ADOLPH LOWE AND THE AUSTRIANS

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Adolph Lowe’s name may be vaguely familiar to students of contemporary Austrian economics, slightly more so to those who study its earlier history, in particular the business cycle debates of the interwar period. Recently, Lowe’s name has come up as a passing mention in an occasional Austrian-related contribution. Vaughn (1992, pp. 9n13, 14, n18) mentions Lowe as one of the economists influencing the theologian Paul Tillich’s views on political economy; Gordon (1996), in a recent number of The Mises Review, mistakenly refers to Lowe as a member of the Historical school⁴; Mongiovi (1994, p. 271), while not an Austrian himself, refers in a paper in Advances in Austrian Economics to some similarities between the views of Lachmann and Lowe on issues related to capital theory.

More extensive discussion has taken place concerning the work of Lowe and his colleagues on business cycles in the 1920s and early 1930s in relation to the work of Hayek and other Austrians (see Clark 1984; Hudson 1988; Hagemann 1994; Hagemann and Landesmann 1996; Rühl 1994). Hagemann (1994) and Rühl (1994), in particular, have documented how important Lowe’s work in this period was for Hayek.² Other contributions have examined the relation between the so-called “neo-Austrian” work of Hicks and his followers and Lowe’s analysis of the

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“traverse” from one growth path to another (see Amendola 1984; Gehrke 1995; Gehrke and Hagemann 1996).

Virtually all of these points of contact refer to one general area to which Lowe devoted attention, that concerning cycles, growth, and technical change. Lowe also made important contributions in the area of methodology, yet fewer connections have been made between Lowe and the Austrians in this regard. The key exception here would be Fritz Machlup’s participation in a conference held to critically examine Lowe’s On Economic Knowledge (1977 [1965]), the proceedings—including Machlup’s paper and a general rejoinder by Lowe that responds to some of Machlup’s comments—which were subsequently published under the title Economic Means and Social Ends (Heilbroner 1969).³

These connections alone invite a greater exploration of the relation between Lowe and the Austrians. Even more justification for exploring the methodological connections can be found when we turn from a narrower focus on writings about and/or by Austrian economists to other individuals who played important roles in the history of the Austrian school. Here I refer to Lowe’s longtime personal and professional relations with Alfred Schutz, Michael Polanyi, and Felix Kaufmann. Schutz and Kaufmann, both participants in the Mises Seminar, were longtime colleagues of Lowe’s at the Graduate Faculty of the New School, and both—but especially Schutz—had important roles in the development of Lowe’s ideas concerning methodological issues (Lowe 1977 [1965], p. 62n1, 1969a, p. 6n5, 1970, p. 144n3; see also Wagner 1983, pp. 164-166; Gurwitsch 1969). Polanyi was a colleague of Lowe’s at the University of Manchester in the 1930s, at which time they were involved in exchanges concerning methodological issues; more importantly, perhaps, is that Lowe continued to follow Polanyi’s work after this period, referring to it explicitly in his methodological writings, right up to his last publication in 1992 (see Lowe 1936, 1977 [1965], pp. 113, 115, 139, 1969b, pp. 184, 1977, p. 332, 1987 [1982], p. 235, 1992, p. 327; see also Vickers 1991, pp. 8, 60, 192).

Finally, there are those aspects of Lowe’s work which, while not referring explicitly to Austrian authors or persons with known connections to the Austrian school, deal with what might be thought of as Austrian themes. What follows is part of a longer-term project exploring the connections between Lowe’s work and Austrian economics. There are four major areas of connection: business cycles and capital theory; methodology and market process; discovery; and political philosophy. The first, as mentioned, already has a budding literature. The latter three remain unexplored. The main body of the present paper attempts to make a start in elaborating the second of these four—investigations of the market process and methodological issues that arise in that investigation.

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A glance at the first chapter of Monetary Theory and the Trade Cycle will quickly convince the reader that one of Lowe’s contributions to the business cycle debates
and Hayek's analysis in particular is in the area of methodology (Hayek 1933[1929]). Methodological issues, along with political philosophical concerns, continued to preoccupy Lowe's attention following his dismissal (under Hitler's orders) from the University of Frankfurt in 1933 and his assuming of a post at the University of Manchester. This work includes his Economics and Sociology (1935), and a number of articles from the 1930s through the mid-1950s (see, e.g., Lowe 1936, 1942, 1951) (by which time Lowe had moved—in 1941—to the New School), eventually leading to important developments in his thinking and the publication of On Economic Knowledge.

