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society's "social imaginary" Paul Ricoeur, "Myth as the Bearer of Possible Worlds" in *Debates in Continental Philosophy* (New York: Fordham University Press, 2004): "Beyond or beneath the self-understanding of a society there is an opaque kernel which cannot be reduced to empirical norms or laws. This kernel cannot be explained in terms of some transparent model because it is constitutive of a culture *before* it can be expressed and reflected in specific representations or ideas. It is only if we try to grasp this kernel that we may discover the *foundational mythopoetic* nucleus of a society. By analysing itself in terms of such a foundational nucleus (or social imaginary) a society comes to a truer understanding of itself; it begins to critically acknowledge its own symbolising identity."

31. *Ibid.*, 7–8.

Money and the Interpretive Turn: Some Considerations

STEVEN HORWITZ, *St. Lawrence University*

Although Gary Madison is first and foremost a philosopher, in the oldest and best sense of the term, his work spans, and is accessible to, thinkers in a wide range of disciplines. For some of us in economics, Madison's work on epistemology and methodology, and his work on the Austrian school of economics in particular, has been invaluable in sorting out what economic analysis might mean in a postmodern world. Economics has long been charged with being overly devoted to an atomistic version of individualism imbued with all the glories and faults of modernity. Madison has cogently argued that not all of economics is guilty of that charge. F. A. Hayek and much of the rest of the modern Austrian school that emerges from his work are largely immune to those postmodern criticisms. In fact, the Austrians can be read in a highly postmodern way that sees their methodological perspective as pointing toward a more interpretive and more philosophically sophisticated way to understand the project of economics and the associated social sciences.¹

I wish to show in this paper how one of the most fundamental of all economic institutions, money, nicely illustrates the way in which a more postmodern and interpretive conception of knowledge and the task of the social sciences can render such institutions intelligible. In exploring both the origin of money and its use in a developed market economy, I will attempt to apply Madison's philosophical perspective along with Austrian work on money. Specifically, I hope to show that this understanding of money embodies the continual tacking back and forth between the "individual" and the "social" that is the hallmark of properly done social science. Money also performs other important tasks in an advanced economy, and this same interpretive perspective can shed light on those as well. I will devote some time to the role of money in facilitating economic calculation and explore what kinds of institutions would be best for supplying money to the economy.

Austrian Economics, Methodological Individualism, and Social Institutions

In several papers, Madison has explored the methodological ideas of the Austrian school of economics, and F. A. Hayek in particular.² Those explorations have highlighted two related themes. The first is Hayek's attack on scientism and defense of what Austrians term "subjectivism," but what is, for Madison, a properly interpretive approach to the human sciences. The

second theme is Hayek's sophisticated understanding of methodological individualism, with its clear understanding of the complex relationship between the "individual" and the "social." The Austrian approach to understanding social phenomena is an attempt to understand how social "wholes" (institutions such as markets, money, and the like) emerge as unintended consequences of human action. As Hayek's former student, Ludwig Lachmann, put it: "Economics has two tasks. The first is to make the world around us intelligible in terms of human action and the pursuit of plans. The second is to trace the unintended consequences of such action."³

It is worth noting how Lachmann's definition of the task of economics includes both "authorial intention," in the form of individual plans, as well as the social meaning that emerges as unintended consequences of each person's plans interacting with the plans of others. For Austrians, the explanatory task of economics, though starting with individuals, is emphatically not reductionistic, in that social institutions cannot be *reduced to* individual plans and intentions. Rather, social institutions are social precisely because they are the products of no one's intentions.

Moreover, those social institutions feed back onto individuals, in that we would not be able to function in the world without the coherence and guidance that social institutions provide for us. We constantly operate in a world that, in a fundamental sense, we have not created. We are born into a world full of preexisting social structures and meanings that constrain and mold our behavior. There is a growing literature on the economics of institutions that focuses on the apparent paradox that by constraining our options, social institutions "free" us. By limiting the scope of our choices, social institutions enhance our ability to coordinate our behavior by making that behavior more predictable. As Lachmann argued, institutions

enable each of us to rely on the actions of thousands of anonymous others about whose individual purposes and plans we can know nothing. They are nodal points of society, coordinating the actions of millions whom they relieve of the need to acquire and digest detailed knowledge about others and form detailed expectations about their future action.⁴

Madison captures this Austrian understanding of the relationship between social institutions and methodological individualism in the following way:

Hayek's individualism must be understood *epistemologically* and not *metaphysically*.... A metaphysical individualism would be one which posits the ontological priority of the individual over society, 'society'

having only a secondary sort of reality-status. In contrast, an 'epistemological' individualism would be one which maintains, not that the individual exists prior to the social or that the social can be 'reduced' to the individual, but that an understanding of social orders, how they are constituted and how they function, can be achieved by viewing them in the light of the activities of myriad *individual agents*, as, so to speak, the 'in which' and 'by which' individuals are able to exist *as* individuals.⁵

The last clause of this passage provides suitable language for thinking about the role of economic and social institutions in the Austrian analysis. In their role as constraints on, and coordinators of, human action, institutions are the "medium" in which individuals are able to act.

