

Connections Between the Austrian School of Economics and Christian Faith: A Personalist Approach

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The aim of this article is to clarify why the Austrian approach to economic analysis provides a good anthropological fit with Christian theology in seeking to develop an integrative science. In doing so, the article affirms and supports the three-volume work of the Acton Institute, which aims to provide a foundational basis for economic personalism.

Introduction

One of the main problems of integrating Christian faith and economic analysis is that most economists approach the subject using an anthropology that is decidedly anti-Christian. While this is typically done without much forethought, economists typically reject out-of-hand any approach that deviates from the one that they deem to be integrally part of their study. Owing to the work of John Stuart Mill and his progeny, a utilitarian approach to the subject became dominant. While economic analysis must be grounded in the reality that the utility people find in goods plays a foundational role in our understanding of how economies function, what is not needed is the endorsement of utilitarianism. It is this endorsement that has led the profession to become largely mathematical and empirical. However, the Austrian School has resisted this tendency because scholars working in that tradition maintain an anthropology that is much more consistent with Christianity.

In this article, I will examine these issues in more detail. First, I will explore the implications of adopting a completely mathematical methodology in the

study of economics. As will be demonstrated, this approach reduces human behavior to that of any other animal. Second, I will examine the approach of praxeology that has been taken by the Austrians. Unlike the positivistic method that is so common today, this approach has the benefit of maintaining real, human actors whose choices and activities cause economies to develop and change. Finally, I will consider some important additions that can be made to this approach by developing several personalist insights about the nature of self-determination. It is within this context that Christians can more thoroughly discuss how the people of a society might aspire to live together both freely and virtuously.

The Problem of Modern Economic Methodology¹

There is embedded in the modern approach to economic analysis an underlying assumption that places it at odds with Christianity. The methodology used presupposes that each person is essentially a stimulus-response machine. Theoretically speaking, this assertion is borne out by the assumption that each person has a utility function that is imprinted on his being. While no assertion is made that the function is fixed or permanent, there is little discussion of its changing or of how it might change. In this way, the person's choices, if they can be called "choices," are merely the result of a mathematical calculation based upon the environmental constraints imposed. In essence, the person is viewed as a kind of computer who assesses his options based upon the objective prices that he happens to find in the marketplace.

This approach to economics developed out of naturalism. Naturalism itself became more and more a part of scientific pursuits during the Enlightenment. By "naturalism," I follow C. S. Lewis and define it as the assumption that nothing exists but nature and that nature can only be understood in terms of how each part relates to every other part with nothing else remaining. "What the Naturalist believes is that the ultimate Fact, the thing you can't go behind, is a vast process in space and time which is *going on of its own accord*. Inside that total system every particular event ... happens because some other event has happened; in the long run, because the Total Event is happening."² As applied to social sciences generally, and to economics specifically, naturalism includes mankind in the "Total Event" and, therefore, it assumes that human action arises from a natural cause-and-effect relationship. Richard Weaver captured the progression of naturalism in his book, *Ideas Have Consequences*. In it he wrote:

[Then came] psychological behaviorism, which denied not only freedom of the will but even such elementary means of direction as instinct. Because the scandalous nature of this theory is quickly apparent, it failed to win converts in such numbers as the others [(materialism, evolution, et cetera)]; yet it is only a logical extension of them and should in fairness be embraced by the upholders of material causation. Essentially, it is a reduction to absurdity of the line of reasoning that began when man bade a cheerful goodbye to the concept of transcendence.³

The fundamental problem with this approach is that there is no room left for the self-determining actions of a person acting as a free agent. In other words, the concept of the will or of the volition of the actor is left out of the study. In turn, the notion of action as moral or immoral is also jettisoned. At most, one could only speak of human beings making good or bad calculations about a situation, whatever “good” or “bad” might be taken to mean in the case.