A common point of departure for Lowe in these works is his examination of the law of supply and demand. Lowe makes it clear that his intention is not first and foremost strictly methodological, but rather to:

focus attention on the “order of the world” to which these so-called laws refer, rather than the scientific procedure by which they are formulated. Not the methods of economic inquiry but the process of bargaining and exchange itself, especially as reflected in the minds and actions of the participants, will be the main field of our investigation (1942, p. 433, emphasis added).

As we will see, however, it is not easy to separate these issues from issues of method. For Lowe, it is simply unacceptable to treat economic agents as we treat the units of analysis in the physical sciences, that is, as “insensitive particles responding blindly though lawfully to blind stimuli” (1977 [1965], p. 61). Rather, in the social sphere we deal with “purposeful actors who “move” only after they have interpreted their field of action in terms of their goals and their commonsense knowledge” (p. 61). But, argues Lowe, it is this very approach considering the “commonsense interpretation of the ultimate ‘facts’—buyers’ and sellers’ behavior—by the actors themselves that so greatly encumbers the work of the economist” (1969a, pp. 5-6).

Based on the recognition that the object of study of the social sciences consists of willful, intentional human beings, this position rejects the application of the scientific method of the natural sciences to the study of social life and society. Recognition of those areas where values seep into the natural sciences does not eliminate the still important difference concerning the object of inquiry. In both cases, the inquirer is in the lebenswelt, but in the social sciences we have reached a second level, multilayered intersubjectivity—intersubjectivity of object and subject—whereas in the natural sciences we have only intersubjectivity of the subject. In the social sciences, so to speak, the objects are also subjects; in other words, all interpretation is an interpretation of an interpretation. This double layer of interpretation is what Giddens (1976, p. 162) has termed the “double hermeneutic” of the social sciences.5

All this points to the meaning of Lowe's position regarding the treatment of economic agents as “insensitive particles.” Lowe wants to investigate the meanings and intentions of economic actors in relation to their behaviors and actions. What “greatly encumbers the work of the economist” is dealing with the intersubjectiv-
ity of the economic actors themselves. Lowe’s critique of the traditional approach is that it does not deal with this difficulty, that is, it abstracts from the intentionality and agency of economic actors.

Lowe’s dissection of the law of supply and demand has consistently stressed the crucial distinction between behavior and motivation and carefully investigated their relation. The determinacy and exactness of traditional theory, Lowe stressed, depends on the specific behavior of buyers and sellers in response to price changes and in the face of excess demand and supply. It is “behavior in bargaining” that either conforms to or contradicts conduct specified by the law (1935, p. 52).

The first striking result of this simple observation is that it undermines any association of individual “free choice” (in the sense of “license”) with market order under laissez faire. Individuals are “free to choose,” yet they must choose to act in accord with the law of supply and demand for markets to function. Truly free choice leaves behavioral outcomes indeterminate and so cannot be relied on to establish the requisite behavior (1935, pp. 51-52, 1951, pp. 405, 413).

What principle then guides human economic behavior in such a way as to conform to the behavioral stipulations of the law of supply and demand? Traditional theory has employed the concept of “economic man” for this purpose, that is, profit (receipt) maximization and cost minimization, or what Lowe in his later work calls the “extremum principle.” Citing historical examples and drawing on the work of anthropologists, Lowe questions the validity of the economic man construct as a universal depiction of human nature (1935, pp. 50-51, 1942, p. 436, 1951, p. 405).

For Lowe, individual identity is complicated, contradictory, multifaceted, and socially constructed. Motivational complexes and contextualized social activity are partly rooted in cognitive forms that are the “result of fragmentary experience and information, of speculation and hunches, and...of communication with others” (Lowe 1977 [1965], pp. 16-17). There is also the possibility that “both buyers’ preferences and seller’s incentives...give way to all sorts of personal, national, racial, and other discriminations” (Lowe 1951, p. 413). This picture contrasts sharply with the traditional view of economic man, which presents the economic subject as natural, universal, coherent, and asocial. Lowe rejects the notion that the subjectivity of agents is “given”; rather, continuously changing social structure shapes and reshapes each market participant’s interpretation of market events (Lowe 1951, pp. 424ff).