As we shall see in what follows, this is especially true of money and the process of economic calculation. To anticipate that discussion briefly here: the rationality of market actors is not anything internal to human beings in general, or certain human beings in particular, but is instead a result of those human beings operating in a social environment that provides them with a context that makes rational action possible. Market institutions are the "in which" and "by which" human beings are able to act rationally in an economic context. This is but a specific application of the more general Hayekian insight that human culture is not a product of our reason, but rather our reason is a product of our culture.⁶

In the Austrian view, the economy is a web of meaning in which human actors operate, often without fully comprehending what they are doing and why. Hayek's famous analysis of the communicative function of prices is the best example of this way of thinking. As prices emerge as the unintended consequences of individual acts of buying and selling, they serve as a medium for making the private, and often tacit, knowledge of individuals available in a form that others can access. When people buy particular products, they are sending a message to others about how much they value those products. Importantly, the buyers need not be consciously aware of why they value the good; all they need to do is to *act* on their preferences and the message is sent. Of course, the refusal to buy a certain good at a certain price also sends a message of equal importance. Market prices, for both the goods that we buy as consumers and the inputs (raw materials, capital, etc.) that producers purchase, are a sophisticated communication process, without which both producers and consumers would be unable to draw meaning from the economic institutions in which they find themselves. If the economy is a web of meaning, those meanings are constituted by the prices that people are willing and unwilling to pay.

The picture of the economy that Austrians paint is one of a complex set of interconnected institutions that provide a context of meaning for the economic actions of individuals. This order of institutions is beyond the power of an individual or group to construct whole cloth, in much the way that any web of meaning elsewhere in social or cultural interaction cannot be so constructed. The wholes in which we operate are much more than the sum of their parts, and we can only come to know a small portion of the overall structure. In Hayek's words, "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."⁷ Because the economy is fundamentally something no one has consciously made, it becomes a given into which we are "thrown" and through which we interact, rather than some clay, external to us, with which we can create models of our own design.⁸

Money and the Interplay of the Individual and the Social

My investigation of money begins with a definition. Among economists, money is usually defined as "a generally accepted medium of exchange." This definition embodies, I would argue, the interplay between the individual and the social that is, or should be, the hallmark of philosophically sound work in the human sciences. In particular, this definition reminds us of the fundamentally social nature of money as an economic institution. Despite the popular association of money with extreme forms of individualism and acquisitiveness, money's role as a *social institution* is, as Madison reminds us, "that of facilitating human transactions and interactions, i.e., the conversation of the market place. *The essence of money, it could therefore be said, lies entirely in its communicative value.*"⁹ A brief deconstruction of our definition, illustrated by economist Carl Menger's theory of the origin of money, can illuminate both money's communicative role and how an interpretive approach can help us to understand it.

Like all social institutions, money's functions cannot be understood outside of some reference to individuals and their intentions. Of course, that is only where the analysis begins, not where it ends. In the case of money, the definition points clearly to those individual intentions with the phrase "medium of exchange." Money's purpose, to the individual actor, is to make it easier for him to acquire the goods he wishes to consume. Menger's theory of the origin of money, which is to Austrian economists the exemplary story of undesigned order, begins in a barter world, where people attempt to trade consumption goods directly for consumption goods.¹⁰ The problem with barter is the difficulty in obtaining a double coincidence of wants. Not only must I find someone who wishes to sell what I wish to buy,

but that person must also wish to buy what I have to sell, i.e., he must have what I want and want what I have. Compare this situation to a money-using economy where we take it as given that the seller wants what we have (money), and the only question is finding someone who has what we want. We will return to this point shortly.

Menger argued that individuals faced with these trading difficulties will look for ways to alleviate the problem. The most likely scenario is that some people will recognize the advantages of holding stocks of goods that they believe *others* will wish to trade for. Suppose I make shoes and wish to trade for eggs. I might have problems finding egg sellers who are also in the market for shoes. However, suppose I could trade a pair of shoes for some third good, one that I believed was more easily saleable than shoes. For example, suppose I could find someone who needed shoes and had some corn he was willing to part with. I could then take the corn, which is likely to be more easily saleable than the shoes, and go back to the egg-seller and consummate the trade. Ironically, it might well be more efficient for me to trade shoes for eggs in two steps than in one, if the intermediary good (the corn) is quite easily saleable.

