

## **Karl Pribram's liberalism of compromise**

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### 1. “Conflicting patterns of thought” and “patterns of economic reasoning”

Karl Pribram (1877-1973) is known among economists as author of the voluminous *History of Economic Reasoning*, published posthumously in 1983. In this book Pribram set himself the task to trace the influence of “conflicting patterns of thought” in the development of economic theory from the 13<sup>th</sup> century to the present, which in his case meant: in the 1950's, when he wrote most of the text.

The first publication in which he put forward his approach was a study on *Die Entstehung der individualistischen Sozialphilosophie* (The origins of the individualistic social philosophy) of 1912. The subject of the book is the formation of modern economic thinking – in the double sense of perception of the economy by its agents as well as understanding of economic phenomena through concepts of social science – from the Middle Ages and the early modern period until Adam Smith's *Wealth of Nations*. In this historical context, today's perception of the economy from the perspective of individual agents with their individual needs appears as rather recent. It was alien to medieval man, and even in the early modern period the state was the social unit that dominated mercantilist and cameralist economic thinking. Underlying this shift of perception was a change in the fundamental pattern of thought from universalistic thinking (realism) of medieval theology to nominalism. For universalistic thinking of medieval theology (Thomas Aquinas) eternal ideas expressed in general concepts are the true essence of actual individual phenomena – this was first challenged by nominalistic thinkers (Occam) for whom concepts were only names for things and objects. During the following centuries, nominalistic epistemology became the basis of emerging social and economic theory as it emancipated itself from theology. Man-centered nominalism leads to an increasingly empirical epistemology with experience, which is essentially individual, as source of true knowledge. Thus, in the thinking of Locke and Hume nominalism is closely intertwined with the individualistic approach which became the basis of political liberalism, and of Adam Smith's economic liberalism. Conversely, Pribram treats “collectivism” as corresponding concept to universalism, without, however, offering philosophically convincing arguments for such a correspondence.

Yet the triumph individualism/nominalism was not complete. While individualism came to dominate economic and political thinking in Western Europe and in the New World in the 19<sup>th</sup> and 20<sup>th</sup> century, Pribram concluded his 1912 study by pointing to the continued influence of forms of universalistic, anti-individualistic approaches in Germany, “where the power of thinking in terms of the collective has never been fully overcome.” (p. 102) In an essay published during World War I, Pribram identified two successors of universalistic thinking in the political sphere: the authoritarian doctrine of pre-revolutionary Russia, and the concept of German nationalism. Whereas in great Britain the legitimacy of the state rests on an contract between individual citizens, in Germany “the individual is viewed as subordinated part of a whole” (Pribram 1917/18, p. 184) In the sphere of economic thinking, Pribram identified the German Historical School as a the modified form of universalism in economics (which he called “organismic”) which used collective entities, above all the state (or the nation - *Volk*) as a category of its own right, and played down utilitarian maxims and equilibrium as analytical concept.

Later Pribram added “dialectic reasoning” (Marxism in its various forms) as a separate pattern of economic thinking rooted in a distinct epistemological approach. Pribram refers to Engels’ “dialectical materialism” (“*Anti-Dühring*”) with its inevitable laws derived from nature, and permanent struggle between classes which are considered real collective entities as driving force of historical development. (Pribram 1949, p. 39)

In his book *Conflicting patterns of thought* (1949) Pribram introduced an original element into his analysis through patterns of thought by making “hypothetical reasoning” an essential implication of the nominalistic/individualistic approach. If “reason cannot teach us anything about the choice of ultimate ends which are assumed to be at random”, “... the functions of reason have been restricted to the definition of appropriate means for achieving given ends”. Hence, “all views are purely hypothetical”. (1949, p. 58) Since nobody can make a claim for knowing what would be in the general interest of society as a whole, “no elements of teleology were permitted in the economic institutions which developed under the influence of nominalistic reasoning.” (p. 96)

In Pribram’s scheme, different patterns of thought entail different forms of social responsibility which constitutes a core element of the structure of any social organization. “According to nominalistic reasoning each individual is responsible only to himself for his moral conduct within broad limits established by law”. (p. 66)

In most of his writings Pribram set himself the task to apply his approach of rival fundamental patterns of thought to the evolution of political, social and economic thinking. He published several articles in which he dealt with principal issues of social policy (1932a, 1932b) and international economic relations (1932). The book *Conflicting patterns of thought* is a systematic treatment of the political and economic situation of the world in the immediate post-war period, of the critical challenges which Western democracies and economies faced in the Cold War between capitalism and communism. After his retirement from civil service, already in his 70's Pribram could devote himself to the project to which he had committed himself already in 1912 (see the preface of Pribram 1912), namely to analyze in detail the development of economic theory under the aspect of conflicting patterns of thought.

