Neurath on economics: its importance and imperfection as a holistic alternative to capitalism in modern society and beyond

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Abstract

The rise of logical positivism from early twentieth century was brought about by the Vienna Circle, in which Otto Neurath was the leading figure. While much of his pioneering works on his philosophy of science, mathematics and alike, has gained wide interest, not much light has been shed on his works on philosophy of social science and economics.

Neurath had developed his theory on socialization at post-World War I period [1]. This was a product of the societal and scientific drifts of the time combined with Neurath’s notion of logical positivism. In much of his texts, he rejects the basic tenets of capitalism and proposes a new socioeconomic condition that he himself puts as socialism. Although he takes a rather left-wing stance in terms of politics, he still maintains a distance from communism and Marxism. This is because what he did was to endorse the need for holistic and subjective values in economics inspired specifically by logical positivism, along with other social and political movements – a combination that was not represented by many others.

However heterodox it was from the mainstream economics, Neurath’s economic thoughts were one of the radical concepts that were the product of socioeconomic conditions of the time. But along with the death of logical positivism and strong socialism in modern world, his economic thought has lost its place in modern economics. In this paper, re-evaluation of his works is done in the context of modern societal, political, and economic conditions, which is then led to a more general and fundamental considerations on economics. The paper concludes with an attempt to present the value of Neurath’s economic
thoughts in the field of economics.

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1. Introduction

Otto Neurath was a well-known founding member of the Vienna Circle, and was one of the leading figures in then-active movement called logical positivism in the early twentieth century. Although much of the attentions to this movement were gained through its philosophical underpinnings in science and mathematics, brought about a surge of groundbreaking ideas in such fields, a relatively small amount of light has been shed on its influences in social sciences. At the heart of the developments of logical positivism into social sciences was Otto Neurath, who not only published numerous articles on it, but also was an active member in real-life politics.

Neurath was distinguished from the rest of the Vienna Circle in that he advocated a social and historical approach towards science. A central theme in his philosophy was the "absence of epistemic foundations and the irreducible contextuality of knowledge and justification", and used the famous simile to describe this: "we are like sailors, who have to repair their boat on the open sea, without ever being able to pull into dry dock" [2]. This, in turn, shows his lean towards a constructivist view in social sciences. What he shared his interest with the members of Vienna Circle was his enthusiasm in trying to reconcile foundationalism and relativism. While this has started with his ideas in natural sciences, it was then carried forward to social sciences.

His activities as an economist ranged from theoretical studies of social history to a proposal for urban transport systems. His immense contributions to economics gained him a separate field of his own,
especially on war economics. Through his observations of the social conditions of the time, which
featured a series of wars and turbulences, he explored and developed on several ideas, and even
proposed a prediction and guidance on economies of the future. Because of such unique social
conditions of his lifetime, it is inevitable that we start with an understanding of societal and economic
developments of the time.

2. **Brief history of economic and social conditions of the time**

With the development of human society from the ancient times came the development of economic
ideas. However, the formal discussion of economic as a field only began from the rise of British
empiricism in the seventeenth century. Then with the sudden increase in the productive capacities and
international trades from then on, it became an intriguingly complex and important field of study in
social science.

At the early lifetime of Neurath, the real-life economy was so much different from what we are now
familiar with and take for granted. In the period between 1870 and 1914, major countries were adopting
a monetary system of gold standard. Although this system – using gold coins as a “medium of exchange,
unit of account, and store of value” [3] – had already been in use since ancient times, it only gained its
legal acceptance from 1819 by the British Parliament. Since Britain was the world’s leading economic
power and role model, this practice quickly gained popularity by many other countries. Under this
system, the bank stated the value of its currency in terms of gold. Because the world gold supplies were limited, the world price levels remained relatively stable compared to what came next.

With the onset of World War I, the governments suspended the gold standard and the face value of money was more emphasized, as the countries were financing their massive military expenditures by printing money [4]. The war has also brought sharp reductions in productive capacity and labor forces. Even right after the war’s conclusion in 1918, the governments financed their reconstructions simply by printing more money. These factors all led to a sharp rise in the price levels. As a result of this, Germany and its associated countries experienced hyperinflation. The peak of the hyperinflation was marked between 1921 and 1924, in which the exchange rate was 4,200,000,000,000 Marks to 1 US$ [5].

During the interwar years, gold standard was adopted once again by many countries. However, it was unlike the prewar period, with the rate of inflation so much higher. With the loss of confidence on British pound sterling and the postwar stagnation, London has lost its place as the world’s leading financial center. While many other countries stayed in the gold standard, Britain abandoned the system in 1931.