Although the notion of a "medium of exchange" can only be understood by *starting* with the attempts of individuals to acquire the things they wish, we are eventually taken to a point where those individuals must begin to take account of the "other" in discovering how best to do so. The evolution of money as a social institution requires that individuals behave socially, in the Schutznian sense of having to take into account the expectations of others in forming their own expectations of the future. Our individual trader cannot avoid the fact that he exists in a world of other minds and other traders performing actions similar to his own. He must make use of his culturally acquired knowledge of others in order to determine what sorts of goods might work best as media of exchange. The idea of saleability, which is what enables some goods to serve as media of exchange, is not a physical characteristic of goods that can be discovered through science, but a market characteristic that goods acquire due to their cultural or economic significance.

This last point is crucial because it points to the central role of interpretation in this process. What makes something function as money is the fact that others find it valuable and are always willing to trade for it. The traditional view that the key characteristics of a money commodity are that it is portable, easily divisible, relatively scarce and nonperishable are not nearly enough. Those characteristics might be necessary but they are surely not sufficient to make something money. Before we are concerned with those physical characteristics, the medium of exchange must be valued by

others. Without that value, it is not easily saleable and cannot fulfill the functions of money. To Austrian economists, goods that might serve as money must be subjectively valued by a large number of people.¹¹ Madison misses this point a bit in his discussion of the evolution of money. He writes: "in previous ages money was a tangible, material sort of things (having an 'intrinsic' value of its own): pieces of gold or tobacco leaves."¹² Although "intrinsic" is put in quotes, his example of gold belies the claim of intrinsic value. Gold served well as a medium of exchange because people *believed* it to be beautiful or to possess special powers. The physical characteristics of gold (in the sense of industrial uses or the like) were not that well known. It served well as money because people simply thought it was beautiful and wished to possess it (and it did meet the portability, etc. criteria noted above).

The idea of saleability takes us to the "social" portion of our definition of money: that it be "generally accepted." In the barter economy, traders who are good cultural interpreters will choose intermediate goods that are more saleable. As a result, they will be more successful in executing their trades and acquiring what they desire. In other words, they will get "rich" more quickly than others who try to use less saleable goods. Again, in attempting to achieve our own individual purposes in a market context, we are forced to confront the fact that we must interact with others in order to do so. In the context of the barter economy, those who are better attuned to what others want will be more successful. The attempt to determine what goods could serve as media of exchange is a true act of interpretive understanding.¹³ Actors are, in Gadamer's well-known formulation, attempting to "fuse horizons" with others with whom they trade so as to find what goods would serve this trading purpose best.

In Menger's theory, a social learning process begins to unfold that sorts out the better prospective moneys from the worse ones. As noted earlier, those who use intermediary goods that are more valued by others will have more successful exchanges. Menger theorizes that these successes will be noticed by others, who will then imitate the behavior of the successful. This imitation process provides a way for people to discover what goods are more or less saleable without ever having explicitly to ask others, or to articulate reasons, why that is the case. As the behavior of the successful is imitated, the demand for the goods they are using as intermediaries increases, making them still more saleable than before. This begins a snowballing process that concludes with a very small number of goods, no more than one or two, being the *most* saleable good(s), or what we call money. By being the most saleable, they can legitimately be called "generally accepted" media of exchange. This general acceptance distinguishes

them not just quantitatively but qualitatively from other goods; that might be "partially" accepted as media of exchange.¹⁴

Once a good has become institutionalized as money, it then begins to feed back on the behavior of individuals in the ways we noted in the previous section. Prices of goods and services are now all reckoned in terms of this single good. Changes in the supply of, and demand for, the money commodity can have wide-ranging effects on the economy. The key here is that money becomes half of virtually every exchange in the market. Put another way, every market is a market for money because all markets where people *buy* goods and services are also markets where people *sell* money.¹⁵ The money commodity has now become the "by which" and "through which" almost all economic activity takes place. It is here where the analogies with language become obvious. In much the way that our thoughts are constituted in language, so do our economic actions become constituted in terms of money and money prices. Just as we cannot think or understand except through some language, so can we not engage in economic behavior except through the institution of money. Like language, money and a money price system are only useful to the extent that others also make use of it. Both are, in the end, communication processes.

Many of these insights are lost by both defenders and critics of the market when they treat money in ways that are overly individualistic or rationalistic. If money is only understood as playing a role in the capital accumulation activities of individuals, or if it is just the *n*th good in the utility maximization functions of individuals in a general equilibrium system, its centrally social characteristics will be overlooked. For Marxists, this means missing money's irreplaceable communicative role, and for neoclassical economists it means missing the complex interactions and feedback that are seen when one refuses to head down the blind alley of reductionist methodological individualism. The more sophisticated and interpretive methodology of Menger, Hayek, and the Austrians opens up money to these insights.