In my contribution I do not intend to evaluate and criticize Karl Pribram's approach from the viewpoint of philosophy and epistemology (from which I think it has serious deficiencies). I will only briefly consider merits and limits of his approach as they appear in Pribram's *History of economic reasoning*. My paper is mainly devoted to the question what are the consequences which Pribram drew from his rival fundamental patterns of thought for economic policy.

## 2. Economic policy approaches in the light of conflicting patterns of thought

If the universalistic approach and the individualistic approach are epistemological and methodical opposites, as a consequence there is a sharp contrast not only between patterns of economic thinking, but also between the respective concepts of economic policies (and, more generally, of economic and political systems) based on those different paradigms. In its most radical consequence for economic policy, nominalism/individualism restricts the economic functions of the government "to the task of establishing and maintaining such institutions as were likely to assist individuals in pursuance of their hypothetical planning." (1949, p. 96) But unlike his contemporary and compatriot Ludwig Mises, with whom he had organized a discussion circle in Vienna before World War I, and who followed a similar methodical approach, Karl Pribram was not an advocate of pure economic liberalism in the political sphere.

This can be attributed to Pribram's professional career which which has left a strong impact on his writings. Born in Prague into a Jewish family in 1877, he studied at the universities of Prague and Berlin. In 1904 he moved to Vienna where he was habilitated by with a voluminous study on the history of Austria's commercial policy from 1740 to 1798 (Pribram

1907), written under the supervision of Carl Grünberg who represented a Marxist version of the German Historical School at the University of Vienna . Hence, from the beginning of his life as an economist Pribram was under the double influence of the Austrian School and German historicist economics. For the major part of his professional life Pribram worked in the civil service, first in the ministry of trade and in the statistical office of the Austrian monarchy. In 1918 he was appointed director of the legislative department for social policy of the ministry of social affairs of the newly established Republic of Austria. There he was in charge of preparation of the drafts for a whole wave of social policy laws which were enacted after the war (compulsory unemployment insurance, eight-hour working day, labour councils act, collective wage-treaty act, etc.). For his high reputation as expert for social policy, he received a call from the ILO (International Labour Office) in 1921 and moved to Geneva. Only in 1928 – at the age of 55 – did he obtain an academic position when he was appointed to an economic chair at the University of Frankfurt.

The large number of articles which Pribram published until 1928 in which he reflected on theoretical aspects of his work for the government and for the international organization shows that his deepest interest was in the subjects which he had taken up in his early publications that had appeared before World War I.<sup>1</sup> Before he published his series of articles on social policy, Pribram wrote a short pamphlet on fundamental issues of economic policy after the war (*Grundgedanken der Wirtschaftspolitik der Zukunft*, 1918). If Pribram had cautiously expressed his sympathies for British individualism against German nationalism in the above-mentioned article of 1917/18, the basic assumption of the pamphlet must have been hard to accept for him: that there would be no return to individualistic liberalism which had characterized the pre-war political culture in Austria. Forms of collective organization which had been created during the war would have to be maintained thereafter, in order to prevent a decline of living standards of the working population and to get reconstruction of the peace economy under way. Pribram envisaged some kind of “mixed economy” similar to the model which Walther Rathenau (1917, 1918) had advocated for Germany.

More fundamentally, in a series of articles on general aspects of the social policy measures which Pribram himself had contributed to implement, he evaluated social policy in the context of his patterns of thought. He defines social policy as “system of provisions and institutions which aim at the reduction of risks for workers and other inferior social groups originating

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<sup>1</sup> The concept of equilibrium is another key topic to which Pribram devoted continued interest for his early publication of 1908 onwards (*Die Idee des Gleichgewichts in der älteren nationalökonomischen Theorie*).