Lowe recognizes that traditional economics treats cases of behavior inconsistent with the economic man construct as “deviations” from the “normal” case. But he points out that even disregarding the highly problematic aspects of the construct, it cannot be demonstrated that the “normal case” itself logically produces a determinate outcome (1951, p. 409). Even if motivations consistent with the profit motive are assumed, this in no way assures conduct in accord with the law of supply and demand. It is simply not sufficient for the “economic man” construct to describe mere motivations. Lowe has continuously stressed the fact that “the
understanding of motives does not by itself constitute a safe basis for postulating any specific course of action as necessary, that is, causally exclusive" (1942, p. 436):

Unfortunately, not even in a completely rational world—in the sense of one completely motivated by pecuniary considerations—would actions in accord with our law rise to the level of causal necessity. Rather it has to be admitted that calculation of pecuniary gains often suggests behavior that sharply contradicts its propositions. From all this we have to conclude that neither an understanding of human motives in general, nor the special criterion of the pecuniary motive, entitles us to predict any one course of action as the normal outcome of changes in demand or supply, or of variations in price (p. 437).

At the same time, it is not possible to prove that “behavior counteracting the law of supply and demand always violates the profit principle” (1951, pp. 421-422). These exceptions are of a very different nature than those which arise due to motivations contrary to the profit incentive. There, ends other than a pecuniary one are selected; in these cases, motives entirely consistent with the profit principle are expressed in conduct inconsistent with the law of supply and demand.

This breaking of any one-to-one correspondence between behavior and motivation is key to interpretive social science and to Lowe’s critique of mainstream economics. “To distinguish the different meanings which externally resemble each other” is one of the central concerns of phenomenological sociology (Aron 1964 [1957], p. 26), and the breaking of any deterministic link between meaning and expression is one of, if not the, central themes of Charles Taylor’s seminal essay on the importance of hermeneutics in the social sciences, “Interpretation and the Sciences of Man” (1979 [1971]). For Lowe, just as one behavior may express different motivations, one motivation may be expressed in different behaviors.

In the case of the law of supply and demand the understanding of price itself by economic actors is an interpretive process. Just as a word or sign in isolation has no meaning, the meaning of economic behavior, and the interpretation of economic behavior by both economic actors and economists, is crucially dependent on context. It is one thing to observe, quite rightly, that words are capable of changing meanings and that words must be understood in their relation to a whole system of words, or signs. But it is a further and necessary step to recognize that “in the historical evolution of language the very structure of its meaning and its psychological nature also change” (Vygotsky 1962 [1934], pp. 121-122). Furthermore, “it is not merely the content of a word that changes, but the way in which reality is generalized and reflected in a word” (pp. 121-122). Thus, continuing with the analogy, we may go beyond the level of relating individual behaviors (motivations) to different motivations (behaviors) to the recognition of the role of social structure in providing the context in which those behaviors and motivations take on (multiple) meanings.

Under such circumstances, Lowe concludes, the law of supply and demand can only be legitimately understood as a prescription, as a “stability condition,” so to
speak (1942, pp. 433, 451, 1951, pp. 415-416). The law of supply and demand in
this sense constitutes a general rule of conduct regarding market behavior and,
thus, its usefulness for explanation, prediction, or description will be dependent on
the concatenation of factors that determine the resilience of the rule and rule-following behavior (1942, p. 446). Such rules or codes of conduct are key to
addressing what Lowe called the great “riddle” of a liberal market society: “how
is freedom of choices compatible with integral order?” (1942, p. 445). If determinate behavior is not just any behavior, and if determinate behavior is not to be
imposed from without, then such a code must be internalized, and “experienced
as…spontaneous decision” (1942, pp. 439-440).

The order-bestowing properties of the law of supply and demand, however, are
not unleashed as a result of simple conformity of individual behavior to the credo
of the economic man, but rather arise from the regular behavioral patterns result-
ing from the aggregate of individual behaviors of all market participants (1935, pp.
60-61, 1951, pp. 411-412). Furthermore, Lowe stressed that all individuals must
not only themselves obey the bargaining principle, they must expect that others
will do so as well (1951, p. 415n10).