The global economy was leading itself to the Great Depression in the early 1930s when the suffered countries started engaging in severe trade restrictions to protect and raise domestic welfare – an example of beggar-thy-neighbor policy [6]. This led the world economy to disintegrate and evolve into self-sufficient national units. Then the world suffered through the Great Depression, especially in the United States and European countries. Countries that abandoned the gold standard system early, as in the case of Britain, survived relatively well compared to those that stayed in the gold standard system.
Contrary to widespread beliefs, we see from these set of events that the change in the economic belief and systems is not of an ancient relic but of something relatively recent and real-life. This is also associated with the change in social conditions such as, in the case of this certain period, wars. Thus, it is of no surprise that there had been a rise of new economic theories as opposed to the prevalent free market theory.

3. Evolution of economic thoughts

As economic systems and conditions were going through raging and rapid changes as mentioned in the previous section, several economists came up with unprecedented thoughts. Those whose influence still remains very close to us in the modern society are Karl Marx and John Maynard Keynes.

Marx’s theories are dated back from mid to late nineteenth century. Mostly recognized by his contributions in labor theory of value and communism, he was a revolutionary economist whose influence reached its peak in the twentieth century. In his famous work “Economic and Philosophical Manuscripts”, he argued that the workers suffer from several types of “alienated labor” under capitalism [7]. He suggested that capitalism gives rise to only a limited range of possibilities and leads us to exploit the workers by its nature. Marx’s analysis on social sciences and economics was centered on his “urge to transcend this condition and to take collective control of our destiny”. His criticisms on capitalism were portrayed by his famous work “Das Kapital”.
A leading figure in the field of economics of Neurath’s time was John Maynard Keynes. Keynes, by no means, has never rejected capitalism as such. Rather, he was mainly recognized as opposing the neoclassical economics regarding macroeconomics and government policies. His ideas were then made to create the school of thought called Keynesian economics. While the neoclassicists argued that free markets would automatically lead to full employment in the long run by the economy’s aggregate supply, Keynes argued that it is aggregate demand that determines the economic growth and unemployment, and therefore the government has to actively engage and intervene in the economy. His thought had the greatest influence at times after the end of Great Depression until the mid-1970s, in which many capitalist governments adopted his ideas in the government policies. Its popularity has waned shortly after; then it recently regained its popularity in 2008 when the world was in distress with the US-triggered global financial crisis.

4. Neurath’s economics

From many of his writings and activities, it was evident that he was an advocate of socialism. He rejected the ideas of neoclassical economists of his country Austria. He thought that economic decisions are "judgment calls comparing expected outcomes between sets of irreducibly incommensurable measures". His works are sometimes even viewed as a “test case for his physicalist encyclopedism” [8].

For this reason, he starts by rejecting the old utilitarian ideas in economics. He indirectly mentions
Jeremy Bentham’s hedonistic calculus and alike, and criticizes this using an example of a choice of residence for a civil servant. This is shown in the text below.

“Suppose a civil servant has the choice between two places of residence, A and B. In A, he receives a larger quantity of food and accommodation, in B on the other hand a larger quantity of honour. Is it possible to have a calculus such that it summarises for us food and accommodation as one magnitude, and honour as another? Impossible! We are not able to compute such a complex, containing both pleasure and pain, by first separately establishing the magnitude of pleasure, then the magnitude of pain and finally doing the sum. On the contrary, we can only look at such a complex as a whole.” [9]

The main idea in this text coincides with his another example of comparing the “orders of life of two nations with each other”, in which he claims that such cannot be done by summing up the amount of food that we eat and the clothes that we wear. In additions, values such as artistic achievements cannot be compared in the monetary method of comparison.

While he emphasizes that we need to regard things as a complex whole, he fails to suggest exactly how we should go about doing this. In fact, the examples that he give us to consider are mainly artistic and religious values, something that we tend to believe that cannot be transferred to monetary values. But why should higher artistic achievements be criteria for a comparison between the two nations? If he is referring to a specific and objective standard of artistic achievement, he would be defying himself because that would reduce an artistic value into a set of standardized magnitudes. If he is referring to subjective perceptions of artistic achievements, then he would need a suggestion of an alternative as to how this should be taken into account in comparing the two nations, or otherwise, his comments on
artistic and religious values would be nothing more than emotional appeals to the readers.

His ideas of “whole” remain obscure throughout his writings, as he did not specify on the usage of the word “whole”. However, it can be perceived that he used the world “whole” to oppose the monetary values and units that are used to denote and portray the values of all kinds. He develops onto this in his writings of "in-kind calculus”, using war economy as an example.