from the principle of self responsibility.” (1932a, p. 185) The social and political impact of social policy depends on the overall conception of social order within which social policy functions. Pribram identifies four such conceptions, one individualistic, the other three collectivistic: collectivistic-conservative social policy wants to ensure social cohesion in the interest of the state or the nation; collectivistic-revolutionary social policy strengthens the position of the working class in view of a coming revolution; collectivistic-evolutionary social policy uses its instruments in the interest of the working population in the ongoing process of changing economic order. (pp. 181f) It is the existing capitalist economic system which is addressed by all four conceptions, with intention to improve living conditions of the propertyless groups of the population which are “in a permanent and irreparably inferior social position vis á vis the owners of the means of production.” (pp. 183f) The differences between the four conceptions of social policy are due to the different political strategies how to correct the deficiencies of the existing order. Pribram devotes a major part of his discussion of current tendencies within the conceptions to the collectivistic-evolutionary orientation of trade unions. In his view, pre-war practical achievements of trade unions, such as the right to collective bargaining, unemployment insurance, even compulsory health and accident insurance had not violated the principle of individualistic responsibility, as long as these schemes were based on free participation or statistical risk calculation. The wave of measures enacted by state legislation after World War I is explained by “exceptionally strong cumulation of risks” with which existing institutions were unable to cope (p. 198), but the tendency to shift the burden of social responsibility from defined groups to the state continued during the 1920’s. (Pribram 1932b, p. 435) When the trade unions realized that the chances for transforming the capitalist order had disappeared, they adopted argumentations for their claims which accepted the functional logic of the capitalist system, e.g. the purchasing power argument to support demands for wage increases. Social policy has also become a key element of the concept of *Wirtschaftsdemokratie* proposed by the German federation of trade unions which aims at the gradual introduction and extension of elements of economic planning into the capitalist order. If the concept envisaged a fundamental change of the existing order as final goal of long-term development, Pribram thought that this was merely a lip service to socialism. (1932a, p. 203)

Pribram also mentions Eduard Heimann’s *Soziale Theorie des Kapitalismus* who viewed social policy as driving force of the changing character of the capitalist economy. According

to Heimann, it is the goal of social policy to regain freedom in working life in an economy dominated by big large firms and big business. (p. 205)

Pribram refrained from making final judgments about the concepts discussed in the essays referred to above. What becomes obvious from a reading between the lines is an increasingly sceptical attitude towards social policy and interventions in the market economy, which became even stronger after Pribram had moved to the United States in 1933. An offer from the Brookings Institution enabled him to escape from the deteriorating situation in Frankfurt after the Nazi takeover. In the United States Pribram worked for various government agencies until his retirement in 1951. In *Conflicting patterns of thought* which was published at the height of the Cold War, Pribram's sympathies for more radical forms of economic liberalism become visible from several positive citations of books of Friedrich Hayek and Ludwig Mises. But he did not share their view that all social policy provisions beyond a narrow minimum will inevitably push economy and society on a path towards socialism. Pribram was convinced that "experience seems to indicate that considerable differences in economic opportunities are highly disadvantageous or even dangerous to social and economic order at specific stages of economic development. (1949, p. 78)

Pribram's position on the New Economics of John M. Keynes is remarkably positive. In a public debate with Keynes held in Chicago in June 1931 Pribram advocated short term relief action against depression such as public works programs, shortening of the working day, extending the duration of unemployment benefits, etc. He gave principal endorsement to countercyclical policies. (Keynes et al. 1931) Pribram considered Keynes "an eminent thinker of nominalistic persuasion" who "carefully examined certain functional relationships between factors that determine the utilization of economic resources and various relevant economic magnitudes such as income, consumption, and savings." (1949, p. 109) Thus, Pribram did not object to macroeconomic interventions to establish full employment. He warned against the type of economic planning introduced by the Labour government in the United Kingdom, if it involved the setting of priorities for production by private business: "An authoritative choice of economic priorities is likely to involve a tendency to abandon the methods of nominalistic reasoning in favour of schemes of preferences derived from other patterns of thought in order to provide a logical justification for the government's authority to assure the tenure of the party in power." (p. 110)

In economic theory, Pribram was well aware that “the marginalist doctrines were displaced from the dominant position which they had occupied for about half a century. The eclipse of these doctrines was accelerated by the victory of the methods of macroeconomic analysis.” (1984, p. 514)

As an economist, Pribram was primarily interested in analyzing theoretical developments, restraining himself with judgements. As a liberal, he thought that nominalistic reasoning had “a remarkable capacity to enter into combinations of various kinds with other patterns of thought. This adaptability has no doubt contributed greatly to the spread of democratic institutions in the course of the 19<sup>th</sup> century.” (1949, p. 169) Hence, with respect to policy issues, he advocated a combination of market mechanism, social policy and interventions into the economic process of a global nature.

### 3. Othmar Spann: a different version of the dichotomy

Today, only specialists in the history of economic theory are aware that “universalism versus individualism” was a big issue not only in German economics in the first half of the 20<sup>th</sup> century. The Austrian economist and social philosopher Othmar Spann (1878-1950) based his “*Ganzheitstheorie*” (“philosophy of totality”, “holism”) on that fundamental distinction. Taking the position opposite to Pribram’s, he became the leading representative of universalist social and political theory which served as ideological foundation of the *Ständestaat* which Austrian fascism had established in 1934 in place of parliamentary democracy.