The market process requires a “chain of interlocking decisions” (1942, pp. 439-
440). For decisions or, perhaps more precisely, behavior to interlock in this way,
each market participant must be able to predict the response of all other partici-
pants to their own decisions or behavior (1942, pp. 442, 446, 1951, p. 412). Other-
wise, there will be no reason to expect that one’s actions will result in the
intended outcome.

There are, however, no logical or psychological reasons why an individual
should be capable of adequately considering the decisions or behavior of all other
market participants (1942, pp. 443-444). Furthermore, while an objective social
rule may play a role in decreasing the instability resulting from uncertainty, “mod-
ern theory [lacks] any criterion by which a pattern of interlocking choices can be
distinguished from a sum of random choices” (p. 445). For Lowe, then, behavioral
patterns consistent with the law of supply and demand also require not only the
intention of individuals to behave in conformity with the law, but also their expec-
tation that others will behave likewise.

While present from his earliest writings of this period on, the importance of
expectations in Lowe’s analysis increases with time to the extent that it is virtually
the major thrust of his 1951 article. As will be seen, for Lowe it is necessary to
extend the analysis to the impact of (changing) structural features of the social and
economic system on expectations (1951, pp. 424ff).

Like words, gestures, acts—like other signs—a particular price movement can
only be understood in the “web” of meanings, contexts, activities, and their inter-
subjective apprehension:
A seller finds himself with unsold inventory of a product in excess of desired levels at a particular price. But what exactly is the market telling him at that price? That he needs to relocate his store? That he has failed to advertise the existence or availability of the product sufficiently? That the price is 'right' but the quality or characteristics of the product is 'wrong'? Or that the quality and characteristics are 'right' but the price is 'wrong'? (Ebeling 1986, p. 45).

Thus, again, since the meaning of any sign requires interpretation that takes into consideration its context, the meaning of a price change or the existence of excess demand or supply has no fixed meaning; it, too, is context-dependent. If such is the case—that the law of supply and demand is less than fully reliable—how could market order or stability ever be expected to be achieved?

It would appear that the neoclassical approach, by employing an inadequate conception of human subjectivity and social action that ignores the role of social structure in shaping behavior and motivation, fails to provide a useful framework for economic analysis. The Austrian tradition, however, both rejects the neoclassical story on similar grounds and recognizes the interpretive nature of economic action and intersubjectivity of economic knowledge, yet concludes that even under such conditions, "spontaneous order" or "market coordination" may be achieved.

Fundamental here for many Austrian writers is Schutz's synthesis of Husserl and Weber, and his development of the method of ideal-typification, "the essential feature of the scientific method" (Schutz 1970 [1943], p. 96). According to Schutz, "we, the actors in the social scene, experience the world we live in...not as a private but as an intersubjective one, that is, as a world common to us all" (1967 [1954], p. 53). These shared structures of intersubjective meaning are given to us. Put simply, we behave "typically" in "typical situations," and expect that others will do likewise. In a word, we take on the role of ideal types in these situations. Thus, when we go into a store for the express purpose of purchasing a newspaper, we take on the role of "customer" or "buyer" and act accordingly, and expect that the cashier or the store manager will respond to us in a like manner. It makes no matter that we may be many other things in our life beside a "customer"—say, a "mother" or a "teacher" or a "music lover"—or that the person who is the "cashier" may also be a "student," a "daughter," or a "soccer player"; for the purposes of this particular situation those facts are unknown or irrelevant. Thus, the knowledge necessary for meaningfully interpreting our circumstances "is socially derived, and this in socially approved terms" (Schutz 1967 [1954], p. 61).

Schutz's framework is key to understanding how an important branch of the Austrian school explains order in an uncertain world. Though our "knowledge remains incoherent, our propositions occasional, our future uncertain, our general situation unstable" (Schutz 1970 [1943], p. 108), the potential socially disruptive and "disorderly" results of such a state are prevented by the "fortuitous circumstance" that individuals are "born into an ongoing social world already containing structures of intersubjective meaning which all in that culture and society share in common" (Ebeling 1986, p. 47). From early in childhood, individuals learn the socially pre-
scribed ideal types and social recipes which enable them to act in the social world. In any situation there is "an assumption that I may under typically similar circumstances act in a way typically similar to that in which I acted before in order to bring about a typically similar state of affairs" (Schutz 1967 [1953], p. 20).

