* approximately corresponds to political economy, a practical science, and *chrematistics* to economics, a technical science (cf. our Controversy with P. Boettke, Crespo, and Boettke 1998). However, it must be pointed out that, for Aristotle, *chrematistics* ought to be subordinated to *oikonomike*, which embraces and deals with it. The use of this scheme and terminology—concepts and relations of economics and political economy—may be greatly helpful for it is familiar and acknowledges the validity

of economics. It also adds—political economy being a practical and embracing science—an epistemological framework to manage remaining problems, thus complementing economics.

I prefer not to discuss the contributions of O. Krauss, E. Kauder, T. W. Hutchison, Barry Smith, M. Alter, R. Cubeddu, U. Mäki and other scholars, who linked Aristotle and Menger's thoughts. Instead, I would simply like to say that, from the former description of Aristotle view of economy, strong similarity with Austrian perspectives arises. He considers: 1. A definition of economy as human action; 2. An epistemological framework both for economics—*chrematistike*—and for political economy—*oikonomike*; 3. A value-subjective theory where demand has the principal role. 4. A vision of economy as immersed in a cultural, institutional environment.

The only relevant aspect that would need to be cleared up concerning the relation with Austrian economics is the moral engagement of the theory. In my opinion, as already argued, this aspect is precisely a valuable Aristotelian contribution, for it is the clue to the simultaneous play of uncertainty and coordination as an unintended consequence.

How to Acquire Virtues, and How Virtues Foster Coordination?

The question is twofold: how do we develop virtues? And how do virtues collaborate in coordination? Aristotle developed the first 'how' but not the second.

Our modern minds tend to look for mechanical, automatic, technical explanations—a mentality that better corresponds to the neoclassical scheme. But, in this field, we cannot find concrete mechanisms. The practical area depends on life, and life is always changing. This is a field where ends and means are dialectically interacting and changing. We can only grasp some general ideas, which application depends on the concrete circumstances of a concrete society and time.

Let us tackle the first 'how'. How do we acquire virtues? Aristotle answers: "We are by nature equipped with the ability to receive them, and habit brings this ability to completion and fulfillment" (*NE*, II, 1, 1103a 24–25). Virtues are good habits. Habits are ways of being, firmly fixed possessions of the mind, established by repeating actions. Thus, people acquire virtues through practice. What are the main means to foster these practices? Education and law. The argument is developed by Aristotle in *Nicomachean Ethics*. First, education, in the broad Greek sense of *paideia*, shapes personal character. This is the reason why Aristotle says that "it is no smaller matter whether one habit or another is inculcated in us from early childhood;" (*NE*, II, 1, 1103b 24) Second, law. Let us remember that for Aristotle law has a pedagogical objective.

To obtain the right training for virtue from youth up is difficult, unless one has been brought up under the right laws. To live a life of self-control and tenacity is not pleasant for most people, especially for the young. Therefore, their upbringing and pursuits must be regulated by laws; for once they become familiar, they will no longer be painful. But it is perhaps not enough that they receive the right upbringing and attention only in their youth. Since they must carry on these pursuits and cultivate them by habit when they have grown up, we probably need laws for this, too, and for the whole of life in general (*NE*, X, 9, 1179b 31–1180a 4).

Aristotle understands that a set of concrete virtues leads humans to their natural excellence, that this process begins with education on those virtues, and that it is convenient to consolidate them by laws.

Let us move on to the second 'how': how virtues improve economic coordination? What is coordination for Aristotle? He never defines this concept, however we can try to draw it. According to him, the reason why we need economics is that "It is impossible to live well, or indeed to live at all, unless the necessary conditions are present" (*Pol*, I, 4, 1253b 25). He also upholds that "it is therefore the greatest of blessings for a state that its members should possess a moderate and adequate fortune" (*Pol*, IV, 11, 1296a 1). Happiness is an activity relating to virtues, and "still, happiness, as we have said, needs external goods as well. For it is impossible or at least not easy to perform noble actions if one lacks the wherewithal" (*NE*, I, 8, 1099a 31–33). So, I would say that for Aristotle coordination means that, through chrematistic and economic activity, everybody succeeds in possessing what he/she needs to use in order to achieve the Good life. This objective has various aspects in which virtues intervene, as we will analyze.

Austrian economics has, of course, a more elaborated and concrete concept of coordination. However, this concept is consistent with the 'primitive' one of Aristotle. Coordination for Austrians is compatibility of individual plans: that everybody could achieve his/her intended ends through his/her plans. (O'Driscoll and Rizzo 1996:80). The problem of coordination is uncertainty, unpredictability. Time and ignorance threat coordination. Hayek's conveying of information and Kirzner's entrepreneurial alertness attempt to solve these problems, but, as O'Driscoll and Rizzo (1996) pointed out, they are not fully successful.

