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## **Röpke: The two moral hearts of capitalism**

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**RÖPKE REVISITED FROM  
A MODERN-AUSTRIAN PERSPECTIVE:  
*THE MORAL HEART OF CAPITALISM***

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## **Abstract**

Sometimes a phrase was added to the economic doctrine of the Physiocrats *laissez faire, laissez passer* (leave things alone, let goods pass through). The added phrase: *le monde va de lui même* (the world goes by itself) suggested the social theory of (economic) freedom behind the slogan. In the paper we look at this social theory from two perspectives. (1) the necessary moral foundations of economic freedom. The market process rests on the nonmarket generated (moral) institution of especially the right to private property. And (2) the amorality of economic freedom. The market process it self rests on self-interested behavior and as such is amoral. It emphasizes the manner in which hitherto overlooked opportunities for market gains come to be perceived.

Key words: History of economic thought (individuals), capitalistic systems, relation of economics to social values, Austrian economics

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Does the market have a moral heart? For some the answer is a clear no. For others, it is a, just-as-clear, yes. Also has the time come to state after the thesis and the anti-thesis the synthesis? No. The question is wrong. We have to distinguish between the market process and the foundation thereof. The market process is amoral. For this answer we turn to Israel Kirzner's description (1988) of the market as a competitive-entrepreneurial market process of discovery. The process itself, however, presupposes a moral foundation. For this last answer we, as Wilhelm Röpke already advised us to do, have to go beyond supply and demand "*Jenseits von Angebot und Nachfrage*" (1958).

## **1. Wilhelm Röpke**

But first, who was Wilhelm Röpke (1899-1966)---this in modern(-Austrian) economics less-known student and proponent of the Austrian School? In the book *15 Great Austrian Economists* Shawn Ritenour gives his chapter on Röpke the title: *Wilhelm Röpke: A Humane Economist*. And that he was indeed. "More than any other Austrian of his time, he explored the ethical foundations of a market-based social order" (Ritenour, 1999, p. 205; cp. Boarman, 2000, and Habermann, 1999). He was also willing to pay a heavy personal price for it. The rise of fascism forced Röpke in 1933 as one of the first professors out of his job---and Germany too. After a stay as professor of economics at the University of Istanbul (Turkey) he went in 1937 to Switzerland to work for the rest of his life in Geneva at the Institute of International Studies. And---to make his triumphant return as advisor to post-war Germany's first finance minister and later chancellor Ludwig Erhard. Setting the stage for the postwar

economic miracle. Which for Röpke was no miracle at all. For him it was simply the application of sound economic principles.

As for Ludwig von Mises, the founder of modern-Austrian economics, for Röpke economic reasoning starts with human action (cp. Pongracic, 1997). Society is made up of individual souls. The human essence, as Marx proclaimed, is not the true collectivity of man. “[E]ach man’s souls is something unique, irreplaceable, priceless, in comparison with which all other things are as naught. I am attached to a humanism which is rooted in these convictions and which regards man as the child and image of God, but not as God himself to be idolized as he is by the hubris of a false and atheist humanism” (Röpke, 1960, p. 5). Correct social policy should start from these facts. “If we are fundamentally *individuals*, then communism is not right for us, and the system of private property rights could well be the best system of political economy for human beings” (Machan, 2002, p. 2).

Röpke opposed all forms of intervention in the market economy. “It is as though one poured sand into an engine and then hoped to start it up again by pouring in more sand” (1969, p. 31). As someone said, “In political economy there is much to understand and less to do.” Just as he opposed systems completely at the other end of a free society, like fascism and socialism (the latter he dubbed an “office” economy). It is not that the market is an un-planned economy. For Röpke every economy is planned. Though the market also is anarchistic, it certainly is no chaos. Do free individuals or does the state plan that is the question. Hence for Röpke, Keynes took the human out of “human action”. He reduced the economic system to a machine. “[E]conomic policy would thus indeed attain the dignity of engineering, without regard to the fact that society can never be made into a machine nor can statistics succeed morality as a guide to behavior or policy” (1966, 1977, p. 369). Economics is

not a mathematical-mechanical universe. Economic action is not the result of the interaction of quantifiable aggregates, such as consumption, investment and export. It is the result of individual human action. Röpke's opposition to the mathematical and engineering approach to economics amounted to an effort to reestablish economics as an ethical discipline.