In the Austrian view, then, socioeconomic order is rooted in economic agents' use of these models for rational action (social recipes based on typifications). This is very similar to Lowe's view that economic laws such as the "law of supply and demand" can only be understood as prescriptive codes. Why, then, does Lowe come to such different conclusions concerning the reliability of such "laws"?

Schutz's analysis is useful for understanding many of the examples he and his followers use, such as why we stop at a red light or why we are confident that dropping a letter in a mailbox will result in its being delivered to the address across town. But in its economic application—though a richer one than the usual formulation of the "economic man"—the Schutzian notion of ideal-type ultimately suffers from some of the same defects. The assumption of a single "lifeworld" (at least within each "culture") is questionable, as is the degree to which all individuals share the same set of typifications and recipes. Related to this is the question of whether individuals in a given situation are willing or able to "tune out" characteristics other than the ideal-typical ones relevant to the circumstance. As discussed earlier, for Lowe, buyers and sellers in the market do not just see their trading partner as anonymous: they see someone of a certain age, race, class, gender, nationality, religion which often affects their behavior.

What is missing in Schutz but is central for Lowe is the influence of social (and technical) structure on individual consciousness. Schutz takes social structure as pre-given and fixed ("imposed relevances" in his terminology), concentrating instead almost exclusively on the determination of human action within that context. The analysis suffers from its inadequate consideration of the potential impact on the efficacy of social recipes of historically changing social structure. Under different social, political, institutional, technological conditions, actions in accord with the behavioral stipulations of the "law of supply and demand" may not have the same consequences.

Lowe's work places greater emphasis on the role of historically changing institutional contexts and socioeconomic and technical structure. Thus, the "transsubjective" (Milberg and Pietrykowski 1994) might be added to the subjective and the intersubjective as a third level of interrelated subjectivity. Transsubjectivity refers to the relation between technical, economic, environmental, and institutional structures and the subjectivities of individuals and social groups. Though these structures are themselves only accessed through individual (inter)subjectivity, they can be distinguished from other individuals or social groups. Transsubjective structures define and are defined by individual (inter)subjectivity, and both produce and are the product of such (inter)subjectivity. Technical organization is itself a social product, but nevertheless is provisionally "given" for individuals and social groups, even though transsubjective structures undergo continuous transfor-
mation as a result of individual social activities. In addition to emphasizing the "plurality of identifications" overlooked or underemphasized by the Schutizian use of ideal-typification, the framework considers the crucial influence of the "structure of markets and technology" on identity, behavior, and motivation, but in a nondeterministic manner (Milberg and Pietrykowski 1994, p. 101).

Lowe pays careful attention to the impact of (historically changing) socioeconomic structure on behavior and motivation, and the changing limits on and consequences of economic action under different structural and institutional conditions. He thus concludes that assumptions of a behavioral code in conformity with the construct of economic man and "a very special kind of expectations" (1951, p. 423) are sufficient only to secure the willingness to respond in a manner conforming with the necessary conduct; if there is to be system stability, the law of supply and demand additionally requires assurance concerning the ability of market participants to respond as well (1935, p. 56). In the first instance, preconditions for this ability include certain rights—usually identified with private property—regarding access to and utilization and disposal of resources, the right to engage in contractual relations, and other political and legal conditions associated with a society of "free exchange" (pp. 56-57; see Hayek 1948). The ability to respond also implies a state of affairs in which there is a high degree of mobility. This is especially significant on the supply side, where producers must be capable of increasing supply in response to higher prices. Such an ability to respond requires a degree of elasticity of production implying a specific technical structure of the system.

A system characterized by a technical structure enabling quick response to changing market conditions will also have a stabilizing effect on expectations:

The faster the required adjustment can be carried out, the nearer to the present are the relevant future dates, and the smaller the danger that uncalculable events will interfere...It stands to reason that the reverse is true of a highly immobile system, where adjustment takes considerable time, with the result that the relevant dates are shifted to a distant future, and where the input of large indivisibilities raises the total costs of adjustment (1951, p. 429).