He claims that in-kind calculus is a better economic system than the monetary calculus. He advocates the real values over nominal values – the face value of money. He applies the frequently used example of the problem of nominal values: “the monetary calculus could yield an increase in nominal income for a decrease in real income” [10]. He emphasizes the importance of real values through the war situation, saying that “it was too apparent that the war was fought with ammunition and the supply of food, not with money”. This thought is not entirely untrue considering the economic situations of his time, mentioned previously. Because printing out more money to finance the war and postwar recovery was a common practice, which then led to rapid increase in rate of inflation, the face value of money lost its meaning. But the fact that completely rejecting the monetary values and emphasizing the real values only is somewhat contradictory, because the calculation of rational economic behavior cannot be done without the unit of money.

Furthermore, it is not just the nominal value of money that he rejected; he rejected all practices of expressing things in terms of money. This seems like a recurring theme from his idea that “utility maximization cannot be effected by a calculus that has rendered commensurate a plurality of values”
[11]. He suggests that to establish the new world order without the problem of monetary values, a central administration is needed to determine the values of different choices that each member of the society can make. While many people mistakenly take his views as Marxist, Neurath subtly distances himself from Marxism. He placed more emphasis on reorganization of social production, rather than on expropriation.

5. Implications on modern society

Neurath, in his texts, speculates the condition of so-called peacetime economy after his times. He thought the “state will try to influence the global economy after the war more than it used to do”. This is in part true, because he was saying this in the context that we will be encountering a type of mixed economy in the future. However, the fact that there will be “more” influence that there used to be might not be strictly true.

After the disastrous economic conditions of the interwar period, which is after Neurath’s lifetime, countries adopted a new system under the Bretton Woods agreement. Rather than fixing all the currencies to gold, the countries now fixed their currencies against the US dollar, which was pegged to the gold at the price of $35 per ounce. Under the watch of International Monetary Fund (IMF), the countries under the system was both controlled and allowed with flexibility. However, the countries’ artificially fixing the value of the money onto the dollar was exposed to a serious problem when the
countries unwillingly had to import the massive inflation from the United States, mainly caused by high
government spending on Vietnam War and social programs. The Bretton Woods system was then
abandoned in the early 1970s, and now most of the countries adopt a system of relatively freer value of
money.

During the war and postwar, rigid controls by the government was inevitable because in the wartime,
a country as a unit was an important strategy surviving in the global hostility. Perhaps with these
thoughts had been the rise of socialism, placing emphasis on the government’s central planning of the
economy. However, at the times of the Bretton Woods collapse, opposition to government interventions
in the economy was gaining popularity, just as the Keynesian policies was losing its stance. Nowadays,
most of the centrally planned economies have fallen and the worldwide economy is accelerating towards
mixed-to-free economy, accompanied by the rapid globalization. Neurath’s perception of prewar and
interwar economies were of laissez-faire and his idea was that more interventions with the sense of
collective units will improve the economy in terms of welfare in the future. However, in another
perspective, the global economy has been moving towards a freer system than ever before, but with
more complex structure within. The fact that the structure is built with such a high complexity, in a way,
means more government influence, and in this light, Neurath was probably right.

The global economy is indeed using the idea of real values, which is what Neurath has been
emphasizing in his texts. However, the world still has not completely abolished the monetary values, for
money is still by far the most significant medium of exchange, store of value, and unit of account. The
idea of real values is widely used now, such as real GDP and real exchange rate. The previous values stated in terms of monetary values are now adjusted to inflation, so that the real values are reflected. Perhaps the lesson is learnt from the wartime economy, just as Neurath has suggested. But as opposed to Neurath’s rejections of utility and individual sum of satisfaction to denote the values, it seems more like a natural phenomenon of human beings in the modern society, rather than a forced system by a certain authority. It cannot be denied that money does portray values of things to a certain extent, as mentioned above. However, some people still argue for holistic values; but it seems like a long way to go to figure out the ways to reconcile this idea in an intricately woven structure in modern economy – or is it not already there? Do we even need it? This hot debate still goes on to this time.

6. **Conclusion**

Neurath derived his ideas on economics that had its fundamental basis in logical positivism. However valid the idea was to him, the world has deviated not only from his idea, but also from the economy of his time. There had been rapid change in economic belief and systems, as shown by the history. Just as half a century ago when we were representing the value of money in terms of gold, we might be off to a completely different system half a century later, and with such change will probably come with new ideas. Through the turbulent changes in the society and new ideas such as Neurath’s, we have already transformed into a new type of economy, even though the root is still traced back to utilitarianism and
British empiricism. However logical Neurath’s idea was, its validity will always be subjected to and judged against the social conditions and human behaviors of that certain time in the future, just as his ideas were influenced by those of his times.
7. References


[2] Ibid., page 4


[4] Ibid., page 546

[5] “The Economics of Inflation” by Costantino Bresciani-Turroni, page 335


[8] Neurath, op. cit., page 2

[9] Ibid., page 293

[10] Ibid., page 303

[11] Ibid., page 8