Economic Calculation as Interpretive Understanding

In his excellent discussion of the economic order in Chapter 4 of *The Political Economy of Civil Society and Human Rights*, Madison touches on the fundamentally important issue of economic calculation. For Austrian economists, the importance of economic calculation is twofold. First and foremost, understanding the role of prices and how entrepreneurs use them to formulate and execute their production plans is foundational to an understanding of the market process. Second, this insight also shows why

attempts to abolish or intervene in the market through the use of the state are likely to fail. By abolishing or distorting markets, the communicative function of market prices is eliminated or undermined, leaving producers in the dark as to what to do and how to do it.

The importance of economic calculation flows from our earlier discussion of money's role as a social institution. In addition, the way in which producers make use of market prices is another example of the interaction of the individual and social (or of the parts and the whole) that characterizes so much of postpositivist and postmodern philosophy. Put simply, economic actors find themselves in a delicate web of meaning delineated by market prices, and like other such webs of meaning these prices must be built up through the free actions of individuals in order to perform their semiotic function adequately.

The theme of Madison's chapter referred to above is that the market process can be well characterized as an ongoing conversation that uses money and money prices rather than language as its medium of communication. In making this argument Madison claims that "In a free market economy, just about everything that market participants need to know is conveyed to them directly by *monetary prices*."¹⁶ Although the spirit of this argument is sound, surprisingly enough it treats the entrepreneurial process of economic calculation too mechanistically, if not too objectivistically. By suggesting that "just about everything" that producers need to know comes to them through prices, Madison shortchanges the role that producers (and perhaps consumers) play as active interpreters of both prices and the market more broadly. Indeed, producers must make use of the irreplaceable knowledge embodied in market prices, but that knowledge is not nearly sufficient for economic action. The "reading" of those prices is an act of interpretation imbued with the Gadamerian prejudices of the producers. In addition, the use to which those interpretations are put involve the creative imagining of an alternative future, based on the producer's interpretation of the "text" of the market. All economic actions are like hypotheses or Popperian conjectures. They are informed guesses about what others might want based on the actor's interpretations of the "data."

If we break this process down into individual steps, the role of interpretation becomes clearer. The entrepreneur examines the data of the market and sees in it possibilities that no one else has seen so far. This is the quality that Israel Kirzner refers to as "alertness."¹⁷ The entrepreneur, by being alert to possible interpretations of market prices, enables us to discover uses of resources hitherto unimagined. The role of market prices here is instructive. The entrepreneur by necessity must start in a given world of meaning, namely the current array of prices. As with any

conversation, one must understand the context into which one is stepping. One cannot simply begin chattering away on any subject; the conversation has preexisting meanings. Discovering that meaning is largely facilitated by market prices, as Madison points out. However, that is only the beginning of the entrepreneur's task.

Prices do not speak for themselves any more than words do. The entrepreneur must take those prices and interpret what they are saying. These interpretations must be in light of what the entrepreneur expects the future array of prices to be. As Kirzner argues, entrepreneurs make profits by buying up resources at today's prices and transforming them into a product that will sell for a higher price in the future, at the end of the production process. Those profits are what, if anything, is left over after selling the transformed good at the higher price, subtracting the costs of acquiring the inputs (including labor) and accounting for the passage of time by discounting by the interest rate. Profiting by entrepreneurial activity, however, means interpreting existing prices better than the competition and by more accurately imagining what will happen in the future (what people will buy and at what price) than others. Of course "what happens in the future" is also dependent to some degree on the entrepreneur's own actions. The information provided by existing prices is only the first step in this process.

A successful entrepreneur must make use of the "thymological" knowledge we referred to earlier. The entrepreneur uses her faculty of interpretive understanding to "read" the text of culture and formulate an interpretation of what it is that people want.¹⁸ That cultural interpretation combined with the information provided by existing market prices, made possible by monetary exchange, are what lead the entrepreneur to act in the way she does. It is important to note that entrepreneurial reaction is not simply a mechanical response to price "inputs," as production is often portrayed in mainstream economic models. The entrepreneur is not a mirror of economic nature, but an active, interpreting subject who sees the economic world through the eyes of her own experience and knowledge. In Gadamerian terms, she brings her prejudices to bear on price data to form an imaginative view of the future which she then moves to create. This is what Austrians mean when they say that economic competition is a discovery process.¹⁹ The entrepreneur creates new knowledge by creatively interpreting the economic and cultural text with which she is presented.