This highlights the importance of economic structure in shaping and determining various states of expectation (1951, pp. 424ff). Thus, Lowe comes to the conclusion that the claims of traditional theory to the universal applicability of its laws must be rejected, insofar as determinacy is guaranteed only under "one very definite and exceptional social order" (1935, pp. 147-148).

It is not by abstracting from sociological and historical factors that traditional economics obtains its "exactness" and determinacy, but rather as a result of the narrow limits of its applicability that follow from its underlying sociological assumptions (1935, pp. 147-148). It then follows that it is not because of their "purity" that the laws of traditional economics cannot be observed in operation, but rather because the specific sociological, psychological, and technical condi-
tions constitute such a confined field of applicability as to be virtually assured of nonexistence (1942, pp. 456-457).

We thus can begin to comprehend how it can be, for example, that the same motivating force, the profit principle, can express itself in diametrically opposed forms of conduct, or how the same conduct can induce different responses by other market participants. The difference for Lowe, as has already been alluded to above, depends on the “economic structure” that prevails in a particular case (1942, p. 456, 1951, pp. 420, 429). Economic structure for Lowe indicates “the manner in which the natural, social, and technical data affect the reactive power of the market process” (1951, p. 426).

Dependence of the law of supply and demand on the data must have implications for the extent and substance of any changes in economic structure that are possible without threatening breakdown of the conditions for their operation. Thus, Lowe points to the fact that economic and social evolution itself not only must exhibit “regularity,” but regularity of a specific type, that is, regularity conforming to the requirements for the existence and stability of the laws (1935, pp. 70-73, 92).

Lowe’s analysis of the law of supply and demand uncovers the sociological assumptions that give the law operational significance and thereby define the institutional setting for its applicability. These data are broadly identified as the behavioral code of the “economic man” and the institutional and technical environment implicit in the concept of “free competition.” Thus, the probability of the law’s operation is dependent on the probability that such structural conditions actually apply (p. 73).

According to Lowe such a concatenation of structural features is relatively more appropriate for “the liberal society of early capitalism” than for that of modern industrial society (p. 59). This does not mean that, for example, human nature in that period is properly depicted in the economic man construct. Rather, Lowe identifies “exogenous stabilizers” that have historically compensated for whatever deviations might threaten the stability of the system (1942, p. 452). Large portions of the population living at or near subsistence vitiate the need to either assign particular psychological characteristics to human nature or establish social pressures to behave in conformity with the credo of the economic man. In this case, a certain type of “maximizing” behavior is rooted in the natural pressures of requirements for survival (1951, p. 414).

However, at levels above that of subsistence (such as those attained to a relatively widespread degree in later industrial society), greater discretion is possible, though the profit principle may still be viewed as retaining its validity by determining the “upper and lower levels of extravagance” (p. 415). Interestingly, Lowe points out that the range of individual deviation permitted under these circumstances has no necessary relation to the system’s ability to tolerate those deviations, leading him to the conclusion that while “occasional breaches may be
tolerated...the system will collapse before the exception becomes the rule” (p. 415).

Even more emphasis is placed by Lowe on the differences in the technological structure between early market society and modern capitalism. Small-scale, labor-intensive production carried out by independent producers with low fixed (and other) capital costs operating at low levels of (relatively slowly changing) mechanization makes for greater mobility and, therefore, a higher degree of adaptability to price/quantity variations (1935, p. 59). The large scale production of modern industrial society, however, with its huge fixed costs, highly mechanized capital intensive methods, and rapidly changing technologies, is characterized by great immobility, and, thus, an inability to make fast adjustments (pp. 57, 87-88, 109, and passim). Furthermore, Lowe views these differences in technical structure as being at the root of a whole series of social and institutional transformations that form nothing less than the “reorganization of the Western social system as a whole” (p. 128).