## **2. The market economy**

We do start at the beginning. Why do we have a market economy (cp. Röpke, 1943)? Long ago we discovered that by staying autarkic we would never become prosperous in a material sense. We do not, yet, speak of intellectual or moral richness. However, if the ascetic Brahman in India wants to gain moral richness by staying autarkic he is free to do so in a market economy. But if we want material richness we do have to specialize and to exchange our surplus production on the market. A wisdom known by Adam Smith and illustrated in his famous example of the pin factory. Hence, on a market people do make exchanges in barter, for money, or what so ever. More specific, in a market economy individuals exchange their individually held rights to goods. All market outcomes are determined by the interplay of voluntary decisions of property owners. Through exchanges we try to improve our position. However, this can only be done, says Röpke, by rendering a valuable service to the other person.

But there is more. If we use machines we can become even more productive. Now we are talking of capitalism. In short we do have a society in which people specialize and do use machines. What, however, to produce is still open. On the market, that question is to be answered by the consumers in a daily ballot on the

goods that are produced. Consumers steer production and the rewards thereof. A system better than a political election, says Röpke, because it is a perfect proportional system: it is not a winner-take-all mechanism. In sum, the market is a great discovery process of what is to be produced. Entrepreneurs are trying to find out what the consumers value most. Constantly they do come up with new things to better satisfy the needs of the consumer. All, however, is in the eye of the beholder: the consumer. This discovery process is also not something we, as consumers, do not partake in. As Tolkien writes: “We have met the enemy, and we are it ourselves.” Our own subjective estimations and the exchanges based on it are at the core of this process.

### **3. Modern Austrians**

In 1871 Carl Menger published his *Grundsätze der Volkswirtschaftslehre (Principles of Economics)*. This book is usually recognized as the origin of the Austrian School of Economics. Menger's theory turned the value theory of the classicals upside down. The classical Ricardian theory held that cost of production determines the normal value of consumption goods. In contrast, Menger's theory held that the value of consumption goods ultimately determines the cost of production. Value is an expression of judgements concerning future usefulness in meeting consumer wants. Hence does, e.g., follow one of the (older) Austrian fundamentals of taxation, “No tax can be shifted forward” (Rothbard, 1970, p. 88). Prices, as we just said, are never determined by costs of production; the reverse is true (Cp. Due, 1965, pp. 167 and 170, who maintains the opposite). Think of it. There is no reason to expect the producer to wait on, e.g., a general sales tax to increase his prices if he could have done so before. Since the selling price is already set at a “maximum”; a rise in costs,

ic. an imposed general sales tax, cannot raise the price any further. The price is determined by the total stock in existence and the demand schedule for it on the market. Hence the fact that the sticker price of a product does show a certain amount of sales tax does not prove that it is shifted forward towards the consumer. The price for the producer for a good on the market is not the market price minus the sales tax. It is just that market price. The price minus the sales tax the producer gets might well have been reduced to allow for the payment of taxes. So it makes the income the producer receives less. Hence the sales tax is an income tax on the production factors (Rothbard, 1970, pp. 88-93). For the Austrian, also, taxes (Rothbard, 1962, p. 809) can more readily be shifted backward than forward. The general sales tax—according to this view—is a disguised income tax. In sum, as opposed to mainstream Marshallian economics, for the Austrian “economic phenomena are [not] seen as emerging of supply (expressing objective cost conditions) and demand (reflecting [subjective] consumer preferences)” (Kirzner in Meijer, 1999).

Israel Kirzner describes modern Austrianism as an authentic extension of Menger's older static subjectivism: a consequent dynamic subjectivism. In modern Austrianism, the two central figures are Ludwig von Mises and Friedrich Hayek. Both authors focus on market adjustment processes. Kirzner, building his theory as Mises and Hayek did, believes that one of the greatest failures of neoclassical (equilibrium) analysis is that it assumes equilibrium is actually brought about. The real problem for modern Austrians is to describe the possible realization of an equilibrium as the result of "the systematic way in which plan revisions are made as a consequence of the disappointment of earlier plans" (Kirzner, 1962, p. 381).