Money prices inform the entrepreneur's ability to calculate numerically whether her actions are, or were, successful. As Peter Boettke argues, prices perform this role in three different ways.²⁰ Prices, as we have seen above, provide information *before* the entrepreneur acts about whether

what she wishes to do is likely to be successful. Prices provide information about the current state of affairs in the market and allow the producer to formulate a budget and a plan of action. Prices also tell the entrepreneur *after* the fact whether what she has done was worth doing. The information accountants collect and interpret tell producers about whether what they have done was value-creating or not. This, of course, is an extremely valuable feedback process that enables markets to generate orderly outcomes, just as (as Madison notes) analogous processes work to produce "truth" in the marketplace of ideas. Finally, prices enable potential entrepreneurs to be alert to opportunities to take advantage of what they perceive to be discrepancies between "what is" and "what could be." Prices prompt the discovery of the hitherto unseen.

In understanding this interaction between entrepreneurs and the price system, we can also tackle the issue of the rationality of market actors. Unlike a more Cartesian view, where the rationality of individuals in the market is a product of their genetic or mental constitution (the approach usually taken in mainstream economics), this more interpretive, Austrian view locates the rationality of actors under capitalism as an attribute of the *system* rather than of the individuals who inhabit it. In a Weberian sense, the market makes the man. What markets do, by serving as communication processes, is enable actors to behave rationally within them. One could take the best entrepreneur in the market and place her in a government bureaucracy and she would find it very difficult to operate successfully. This would not simply be because the rules of the game are different, which they are, but because economic efficiency is very difficult to achieve in an institutional context that lacks meaningful market prices to serve as sources of information.²¹ The rationality of the market is, as Madison argues, a communicative rationality that emerges from the process as a whole: "The market economy can be said to be irrational only to the extent that one entertains an overly *rationalistic* conception of rationality, one which in fact reduced reason to mere instrumental, means-end (utility maximizing) rationality."²²

Market efficiency and rationality emerge out of the continued circular interaction between the individual and the whole. Individual acts of economic calculation are made possible by the social process of the market, and the choices that result from such calculations are what comprise that very process. There is a constant iteration between the unintended social consequences that unfold in the market as a whole and the intended plans of entrepreneurs. Entrepreneurs act within the web of meaning known as

the market. That web of meaning is made possible by the existence of money and its use as a generally accepted medium of exchange.

Monetary Institutions and the Market Process

Although Madison never directly addresses the question, the issue of what kinds of institutions are best able to supply money to the market is worth a brief discussion. Even among many people very sympathetic to the efficacy of the market process, money is often singled out as one of the goods or services that should be supplied by government. The argument usually proceeds from the assumption that money is a fundamental or framework good, in that stability in its value is essential for there even to be a market in the first place. It is often, in this way, linked with the provision of law and related legal services, in that it is argued that law must be produced from outside the market process in order for there to be a market process at all.²³ This argument is flawed in two ways. First, it is flawed in its belief that the market is less capable than the state of providing a money of more stable value. Second, it also misses the "dialogical" relationship between the evolution of money and the evolution of the market process. The use of "outside" and "inside" the market assumes a sort of one-way causality between money and the market, when in fact the relationship between the two institutions is mutually reinforcing and circular.

The technical issues in monetary theory that could more rigorously establish the claim that money (both currency and deposits) can be produced by the market are well beyond the scope of this paper. My own earlier work on this subject offers both theoretical and historical reasons for this position.²⁴ Briefly, it can be argued that the fact that money is so important to the market is not a case that the market should not or cannot provide it. After all, one could say much the same thing about food, but if socialism, particularly in its African variant, has taught us anything, it is that markets do a far better job in providing this fundamental good than does the state. The Western world's history of state-generated inflation should immediately cast doubt on the argument with respect to money. Moreover, where money has been largely free of state monopolization and regulation, banking systems have performed extraordinarily well, avoiding both major changes in the value of money and bank failures as well as other problems.²⁵ As it is, the vast majority of the money supply in most countries is already privately produced in the form of bank deposits. It is the production of currency (paper money) that is the real issue, along with various government regulations of bank operations.²⁶ In almost every

historical example one could name, the advent of government regulation of money and central banking more broadly has been brought on not by the failure of free market banking systems, but by either the failure of existing regulations or by the desire of governments to manipulate the monetary system for their own fiscal benefit.²⁷

At a more philosophical level, however, the interaction between the development of money and the evolution of the market process is a case of mutual influence. Often times, the argument seems to be that one needs a fully developed money, or monetary system, in order for the market process to work with any effectiveness. This is simply not the case both theoretically and historically. What we see, in fact, is that monetary institutions co-evolve with market processes and through their mutual feedback produce monetary institutions appropriate to the developmental stage of the economy in question. After all, in Menger's theory of the origin of money, markets (at least in the sense of exchanges) existed before money, as it was those barter exchanges that produced money in the first place. Once one good becomes the generally accepted medium of exchange, it surely hastens the development of more, and more complex forms of exchange. Those more complex exchanges in turn create a demand for new and different kinds of money (think of the development of bills of exchange and other forms of credit, along with checking accounts and electronic transfers). Banking has always co-evolved with the market more generally.