C. S. Lewis pointed out the absurdity of naturalism when he wrote:

if [naturalism] were true, every thing and event would, if we knew enough, be explicable without remainder ... as a necessary product of the system ... [But] all possible knowledge ... depends on the validity of reasoning. If the feeling of certainty which we express by words like *must be* and *therefore* and *since* is a real perception of how things outside our own minds really ‘must’ be, well and good. But if this certainty is merely a feeling *in* our own minds and not a genuine insight into realities beyond them—if it merely represents the way our minds happen to work—then we can have no knowledge. Unless human reasoning is valid, no science can be true. It follows that no account of the universe can be true unless that account leaves it possible for our thinking to be real insight. A theory, which explained everything else in the whole universe but which made it impossible to believe that our thinking was valid, would be utterly out of court. For that theory would itself have been reached by thinking, and if thinking is not valid, that theory would, of course, be itself demolished. It would have destroyed its own credentials.... Naturalism, as commonly held, is precisely a theory of this sort.⁴

It must be pointed out that Christian anthropology is antithetical to naturalism and, hence, to the kind of behaviorism that is present in the modern method of economic analysis. Christianity has always maintained that the person is to be understood as a creature possessing both body and soul made in the image of God and, therefore, is a creature who transcends the natural order

of things in some important ways. Behaviorism provides no room for such transcendence. Therefore, behaviorism misses some very important attributes of human beings and provides explanations that are inadequate for a study of mankind.

All of this is not to say that human beings are entirely other-worldly either. To be sure, the physical makeup of the person often results in numerous responses to stimuli in the natural world. However, to limit our discussion only to these human activities is to ignore the more interesting aspects of human nature. In economics, limiting the study generally means ignoring the more interesting aspects of economic change brought about by entrepreneurial human action. In this regard, the discipline owes a debt of gratitude to Austrian scholars for their emphasis on the importance of this kind of human behavior.

Austrian Insights

The Austrian school of economics is associated with the work of Carl Menger, Ludwig von Mises, Friedrich von Hayek, Murray Rothbard, and Israel Kirzner, as well as that of numerous other writers and theorists. Carl Menger's work was particularly important in setting the tone for the Austrian approach to the subject. Along with William Stanley Jevons and Leon Walras, Menger's work was important in promoting the marginalist revolution. However, Menger employed marginalism in a much different fashion than did Jevons and Walras.

For Jevons and Walras, the utility of a commodity determines the final market price. The commodity's utility dictates choices that generate market phenomena where supply and demand operate to reach a price. Here, utility corresponds to a psychological sensation that is triggered by something within the commodity. This implies that the process needs the person's preferences to function but not necessarily to the person, that is, his will. But for Menger, utility is less the psychological sensation than the valuation or rank ordering of the psychological sensation. Utility is the importance of a commodity for attaining the actor's purposes. A teleology is implied.⁵

Menger's approach is driven by his understanding of what constitutes an economic good. In Menger's view, an economic good exists only to the extent that it possesses "goods-character" and this quality is not something that inheres in the good itself. Rather, "goods-character" is to be found in human knowledge and human action that aims to employ an item usefully toward the fulfillment of some specific end. In this context, the person and his will are fundamentally important.⁶

Ludwig von Mises built upon his teacher's approach in his book, *Human Action*. In that book Mises argues that:

The field of our science is human action, not the psychological events that result in an action. It is precisely this that distinguishes the general theory of human action, praxeology, from psychology.... Action is not simply giving preference. Man also shows preference in situations in which things and events are unavoidable or are believed to be so.... But acting man chooses, determines, and tries to reach an end.⁷

Mises' concern with keeping the acting person in the forefront of his analysis, ensured for him a thoroughly subjectivist economics. This commitment often put Mises and his followers at odds with other economists, because they were unwilling to compromise their approach to mathematics and empiricism. As Murray Rothbard stated the matter, "*Human action is defined simply as purposeful behavior*. It is therefore sharply distinguishable from those observed movements which, from the point of view of man, are not purposeful. These include all the observed movements of inorganic matter and those types of human behavior that are purely reflex, that are simply involuntary responses to certain stimuli."⁸

