

PHD THESIS SUMMARY:

A theistic analysis of the Austrian theories of capital and interest.

TROY LYNCH

PhD in economics, March 2010

La Trobe University

This thesis examines the philosophical background that culminates in the Austrian School of economics' theories of capital and interest.

In chapter two, I describe the character of the school, its history, and the educational, environmental and social background of the main authorities. The school is characterised by an adherence to Carl Menger's doctrines, with Eugen von Böhm-Bawerk, Friedrich von Hayek, and Ludwig von Mises as disciples who elaborated and developed subjectivism.

In chapter three, I introduce and explain the philosophical position used in this study, which is the ontology and epistemology developed by Cornelius Van Til. In chapter four, I argue that the main Austrian authorities hold different epistemologies and ontologies, which conflict even with their apparently shared commitment to methodological individualism and subjectivism. I use Cornelius Van Til's philosophy to elucidate the commitments of the Austrians and claim that differences in epistemology emerge from distinctive ontologies.

In chapter five, Carl Menger's work on value, goods, and price is assessed. He developed a subjectivist theory of capital, in which time demarcates the value of present and future goods, with value determined by the want-satisfying individual. In chapter six, I examine the development of capital theory by Böhm-Bawerk, Hayek, and Mises: productivity and value differentials over time are the elements that Austrian capital theory attempts to explain. In chapter seven, I examine how Böhm-Bawerk, Hayek, and Mises produced distinctive theories of interest. Mises included elements of Menger's, Böhm-Bawerk's, and Frank Fetter's work within the framework of his epistemology of praxeology and affirmed a pure time-preference theory of interest. I maintain that Mises's capital and interest theories are the distinctive representative theories of the Austrian School.

As a (Dutch) Christian philosopher, Van Til wrote in the theological tradition of Augustine as well as Reformation theology. He developed a theistic world-view (i.e., ontology, epistemology, and ethics) that was grounded in Scripture, in which the character of (a personal) God is one who possesses exhaustive (i.e., internally consistent) knowledge, and who is self-existent, self-sufficient, and eternal. Moreover, the created order (including humanity) is temporal (or historical); therefore, human knowledge is derivative (though not exhaustive) and true as far as it concurs with God's revealed knowledge and plan.

The starting point for investigation, the object of knowledge, is anything referred to as a physical, mental, abstract, or spiritual fact. The question of 'objective' depends on one's perspective and is ontological. For any non-theistic position, a fact refers to the existence of any fact apart from God; therefore, facts exist by themselves and are assumed to have come into being by chance. Thus human experience of facts is immediate. The laws of logic are also operative by chance in the universe and dictate what is acceptable as possible or probable. The non-theist therefore reasons univocally, assuming that any fact may exist; the theist reasons analogically, and assumes that no fact can exist unless God's existence is taken as the ultimate presupposed fact.

The non-theistic position of the Austrian School, in which I include Menger, Böhm-Bawerk, Mises, and Hayek, affirms ontological monism. These authorities presuppose the (self-) existence of the spatio-temporal realm and the (self-) existence of universals, such as the universal law of cause and effect, as well as the logical structure of the human mind. These ontological propositions are their theoretical preconditions for epistemological claims to knowledge.

Theism's argument is that true claims to knowledge can only be developed from a world-view which presupposes that eternal universals exist in the being of God—the ontological Trinity. An individual cannot relate the concrete particulars of human experience to one another and therefore produce eternal universals. However, the Austrian solution presupposes the effective self-existence of the physical universe, as well as universals, such as causality and logic, and provides a way for the individual to make human experience intelligible.

A central question that I address is whether the Austrian School possesses a sound ontological and epistemological foundation and therefore whether its theories of capital and interest are incontrovertible. I have argued that the preconditions for a world-view

that the Austrians have chosen are irrational: they are simply assumed. This is tantamount to stating that all temporal reality is a product of chance and ultimately mysterious. A subsidiary question is whether Mises's argument for apodictic certainty is unquestionable; I argue that without a valid ontology, this epistemological proposition cannot be justified.

The Austrians' claims to knowledge in their theories of capital and interest are propositions derived from the presupposed universals of individualism and subjectivism. In Mises's case, his epistemology requires only one a priori—that humans act—in order to develop economic theories. However, I argue that the Austrians hold to an ontology that precludes the justification of universals. This prevents them from making claims to knowledge, much less claims for propositions concerning capital and interest.

My argument is that the Austrians cannot justify their position and therefore cannot justify their theory of reality, which serves as the foundation for their economic method. The important result is that without a sound theory of reality, they cannot possess a sound theory of knowledge; therefore their claims to knowledge cannot be justified.

The Austrian School of economics has made a significant contribution to economic science, but its theories of reality and knowledge, as well as its method and theories of capital and interest, and the application of these to contemporary policy, would find greater legitimacy if reconstructed in the context of a world-view in which the authority for theories of reality and knowledge are grounded not in the authority of the autonomous individual, but in the authority of the God of Christianity.

Troy Lynch obtained his PhD from La Trobe University (Melbourne, Australia) in the School of Economics and Finance. His supervisor was John King, professor of economics. In addition to postgraduate and undergraduate training in finance and economics, his previous research focused on business cycle theory (Master of Letters). He has also been employed in various analyst positions in a number of funds management companies. His research interests are the application of Christian philosophy to economics, as well as Austrian economics and methodology. He teaches as a lecturer at La Trobe University.

Contact e-mail: <t.lynch@latrobe.edu.au>

Website: <<http://www.troylynch.com>>