However, time and ignorance are not the only problems. Free conscious actors may act in an economically irrational way. Free conscious actors, although provided with full knowledge, may act in an unpredictable way. Human action is always unique, and this uniqueness cannot be disregarded. All we can state is that people generally act following some tendencies. Habits, precisely, are patterns of behavior. This is why O'Driscoll and Rizzo spoke about "pattern coordination" (1996:85), with the limitation of recognition of uniqueness.

This is where virtues add to our understanding. First, the probability of habits to create stable behaviors is larger if they are morally good habits, that is, virtues. According to Aristotle, the incontinent is unpredictable; on the contrary, the virtuous, continent person, is more predictable because he perseveres. "A morally weak person," he says, "does not abide by the dictates of reason (...) But a morally strong man remains steadfast and does not change on either account (*NE*, VII, 9, 1151b 25–27); "A morally strong person remains more steadfast and a morally weak person less steadfast than the capacity of most men permits" (*NE*, VII, 10, 1152^a a, 26–27). Thus, the probability of plan coordination is larger among virtuous people for they have a stable character and their conducts may be better foreseen. Therefore, coordination is easier within a people possessing an ethical common *ethos*.

Second, virtues foster the coordination process in other ways. Prudence or practical wisdom—an intellectual and ethical virtue—makes people act with an accurate estimation of the real situation, avoiding or at least decreasing errors. And, as Aristotle remarks, "It is not possible for the same person to have practical wisdom and be morally weak at the same time" (*NE*, VII, 10, 1152a 7–8). Justice helps people's Will to act in the way prudence

determines. In fact, as we said, for Aristotle market relations are regulated by justice. In this framework the commercial vices have no place. Free-riding does not appear among people strongly committed to justice.

Aristotle devoted the largest part of his *Nicomachean Ethics* (Books VIII and IX) to friendship. This virtue, seed of social cohesion, intervenes in particular temporary situations when justice does not suffice. In fact, justice is not necessary between friends. Liberality or generosity also helps to overcome the problems of disequilibrium, through individual or collective action (volunteering, non profit organizations, etc..) I would like to stress that all these virtues are free habits of free people. If not, they would not be virtues.

As it has been recently highlighted by Jeffrey Young, for Adam Smith, the market is a social arena for actions in which cognisance of the sympathetic feelings of the impartial spectator is an operative factor in understanding market activity, price and distribution (1997:56). The role of the impartial spectator in depersonalized societies and markets is that of “a bond of union and friendship” (61). “Wealth and virtue are complementary in Smith” (157) in the frame of a ‘benevolent model’ (69, 76) and a ‘virtuous sequence’ (184).

In sum, in an imperfect world, virtues help to reduce error and act as a balsam. They both foster coordination and reduce the remaining problems during coordination adjustments.

The Teaching of Economics

I have referred during the paper to better ways of teaching of economics. Briefly, I would suggest a more reality oriented teaching of economics than is currently practical. As Mark Blaug (1998) has asserted: “Economics as taught in graduate schools has become increasingly preoccupied with formal technique to the exclusion of studying real-world problems and issues.” He reasoned: “That may be why students are increasingly choosing business management over economics.”

On the one hand, I favor a broader curriculum with emphasis in humanities. On the other hand, I propose the use of cases or other pedagogical devices simulating real situations. These are the best ways to teach practical sciences. We should aim at developing practical wisdom, synthesis skills.

Peter Boettke (1996:34) emphasizes the relevance of history: “What economics needs today is an anchor in the world. The educational proposal that I would suggest would be a re-evaluation of the history of economic thought (as theory) and economic history (as empirical touchstone) in our curriculum.” I fully agree.

Lionel Robbins, who devoted a lot of time to these pedagogical affairs, was of a similar opinion. Once he stated (1956:17):

We must be prepared to study not merely economic principles and applied Economics...
We must study political philosophy. We must study public administration. We must study law. We must study history which, if it gives rules for action, so much enlarges our conception of possibilities. I would say, too, that we must also study the masterpieces of imaginative literature.

In another lecture (1955:582 and 587), he insisted on the study of political science and economic and general history, and he also remarked: “I suspect that, in the ideal state,

Economics would be taken as a second degree after some short experience of practical life.”

Ethics should also be included. As J. Tiemstra (1988) expressed, “students would understand economics better if we connected it with social ethics, at least by acknowledging commonly accepted moral standards at the appropriate points in the discussion.” Understanding that personal moral synergically leads to coordination as an ‘unintended consequence’ will also drive to considering ‘economic’ virtues, such as generosity, industriousness, competence, order, initiative, service spirit, keeping one’s word, frugality, and the like. Cases will contribute to the consideration of moral aspects.

In sum, I endorse less technique and more enlightenment and training of practical wisdom, a greater mix of technical economics and practical political economy. This may be, I think, an answer to James Buchanan’s challenge.

Conclusion

In this paper, I tried to show that the Aristotelian practical science and his notion of economy, together with their underlying conception of society, fit into the aims and characteristics of Austrian economics and can successfully contribute to its current debates, mainly through a broader concept of freedom. This proposal could actually constitute an updated research program, incorporate some ideas from current epistemological theories, and favor fruitful interrelation with other views.