Mises and Hayek made it possible to describe adjustment as a systematic sequence of decisions. Mises's extension of subjectivism was to describe the individual

decision unit not only as maximizing, but also as finding out the relevant ends-means relationship. This opened the way for incorporating learning into our understanding of market processes. Hayek's extension of subjectivism was to describe the process as one of learning by discovery. Endogenous change in the ends-means relationship—says Kirzner—is possible with the entrepreneurial element in each individual market participant: alertness. Alertness is "the propensity [...] toward fresh goals and the discovery of hitherto unknown resources" (1973, p. 34). A disequilibrium situation points to market ignorance. From it emerge profitable opportunities that are exploited by alertness. Alertness gives a more realistic image of human action (and hence real choice) and makes possible the description of the market as a unified discovery process. "[The] 'alertness' view of the entrepreneurial role rejects the thesis that if we attribute genuine novelty to the entrepreneur, we must necessarily treat entrepreneurially generated market events as not related to earlier market events in any systematic way. The genuine novelty [...] attribute[d] to the entrepreneur consists in his spontaneous *discovery* of the opportunities marked out by earlier market conditions (or by future market conditions as they would be in the absence of his own actions)" [...] "[These] entrepreneurial discoveries are the steps through which any possible tendency toward market equilibrium must proceed" (Kirzner, 1985, pp. 11-12).

#### **4. The moral foundations of and the amorality of the market process**

How to maintain the integrity of the individual person? Because, Röpke says, life is more than food one cannot look only to economics (or science in general) to provide a life worth living (1976, p.178). A point, he says (1943), too often neglected in classical liberalism. The market does not create its ethical foundations: they (e.g.,

competition and the play of supply and demand) presuppose them. We are looking for the institutional pre-requisites, especially private property, freedom and enforceability of contract and setting the terms by the parties to a trade, for the very existence of the market. “We,” as Kirzner says, “wish to emphasize the insight that, for its very emergence and existence, the market must rely on the presence of extramarket institutions, without which the idea of a market process must be a mere dream” (Kirzner in: Meijer, 1995). Institutions that cannot be created by the market itself and do need governmental, extra-market enforcement. For these institutions we have to look at our shared ethical principles, e.g., “man’s moral convictions concerning the simple justice of owning what one has produced with one’s own effort” (Kirzner, 1999, p. 83). We are looking at the inherent rightness of the institutions of the market economy. It is out of order to declare particular “ethical commodities” in regard to which economics is supposed somehow to postulate the existence of spontaneous processes of learning. The highest goals of society and the necessary foundations of life, says Röpke, do not have a tradable market value. Hence we do neglect them if we do rely on the forces of demand and supply (1985, p. 184).

The market process it self, however, rests on self-interested behavior (the rationality assumption) and as such does not pose an ethical problem. It (goal-motivated discovery) emphasizes the manner in which hitherto overlooked opportunities for market gains come to be perceived. The market process itself also is “intrinsically amoral, ... [It tends] to express, faithfully and neutrally, the preferences and values of market participants (Kirzner, 1999, p. 84). For the Austrian, also, there is no economic analysis of rights. This as present-day law and economics wants us to believe. We do have to separate “the character of market processes from the character of the processes leading up to the crystallization of the institutions upon which

markets must rest for their very existence (o.c., p. 84)”. The selfishness of the consumer and the producer is necessary in so far as a person with no goals will not tend to discover things that are to his advantage. “Alertness without some degree of purposefulness is simply and totally implausible. Self-interest ... switches on one’s awareness to hitherto unnoticed ... opportunities” (Kirzner, 1992). Self-interest, also, is to be distinguished from egoism in the sense that in the last one’s own interest is satisfied at the cost of someone else’s. In sum, says Röpke, we can fight scarcity in three ways. A negative ethical way: robbing someone. We can do it in a positive ethical way: altruistically serving someone else at the cost of our own prosperity. Or in an ethical neutral way: serving our own prosperity by serving someone else’s too. This last way, which we can describe as solidarity, is the way of the market economy (Röpke, 1943, p.19).

To conclude, as Röpke said (1958, p. 175), the most important countervailing power to the market is, and it cannot be said enough, the moral attitude of the individual market participants. No government or any other collective action can do that for us. In other words, as someone has said, “There can be no Christian community unless there is first of all a community of Christians.”

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