The view that some institutions (like money) are external to markets is, in my view, insufficiently subjectivist (in the Austrian sense of the term). It fails to take seriously the viewpoints of market actors and the theorist.²⁸ It is true that in some cases we may wish to take the evolution of money as a given (i.e., external to the market) in order to analyze how some market institution evolves. However, the idea that money is external in this sense is not an objective truth. It is an assumption made by the theorist in order to explore a particular question of interest to him. In the same way, we might hold some other institution constant, say contract law, in order to see how money has evolved within the constraints of that institution. Which institutions are "external" to which institutions depends on the actor's and the theorist's point of view. To claim that money is a "framework" good that must be provided from "the outside" in order for the market process to exist at all succumbs to this error.

Furthermore, if the arguments raised in the previous section about the efficacy of monetary calculation are correct, why should money itself be exempt from those claims? If profit-seeking actors operating in an unhindered market are able to act rationally based on the signals generated by that market, why should the producers of money be prevented from doing

so? Why not allow the quantity of checking account balances *and* currency to be produced with an eye toward those same signals? As it currently stands, the production of currency (and other so-called base money) is guided only by the wisdom of central bankers. While some may be very wise (e.g., Alan Greenspan's success at reducing inflation in the United States), it seems quite risky to let the quality of a good as important as money be dependent upon the skills of one person or a small group of central bankers. Instead, the individual bankers across the economy could, and should, be allowed to take advantage of market signals to guide them in producing the correct quantities of all kinds of different moneys. In other words, we can make use of the far superior *communicative* rationality of the market process, rather than relying on the *individual* rationality of central bankers. As Lavoie argues, we need to distinguish between the role of intelligence of individuals and the social intelligence of the system within which they operate: "when we study a social system, we have to focus on the method of mutual coordination among the individuals, and not only on the intelligence of the average individual, in order to determine the system's social intelligence."²⁹ Opening up the production of money (or any other good whose production is guided by distinct individuals operating in non-market processes) enables us to take advantage of that superior social intelligence.

Again, it is in some sense circular to argue that you need money prices to produce the money you need to have in order to get money prices. But, like other such circles, it is really a spiral, in that each step forward for one is a push forward for the other. Money makes markets possible and markets make money possible.

Conclusion

If economics as a discipline can learn anything from the economically informed philosophical work of Gary Madison, it is to temper our language about rationality. It is not merely that economists think people and institutions are more rational than they really are, but, as Madison has noted, that they have an outmoded notion of rationality to use as a basis for comparison. Hayek has argued that rationality should be understood in the Humean sense of "using reason to whittle down the claims of reason." This view nicely links together the reasonable concept of reason of the Scottish Enlightenment with the equally reasonable conceptions of reason that are part of the "interpretive turn." A more sophisticated understanding of human knowledge and human social interaction can shed new light on even the oldest and apparently most mundane institutions, such as money.

Madison's work provides an effective set of philosophical and political ideas that economists can look to as they begin to re-ask the old questions in new ways, and, with a little luck, get some better answers.

sghorwitz@stlawu.edu

Notes

1. For more on Hayek and postmodernism, see the exchange between Burczak and Caldwell: Theodore A. Burczak, "The Postmodern Moments of F. A. Hayek's Economics," *Economics and Philosophy* 10, 1, April 1994; "Reply to Bruce Caldwell: Can Subjectivism Be Non-hermeneutic?" *Economics and Philosophy* 10, 2, October 1994; Bruce Caldwell, "Hayek's Scientific Subjectivism," *Economics and Philosophy* 10, 2, October 1994.
2. See, for example, "Hayek and the Interpretive Turn," *Critical Review* 3, 2, Spring 1989; "How Individualistic is Methodological Individualism?" *Critical Review* 4, 1/2, Winter/Spring 1990.
3. Ludwig Lachmann, "Sir John Hicks as a Neo-Austrian" in *Capital, Expectations, and the Market Process*, ed. Walter Grinder (Kansas City: Sheed Andrews and McMeel, 1977), 261-2.
4. Lachmann, *The Legacy of Max Weber* (Berkeley: Glendessary Press, 1971), 50.
5. Madison, "How Individualistic is Methodological Individualism?", 48.
6. See F. A. Hayek's discussion of this in *The Fatal Conceit: The Errors of Socialism*, ed. W. W. Bartley (Chicago: University of Chicago Press, 1988), 22-3.
7. *Ibid.*, 76.
8. If I may digress for a moment, it is interesting to note one implication of this idea that social institutions are not consciously constructed. For many on the radical left, the goal of deconstructing social practices and institutions is pursued with a vengeance. From a Hayekian perspective, this in itself is not a bad thing. After all, Hayek argues that social scientists should "claim the right critically to examine" every single human value, but not all of them at once. Hayek, "The Errors of Constructivism" in *New Studies in Politics, Philosophy, Economics and the History of Ideas*