In short, I enumerate some mentioned traits congenial with the Austrian approach: (1) Free purposefulness of human action, therefore, (2) Subjectivism, (3) Recognition of inexactness and unpredictability, and (4) of the role of Institutions; (5) Methodological individualism; (6) Moral individual effort as the last key for the achievement of coordination as an unintended consequence of individual actions. The last feature provides a solution to the here-called ‘Kirzner’s inconsistency.’ Since it is impossible to fully overcome the lack of information of our ever changing world and since evil will never be completely eradicated from earth, we will always be in a process of coordination, and this will constitute the concerns of political economy.

Finally, the adoption of practical science, together with subsequent teaching reforms, answers Buchanan’s challenge: finding “a wholly different, and uniquely human, science -one that cannot, by its nature, be made analogous to the positive-predictive sciences of orthodox paradigm,” (1982:17) that can solve the ‘matching freedom with rationality problem.’ Economic theory, in Buchanan’s sense of ‘inclusive rubric,’ would become a synthetic and realistic science, closely oriented towards action, with an original freshness, free from positivist prejudices.

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Notes

1. The expression 'defining work' is from P. Boettke (1994:601).
2. One anonymous referee suggested that I should pay attention to apodictic certainty as one trait of Austrian thought. I agree: this is an important feature. However, I think that it is not essential to Austrian economics in the way that Mises introduces it (as for example, J. Egger –1978:19ff.-). Philosophical Anthropology is apodictic in some conclusions about human nature. I agree with Mises's apodictic certainty to the extent his praxeology picks up some of these conclusions or principles –e.g., that human action is teleological. However, these are conclusions of Anthropology, not of Austrian economics. On the contrary, the Austrian school and I cannot accept Mises' conclusions threatening freedom. As I will show, Mises's concept of freedom is weak and this weakness is directly connected to the rigidity and scope of his praxeology (cf. *Mises and Freedom*, below). The distinction further drawn in this paper between economics as a technique and political economy as a practical science would lead one to think that Misesian Praxeology would better correspond to economics. Notwithstanding, this topic deserves a deeper study and, hence, I prefer to leave it here in brackets.
3. It is worth noting that a century before Carl Menger grasped the centrality of "freedom of the human will." However, he finally left it aside: cf. C. Menger (1985:214 [1883]). It must be kept in mind that Aristotelian influences often pointed out in Menger's thinking stem from an Aristotle 'unconsciously filtered' by philosophical and cultural currents of that time.
4. For a review of those theories, cf. R. Sugden (1991).
5. For an expanded exposition of those issues, cf. O'Connor (1995).
6. This vitality is shown in the new Introduction to *The Economics of Time and Ignorance*, by M. J. Rizzo (1996).
7. For example, by S. C. Littlechild (1982:91, 93 and 97). Littlechild thinks that Hahn—whose neoclassical version of the general equilibrium model he studies—"(...) and Mises share a similar view of the role of general equilibrium (in its timeless sense)." (1982:91) Cf. also J. High (1986:112), T. Cowen and R. Fink (1985), Lachmann (1976a:60–61), G. P. O' Driscoll and M. J. Rizzo (1996:82).
8. D. Gordon (1993:53). See also his argument in 1994, especially pp. 98–99 and 103–104.
9. Cf. Mark Addleson (1986 and 1992:227).
10. Cf. my paper, 1996b.
11. 1966:13 [1949]. I acknowledge Greg Gronbacher's suggestions about the consequences of the Misesian concept of uneasiness.
12. Cf., e.g., 1985:78, 90, 93, 183 [1957]; 1978:58 [1962].
13. In another paper—Crespo, 1997a—I praise Mises's praxeology because it is the assertion of the possibility to achieve a scientific knowledge of the basic principles of human action in a different way from the classical positivist one.
14. For an expanded and thorough exposition of this topic, see Rasmussen and Den Uyl (1991) and (1997).
15. P. Boettke and I have agreed on this terminology in our Controversy (1998).
16. Cf. Yves Simon (1991:120).
17. See also F. E. Foldvary (1996:152).
18. Cf. W. Hennis (1988 and 1991).
19. Cf. M. Blaug (1998). He affirms: "To pick up a copy of *American Economic Review* or *Economic Journal*, not to mention *Econometrica* or *Review of Economic Studies*, these days is to wonder whether one has landed on a strange planet in which tedium is the deliberate objective of professional publication (...) To paraphrase the title of a popular British musical: 'No Reality, Please. We're Economists.'"
20. Cf. *Politics*, I, 8, 1256b 12–14; I, 10, 1258a 19–21; I, 11, 1259a 33–36.
21. Cf. K. Polanyi (1968).
22. I analyze the Aristotelian concept of economy and economics at length in some works: R. Crespo (1996a), and (1997b:Chapters IV and V).

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