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Lowe’s work in the 1930s through the 1950s led him to the view that since the structural characteristics of modern industrial capitalism are not adequately depicted by the data of traditional theory, economic laws, such as the law of supply and demand, do not apply with a high degree of reliability in the contemporary economy. At this stage he still believed that although the traditional laws do not apply, the system’s persistence was indicative of the sufficiency of some combination of persistent forces and exogenous stabilizers (1935, pp. 89-90). Thus, investigating the modern system was not the same as “trying to discover the rules of chaos” (pp. 89-90), as capitalism was still a “system and not a mere aggregate of incoherent bargaining transactions” (p. 129).

Throughout this period Lowe referred to the approach appropriate for analyzing modern capitalism variously as “modern realistic theory” (p. 98) and “dynamic economics” (pp. 116, 129), which included “structural analysis” (1936, pp. 35-36, 1942, p. 426) and “process analysis” (1942, pp. 444-445). The central focus of this kind of analysis is the outstanding empirical feature of the modern system: the trade cycle. But, for Lowe, any theory of cycles must be accompanied “by a theory of the evolution of its social data” (1935, p. 93), since “[t]he essential variations of those data [are] effected by the course of the trade cycle itself” (pp. 95-96). In such circumstances “any deductive operation with invariable data is defective from the very outset” (pp. 138-139), and the structural conditions themselves must become the object of theoretical inquiry (1936, pp. 23-24).

Lowe’s proposal was an extension of his earlier work on business cycle theory. There he had also called for uncovering the endogenous determinants of industrial fluctuations (1926). He was still firmly committed to the idea that regularities per-
sisted and could be uncovered, even though they were different regularities than those described by traditional theory. These were the “strange regularity[ies] of the real disequilibrium” (1935, p. 90). Although Lowe did not feel that the exactness and determinacy of traditional market generalizations would be obtainable, he felt this loss to be a sacrifice that had to be made in order to regain realism (1936, p. 25). But Lowe held steadfast to the view that the traditional method, if refined, would retain its significance for the analysis of the modern system (1951, p. 403).

The “dynamic chain of reciprocal causation” (1935, pp. 138-139) at work in modern industrial capitalism required a theoretical approach that could endogenize the structural factors and bring them into the analysis as additional dependent variables subject to change. Lowe became increasingly dissatisfied with work on economic dynamics precisely due to the fact that “the time-honored distinction between dependent and independent variables—that is, between an economic process and the underlying metaeconomic forces which drive it on and change it—is generally maintained” (1987 [1954], p. 108). He did find an exception in some of the “dynamic process analysis” of the period that went further in endogenizing some of the structural variables in their theories of growth, but found these attempts to be “but a dim reflection” of what is found in the old classical economists and Marx (p. 108).

In fact, Lowe argued that it is the “issue of endogeneity versus exogeneity, rather than...conflicting theories of value” that separates “genuine classical theory” from “post-Millian economic reasoning, including all versions of neoclassical analysis” (p. 108). The issue regards

the entire possible range of deductive reasoning. Let us be quite clear about the disputed region. It concerns the whole natural, social, and technical environment of the economic system...and...the changes in these elements through time...[For the classical economists and Marx] the explanation of the order and changes of these data itself formed part of the theoretical work of economists (1987 [1954], p. 109, cf. 1935, p. 100).

Lowe saw such an approach as unrecoverable in its classical form, and he additionally did not think that there would be much gained from the “substance of the classical theory of economic development” (1987 [1954], p. 110), but he did believe the “dynamic method” could be useful in the necessary work of forging a modern approach that could identify endogenous structural variables and develop constructive ways of treating them accordingly (p. 128).

By the mid-1950s Lowe had moved from the idea that the modern industrial economy, though different, was still orderly, and so the traditional method was still applicable, to the notion that historical changes in the structure of the system had altered the object of inquiry in such a way that the traditional methodological approach had to be abandoned. This led to his formulation of an alternative methodological approach—instrumentalism (1959a, 1959b, 1992). Lowe draws on the work of Michael Polanyi, Charles Peirce, and Norwood Hanson to investigate
aspects of the policy-formulation process that employ tacit knowledge, retro-duction, and other heuristic problem-solving techniques (see Forstater 1997).

Adolph Lowe has an almost uncanny number and variety of connections to Austrian economics. This paper has attempted to begin to explore some aspects of these connections that have heretofore gone unnoticed. It is hoped that those working in the Austrian tradition might find something useful in this exercise, and that it may lead to conversations and exchanges that in some manner prove beneficial to all.