The work of Israel Kirzner provides an excellent example of how useful this approach to economic analysis can be. Kirzner's work provided substantial illumination for me about the central importance of entrepreneurship in understanding the process of economic development and change. In his discussion of the market process, Kirzner argues:

For Austrians ... mutual knowledge is ... full of gaps at any given time, yet the market process is understood to provide a systematic set of forces, set in motion by entrepreneurial alertness, which tend to reduce the extent of mutual ignorance. Knowledge is not perfect; but neither is ignorance necessarily invincible. Equilibrium is indeed never attained, yet the market does exhibit powerful tendencies toward it. Market coordination is not to be smuggled into economics by assumption; but neither is it to be peremptorily ruled out simply by referring to the uncertainty of the future.⁹

What we find in Kirzner's work is a commitment to understanding the economic actor as a person capable of self-determination. The person is neither omniscient, nor is he totally ignorant. Rather, he acts upon the knowledge and resources at hand to promote his ends. While much can be said about the nature of this action, successful entrepreneurial endeavors cannot be predicted

beforehand. Hence, employing a rigid equilibrium analysis driven by mathematical modeling will be potentially misleading if our aim is to understand the nature of the marketplace and how it changes.

Economic Personalism

While the Austrian approach is useful, Christian thinkers often find limitations to it. In particular, the Austrian School has developed without evaluating, for the most part, the ends that people choose to pursue. The focus instead is upon the efficient means used to achieve the ends. In this way, the Austrians separate the study of economics from the study of moral philosophy. As Rothbard wrote:

One of the most important philosophical problems of recent centuries is whether ethics is a rational discipline, or instead a purely arbitrary, unscientific set of personal values. Whichever side one may take in this debate, it would certainly be generally agreed that economics—or praxeology—cannot *by itself* suffice to establish an ethical, or politico-ethical, doctrine. Economics *per se* ... does not engage in ethical judgments.¹⁰

In this way, the Austrians have generally followed the mainstream of the discipline on the one hand.

Economic personalism, on the other hand, aims to revive an older tradition of analysis that may best be called political economy. It recognizes the origins of the discipline, which developed out of Scholastic moral philosophy. As Sam Gregg has aptly written:

... economic personalism may be described as a method for thinking through the moral, economic, and political dilemmas posed by modern political economy. As a philosophical position, however, economic personalism draws on the Christian humanist tradition and is consequently defined by its desire to help actualize a free and humane economy within a free and virtuous society.¹¹

For this reason, economic personalism aims to integrate a Christian anthropology into the study of economics. Human action is foundational for this approach that operates on “the conviction that the study of human action will provide us with unique insights into the truth—both moral and economic—about the human person.”¹²

It is, therefore, important for scholars attempting to develop this tradition to articulate the essence of what it means to say that the person is a self-determining being who makes choices and whose choices matter. In this regard, the person is viewed as a free agent capable of choosing according to his own will. Such volition implies that the individual is ultimately responsible for the choices that he makes and recognizes the inherent moral issues associated with them. Economic personalism recognizes that virtuous behavior should reflect choosing according to the highest-possible moral values. To put the matter another way, “One becomes free by freely choosing to act in accord with the truth.”¹³ As a result, economic personalists are concerned with the institutional structures that allow for the greatest possible integration of the person. This integration is most likely to occur where the individual bears the consequences of his own actions.

What separates economic personalism from other approaches is its emphasis on the complexity of human choice. As was pointed out above, one of the main problems of utilitarian choice is that its deterministic nature provides such a shallow description of choice that it amounts to no choice at all. According to this approach, the person is, more or less, a passive creature mechanically responding to environmental conditions. While the Austrians have done much to insist on a more realistic human actor, they tend to shrink back from the necessary implication of admitting transcendent human action. Namely, if human beings transcend nature in regard to some of their determinations, then morality immediately comes into play.