(Chicago: University of Chicago Press, 1978), 19. However, the problem with the deconstructionist mentality is that it often seems to argue that the institutions it aims to deconstruct were consciously created by particular people for their own collective benefit. Thus one often hears that capitalism is patriarchal in that it supposedly mostly benefits (white) men, as it was they who, the argument goes, created it. The problem here is twofold. First, most social institutions, although they might have the consequence of benefitting certain groups, were not *consciously* created for that purpose and often had that result precisely because they failed to live up to their own, self-professed, ideals (e.g., the prohibitions on property ownership for minorities and women, which are nothing inherent in the notion of private property). Second, and more important, the notion that we can deconstruct such institutions suggests that it is equally possible to consciously reconstruct them so as to avoid the supposed harmful consequences. Thus, the call for "creating" new social and economic institutions based on feminist principles. The erroneous idea that we can consciously and intentionally create economy-wide institutions according to some set of blueprints reflects the lingering rationalist bias in much radical thought, despite its lip-service to critiques of modernity and rationalism. I address these issues at greater length, with particular reference to feminism, in "Feminist Economics: An Austrian Perspective," *Journal of Economic Methodology* 2, 2, December 1995.

9. Madison, *The Political Economy of Civil Society and Human Rights* (New York: Routledge, 1998), 136. My own work in economics has explored the relationship between money and language along these lines, and I have attempted to apply the parallels between the two to broader issues of capitalism and socialism. See especially "Monetary Exchange as an Extra-Linguistic Social Communication Process," *Review of Social Economy* 50, 2, Summer 1992; *Monetary Evolution, Free Banking, and Economic Order* (Boulder: Westview Press, 1992); and "Money, Money Prices, and the Socialist Calculation Debate," *Advances in Austrian Economics* 3, 1996.

10. See Carl Menger, "On the Origin of Money," *Economic Journal*, 2, 1892. Mises recognizes the importance of Menger's theory for the doing of social science in his discussion of the "epistemological import of Carl Menger's theory of the origin of money." Ludwig von Mises, *Human Action: A Treatise on Economics*, Third Edition (Chicago: Henry Regnery, 1966), 405.

11. Other explanations of the origin of money overlook the importance of subjective value for determining which goods became money. For example, Marx's account of money in *Capital* does a nice job in explaining how *some*

good could become a medium of exchange, but he is unable to explain why *certain specific* goods historically served that role.

12. Madison, *Political Economy*, 135.

13. In Mises's somewhat idiosyncratic terminology, actors deploy their "thymological" knowledge (i.e., their understanding of the psychology of others) in making this decision, and in acting in the market more generally. See *Human Action*.

14. This qualitative difference has important implications for macro-economics and monetary policy. For an excellent treatment of these issues, see Leland B. Yeager, "Essential Properties of the Medium of Exchange," *Kyklos*, January/March 1968.

15. The colloquial use of "money market" to describe financial markets is a misnomer. Most of what goes on in such markets is not the trading of money, but of credit and other financial instruments.

16. Madison, *Political Economy*, 140.

17. Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

18. See Donald Lavoie, "The Discovery and Interpretation of Profit Opportunities: Culture and the Kirznerian Entrepreneur," in *The Culture of Entrepreneurship*, ed. B. Berger (San Francisco: Institute for Contemporary Studies, 1991).

19. Hayek, "Competition as a Discovery Procedure," in *New Studies in Politics, Philosophy, Economics and the History of Ideas*. As James M. Buchanan describes it: "Order is defined in the process of its emergence." James M. Buchanan, "Order Defined in the Process of Its Emergence," *Literature of Liberty* 5, 4, Winter 1982, 5.

20. Peter J. Boettke, *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928* (Boston: Kluwer, 1990), 105.

21. This point has some relevance for the presidential aspirations of Ross Perot in 1992 and 1996, who based much of his campaign on the idea that all the US government needed to solve its various fiscal and efficiency problems was someone who really knew how to run a business. Perot and

his supporters were completely oblivious to the argument that the skill of running a successful business cannot be transferred lock, stock, and barrel to the political process as the latter lacks the institutional signals and feedback processes that facilitate and reward efficiency. Note also that this is somewhat different than the point associated with the body of work known as "public choice economics," which argues that the institutional signals and feedback of the political process, when combined with broadly self-interested behavior, will produce outcomes antithetical to the public interest. The public choice view, while different, is completely complementary to the point I am making in the text.