According to Schumpeter (1954, p. 85) Pribram rightly claims priority for having (re-)introduced the distinction. But Spann’s version has the advantage that he did not take the detour along which Pribram traced “true” individualism back to nominalism, whereas Spann (1928, pp. 23ff)<sup>2</sup> sees the doctrine of natural rights (Hugo Grotius et al.) as principal source of individualism. For Spann the fundamental error of individualistic social theories (including classical and neoclassical economics) lies in the basic assumption that society is composed of atomistic (autarchic) individuals who are given logical and empirical priority over society as a whole. Instead, the individual cannot be conceived of without being part of society. Hence, all actions of the individual are undertaken in a spiritual social context which determines the values and the purposes which motivate actions. Spann does not deny that the economic sphere forms a system which is part of the social system as a whole, but economy has no

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<sup>2</sup> Of his book there exists an English translation (Spann 1930) which was republished recently (Routledge 2011).

value of its own as suggested by individualistic utilitarianism. Purposive actions in the economy are determined by values originating from other spheres, either social (family, state, nation) or religious.

Spann expounded his overall *Ganzheits*-approach by creating his own versions of sociology, political science and economics. For his anti-individualistic doctrine of economics he developed a special terminology which further obscures his unorthodox views. Spann considers the German romanticist political philosopher Adam Müller (1779-1829) as his most important predecessor. He also pays tribute to Albert Schäffle's organicist social theory based on concepts of biology (*Bau und Leben des socialen Körpers* 1875f).

Most of Othmar Spann's writings appear weird and confused to a modern economist, but they were considered serious contributions at least worth of being mentioned and discussed in older German histories of economic thought (Salin 1951; Stavenhagen 1964, pp. 300-308) and in tracts on economic methodology (e.g. Strigl 1923, Amonn 1927)<sup>3</sup>. In contrast, Pribram's tract of 1912 was hardly mentioned at all<sup>4</sup>, with Schumpeter as notable exception. Hence, it appears as a belated satisfaction to Pribram if – due to his *History of economic reasoning* – his name is now much better known among economists than Spann.

#### 4. Final remarks

It appears that the reception of Pribram's book of 1949 was hardly better than that of the 1912 pamphlet. In a review published in the New York Times Book Review of October 23, 1949, Sidney Hook gave lukewarm support to Pribram's effort to "have raised large questions in a provocative way". But he criticizes the "ambiguity" of Pribram's patterns of thought which embrace "concepts, specific doctrines, and generic methods of thinking and proof." Pribram "does not show that a logical connection exists between his four patterns of thinking and the different cultural phenomena associated with them." Intellectual history shows that "the same doctrine may be held by individuals who subscribe to different methods of thinking. On the other hand, different doctrines may be held by those who share the same pattern of thinking."

In *Conflicting patterns of thought* Pribram had gone far beyond the scope of economics or political economy by applying his concept to world politics, armed conflict and peace, arts

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<sup>3</sup> As a student, Hayek was impressed by Spann's rhetorical abilities, but „soon discovered that he had little to say on economics and in fact did not understand too much about it.” (quoted in Caldwell 2004, p. 139)

<sup>4</sup> An early discovery of Pribram's tract is William M. Johnston's "Austrian Mind", an intellectual and social history of the Austrian monarchy from 1848 to 1918 (Johnston 1974, pp. 90ff)



and sciences, even religion. In his *History of economic reasoning* he confined himself to the development of economic doctrines in the light of central paradigms, which often only implicitly underlie thinking about the economy, and of certain basic concepts such as equilibrium, time, maximization, freedom and law. The reception of this posthumous publication was rather mixed. On the one hand, the fruitfulness of his basic distinction between universalism and individualism was recognized with respect to the development of economic thought from 1300 to about 1800, whereas it was less fruitful after the introduction of additional concepts of transformed universalism/collectivism after 1800 (Mirowski 1984, p. 1124, also Hill 1984).

A principal flaw in Pribram's *History of economic reasoning* was seen in basic assumption that "the development of economic reasoning occurred to a high degree independently of the actual course of economic events." (Pribram 1984, p. 593) This statement is all the more surprising since Pribram's first book was a detailed historical study which owed much to the approach of the Historical School. Pribram himself may have been not sufficiently aware of his lasting intellectual attachment to thinking in terms of real historical development. Most likely, this is the reason for his willingness to accept certain compromises between the nominalistic and the universalistic pattern, as a product of social evolution. Similar to Sidney Hook, Mirowski criticizes the lack of precision in the use of Pribram's essential concepts, and also insufficient explanation of how they are related to each other.

In a situation of fundamental crisis of economic theory, the issue of universalism versus nominalism is no more irrelevant for methodological debates, as it appeared to be until a few years ago. It might be reconsidered in the context of modern sociological systems theory (Niklas Luhmann) whose relevance for the methodology of economics has yet to be recognized.

mises had started his economic writings with historical studies in social policy in which he expressed sympathetic views. But he became a "renegade" after his turn to radical liberalism

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