Economic personalism affirms this reality and seeks to understand human action and, hence, economics, within this more complex understanding of who the person is and how he makes his decisions in life. While it is understood that each person acts according to his own affections, it is also understood that those affections may or may not include the love of God and his commandments. Such love, if it is the highest affection, will lead the person to act in amazingly sacrificial ways. For example, a man who believes that God commands him to love his wife as Christ loves the church, might sacrifice much for his wife even if she continually treats him badly. In truth, he may live his life in this world in an environment that many people might consider needless suffering, and yet, for a greater good, he may be willing to endure it. Put simply, the nature of a man’s actions will be determined by what he ultimately believes is true and, therefore, by what he loves the most. The writer of Hebrews pointed in this direction when he wrote:

Therefore we also, since we are surrounded by so great a cloud of witnesses, let us lay aside every weight, and the sin which so easily ensnares us, and let us run with endurance the race that is set before us, looking unto Jesus, the author and finisher of our faith who for the joy that was set before him endured the cross, despising the shame, and has sat down at the right hand of the throne of God.¹⁴

In this passage we find the assertion that even Jesus acted in this way. That is, for a greater good, namely, the purpose of God's plan of redemption, he was willing to endure a painful death on a cross even though it was not necessary for him to do so.

Does this additional complexity really make any difference in the study of economics? In a paper I wrote on the subject titled, "Economic Growth: What's Love Got to Do with It?," I made an argument for why it is important.¹⁵ In that paper I point out the fact that a free market cannot exist apart from the affirmation of property rights and that a person committed to the moral principle that stealing is wrong will not be a threat to violate someone else's property even if the opportunity to do so arises. Alternatively, if there are no such people in society, then that economy will be severely hampered because its participants will engage in an ongoing free-for-all attempting to steal whatever they want from others. Furthermore, since politics and governmental power are typically the most useful means of accomplishing theft, the governmental structures of that society would result in a tyrannical use of power by which the politically well-connected oppressed others for their own ends.

To be sure, human history provides evidence of this reality. When this commandment is abandoned, market exchange tends to collapse and can only be revived with a renewed commitment to this moral rule. In most of economics, such a commitment is at best an implicit assumption and at worst, abandoned altogether if certain utilitarian concerns are raised. For this reason, the personalist approach will enhance the study of economics and, therefore, contribute to a better understanding of human action.

Notes

1. I deal with this issue in an extended fashion in my article, “Economic Behavior: An Inherent Problem with Utilitarianism,” *The Journal of Private Enterprise* (Fall 2000): 81–97.
2. C. S. Lewis, *Miracles* (New York: The Macmillan Company, 1953), 16–17.
3. Richard Weaver, *Ideas Have Consequences* (Chicago: University of Chicago Press, 1948), 6.
4. C. S. Lewis, 11–28.
5. Gregory Beabout, Ricardo Crespo, Stephen Grabill, Kim Paffenroth, and Kyle Swan, *Beyond Self-Interest: A Personalist Approach to Human Action* (Lanham, Md.: Lexington Books, 2002), 20.
6. Carl Menger, *Principles of Economics* (New York: New York University Press, 1981), 51–76.
7. Ludwig von Mises, *Human Action: A Treatise on Economics*, 3d ed. (Chicago: Contemporary Books, 1966), 11–12.
8. Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles* (Princeton, N.J.: D. Van Nostrand Company, Inc., 1962), 1.
9. Israel Kirzner, *The Meaning of the Market Process* (London: Routledge, 1992), 5.
10. Rothbard, 883.
11. Samuel Gregg, “Preface,” *Beyond Self-Interest: A Personalist Approach to Human Action*, x.
12. Ibid.
13. Gregory Beabout, et al., 58.
14. Hebrews 12:1–2.
15. Paul A. Cleveland, “Economic Growth: What’s Love Got to Do with It?,” *The Journal of Private Enterprise* (Spring 2000): 62–77.