22. Madison, *Political Economy*, 135.

23. As my tone might suggest, I am going to criticize this argument in what follows. Many of the issues raised about money apply with equal force to the law. For a comparison of these two social institutions see Horwitz, "Spontaneity and Design in the Evolution of Institutions: The Similarities of Money and Law," *Journal des Economistes et des Etudes Humaines* 4, 4, 1993. George Selgin's *The Theory of Free Banking: Money Supply Under Competitive Note Issue* (Totowa: Rowman and Littlefield, 1988) is a good place to start on the market provision of money, while Bruce Benson provides a parallel argument for the privatization of law in *The Enterprise of Law* (San Francisco: Pacific Research Institute, 1990).

24. Horwitz, *Monetary Evolution, Free Banking, and Economic Order*.

25. The Scottish system of the eighteenth and nineteenth centuries is an excellent example, as is the Canadian system of the nineteenth century. See Lawrence White, *Free Banking in Britain*, Second edition (New York: Routledge, 1996). For a good collection of historical essays on this issue, see Kevin Dowd's *The Experience of Free Banking* (New York: Routledge, 1993).

26. The advent of so-called "e-money" in the form of digital "wallets" and smart cards threatens central bank monopolies on hand-to-hand currency in much the same way as email threatens postal monopolies and satellite TV threatens local cable TV monopolies. The path to market-provided money may well be through the Internet and the PC.

27. See Madison, *Political Economy*, 146-7.

28. I have expanded on this theme in "Hierarchical Metaphors in Austrian Institutionalism: A Friendly Subjectivist Caveat," in *Methodological Issues in the Subjectivist Paradigm: Essays in Memory of Ludwig Lachmann*, eds. Roger Koppl and Gary Mongiovi (New York: Routledge, 1998), a contribution to a memorial volume for Ludwig Lachmann, surely one of the most interpretively-aware economists of the century.

29. Lavoie, *National Economic Planning: What Is Left?* (Cambridge, MA: Ballinger, 1985), 28.

Warfare, Reason, and Moral Truths

PETER McCORMICK, *International Academy of Philosophy (Liechtenstein)*

The "Sublimity" of Warfare

In the first appendix to his short treatise *Perpetual Peace* (1795), Kant speaks of war. He writes: "War itself requires no special motive but appears to be engrafted on human nature; it passes even for something noble.... Often war is waged only in order to show valour; thus an inner dignity is ascribed to war itself, and even some philosophers have praised it as an ennoblement of humanity."¹ Kant clearly sees war as a violation of the moral law within. Yet his talk here of war being able to "pass for something noble," of war for some as "an ennoblement of humanity," and even of war as comprising "an inner dignity" recalls his earlier, even more striking, claim in the *Critique of Judgment* (1790). There, Kant writes: "Even war has something sublime about it if it is carried on in an orderly way and with respect for the sanctity of the citizens' rights. At the same time it makes the way of thinking of a people that carries it on in this way all the more sublime in proportion to the number of dangers in the face of which it courageously stood its ground."²

With these puzzling observations in mind, I would like to investigate briefly just what sense we can make of Kant's astonishing, even shocking, remarks that war may properly be taken as something sublime. My central concern is to attract fresh philosophical attention to still neglected conceptions that may be put at the service of our efforts today to rethink the cardinal concerns of a philosophical ethics for societies like our own that are in the midst of what I would call a cultural revolution. At the end of our own bloodiest of centuries, however, I shall set aside Kant's naive suppositions that wars can be carried on "in an orderly way and with respect for the sanctity of the citizens' rights." Rather, I shall take my inspiration from Kant's much darker anthropological allusions here to what he obscurely calls "human nature." I will foreground his terrifyingly prescient remarks about "men who are so inclined that they should destroy each other and thus find perpetual peace in the vast grave that swallows both the atrocities and their perpetrators."³ I begin with an historical description of one central instance only of twentieth-century warfare.

From July 11–13 of 1943, in what many historians today hold to be the essential turning point of the Second World War, Soviet Marshall Grigori Zhukhov's defensive strategies for achieving an implacable attrition in the Kursk Salient in Ukraine in one of the greatest tank battles in history slowly and terribly ground down Field Marshall Erich von Manstein's unremitting yet reluctant offensive just to the west of Voronezh in eighteen hours of horrendous suffering in the "slaughter of Prokhorovka." Hitler had planned his "Operation Citadel" originally for April, then gave orders for the operation to begin in May, then again postponed the operation repeatedly. Operation