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NOTES

1. Lowe was a long-time critic of the historical school, as well as the institutionalists (see, for example, Lowe 1935, pp. 76-82, 1951, p. 403, 1980). In fact he has been cited by some as being a contributor to the decline of the historical school (Clark 1984, p. 114; Hagemann 1994, pp. 102-103). Of interest to Austrians, perhaps, might be the following note from Hans Mayer's recently translated paper, "The Cognitive Value of Functional Theories of Price": "A Löwe clearly identifies the inevitable barrenness of attempts to replace nomological knowledge with statistical-empirical material in "Wie ist Konjunkturtheorie überhaupt möglich?" (1994 [1932], p. 167n229).

2. With the exceptions of Mises and Wicksell, Lowe is cited more often in Monetary Theory and the Trade Cycle (1933) than any other author (cf. Rühl 1994, p. 175).

3. A paper by Ernest Nagel from the same symposium includes the following parenthetical statement, which is never explored:

It is perhaps worth passing notice that, like Drs. Lowe and Gurwitsch, the economist Fritz Machlup acknowledges his indebtedness to Alfred Schütz views on the determinants of human action. But as I understand Dr. Machlup's views on the logic of theoretical economics, they diverge seriously from Drs. Lowe and Gurwitsch. Therefore, agreement on what are the distinctive marks of social reality does not necessarily lead to agreement on what is the proper method of economic theorizing (Nagel 1969, pp. 58-59).

Along the same lines, in another "throwaway comment," Donald Winch notes in his brief review of On Economic Knowledge that while for Hayek recognition of the "knowledge problem" supports a view against many types of government intervention, in Lowe recognition of the same problem is used to justify some government intervention (Winch 1967, p. 861).

4. For an Austrian statement to this effect, see Prychitko (1994, p. 306).

5. "Although all sciences have to, of course, deal with problems of interpretation on the metatheoretical level...only some of those with a hermeneutic dimension of research have to cope with interpretation on the basic level of the generation of their data" (Habermas 1983, p. 269n8). Habermas makes the useful distinction between "advocating a dualism between ontological features of different domains or regions of reality" versus the "methodological distinction among sciences that either do or
do not rely on 'understanding what is said' as the condition for access to their object domain" (pp. 268-269n3).

For one of many Austrian examples of work along these lines, see Lavoie (1990, p. 176).

6. Taylor uses the notion of a “text-analogue” to discuss the similarities between interpretation of a text by a reader and the interpretation of human actions by others, or what Ricoeur calls “meaningful action considered as a text” (1979 [1971]). The relation of motivation/intention/meaning to a gesture, act, speech, and so on is analogous to the relation between a text and its meaning. Thus, the analysis of the relation between word and meaning, or signer and signified, may be helpful in understanding the relation between motivation and behavior. In the Austrian tradition, see, for example, Ebeling (1991).

7. “The same set of rules of individual conduct may in some circumstance bring about a certain order of actions, but do not so under different external circumstances” (Hayek 1967, p. 68). See also, O’Driscoll and Rizzo (1986).

8. Lowe’s notion of “sponaneous conformity,” and its relation to the Austrian notion of “sponaneous order” cannot be further elaborated here. Of note is the fact that Lowe used this term and explored the notion in detail as early as the 1930s, during which time he was engaged in relevant exchanges with Michael Polanyi (see Lowe 1936, 1937a, 1937b, 1940). For a discussion of spontaneous conformity in relation to issues of social norms, habit-change, and imagination; freedom and order; and control and self-control, see Forstater (1996).

9. For Schutz’s relation to the Austrians, see, for example, Prendergast (1986); Machlup (1970); Ebeling (1986); O’Driscoll and Rizzo (1985).

10. Interestingly, these examples are ones in which government sponsored social institutions (i.e., post office, traffic laws) enforce the reliability and dependability of particular “recipes.”

11. “Although Schutz recognizes the institutionalization of action in social settings, the objectification of human intentions in sign systems and language, as well as the objectivized results of human acts, he appears to consistently avoid analyzing their objective basis, viewing the latter as not a vital part of his investigation” (Smart 1976, pp. 98-99).

REFERENCES


Lowe and the Austrians

