

Discussion Notes

Another Response to Chris Leithner: Some Differences between Austrian Economics and Objectivism

Brian P. Simpson
National University

A debate between Chris Leithner and me has been raging at *The Journal of Peace, Prosperity, and Freedom*. It started with his review of my recent book *Money, Banking, and the Business Cycle*.¹ The essence of his claim in the review is that he supports much of my economics but rejects my method of analysis. That journal allowed me to submit a response in the same volume defending my positions.² It also allowed Leithner to submit a rejoinder.³ This article constitutes my response to Leithner's rejoinder.

This debate is useful in helping to illustrate the fundamental philosophical differences between Austrian economics and Objectivism. It will give readers a chance to see the errors in the philosophical arguments made by Austrians and some of the logical fallacies they commit in attempting to defend their position. In fact, one can even learn some economics from the debate.

The first error I address is the only economic error that Leithner commits in his rejoinder. It pertains to his discussion of electronic fund transfers. In his original review, he claims that money market mutual funds (MMMFs) are not money because one cannot use them in payment at, for instance, a grocery store without the use of a check.⁴ In order to show that this does not support the claim that MMMFs are not money, I challenged him to use the funds in his checking account without the use of a check.⁵ He retorts in his rejoinder that

¹ Chris Leithner, "Book Reviews: *Money, Banking, and the Business Cycle* (Vol. 1: *Integrating Theory and Practice*; Vol. 2: *Remedies and Alternative Theories*)," *The Journal of Peace, Prosperity, and Freedom* 3 (2014), pp. 137-42.

² Brian P. Simpson, "Response to Chris Leithner's review of *Money, Banking, and the Business Cycle*," *The Journal of Peace, Prosperity, and Freedom* 3 (2014), pp. 121-26.

³ Chris Leithner, "Rejoinder to Brian Simpson's Comment on *Money, Banking, and the Business Cycle*," *The Journal of Peace, Prosperity, and Freedom* 3 (2014), pp. 127-36.

⁴ Leithner, "Book Reviews," p. 141.

⁵ Simpson, "Response," p. 124.

my criticism is not valid because he, in fact, *can* access the funds in his checking account without writing a check, since he can gain access to them with a debit card.⁶

There is no fundamental difference between a check and a debit card, and because of this the same criticism applies: Leithner should try using his checking-account funds without a debit card. The point I was making with this criticism was that some mechanism must be used to access the funds, so the claim that I could not use MMMF funds without a check does not show that they are not money. Whether one uses a check, debit card, or something else is irrelevant. The funds in MMMFs are capable of being used as a medium of exchange and thus are money. Moreover, the minor differences Leithner discusses in his rejoinder regarding whether funds are pulled out of an account (as with a check) or pushed (as with a debit card) do not deny that the arguments I make in my response show that MMMFs are money despite not being a final means of payment (which Leithner says money must be and which he uses as his main argument in his review to claim that MMMFs are not money).⁷ He ignores the essential points of my arguments and chooses to discuss something irrelevant to the issue under consideration.

Leithner's subsequent errors are philosophical ones. The first such error occurs in his attempt to describe why the senses are "fallible." He states in his rejoinder, "Everybody's senses are fallible in the sense that nobody can see (or smell, taste, know [sic], etc.) everything."⁸ Here he confuses being infallible with being omniscient. Saying that the senses do not deceive us does not say that the senses tell us everything about the world. He is presenting a false alternative. It is either omniscience and infallibility or non-omniscience and fallibility. Since the senses are not omniscient, they must be fallible, according to his view. The senses certainly do not perceive everything; nothing could. However, there is no deception involved regarding the aspects of reality that they do perceive.

The next error relates to his view that the brain would have to be "infallible" for the senses to be "infallible."⁹ This reveals that he does not understand the difference between sensory perception and thinking at the conceptual level. Sensory perception is an automatic physical process that occurs through the impingement of physical stimuli on sensory organs. There is no act of volition involved. One can see this using hearing as an example. From the impingement of sound waves on our ear drums to the nerve impulses transmitted to our brains to the percepts retained by our brains, the entire

⁶ Leithner, "Rejoinder," p. 128.

⁷ *Ibid.*, pp. 128-29 n. 180; and Leithner, "Book Reviews," pp. 139 and 141.

⁸ Leithner, "Rejoinder," p. 129.

⁹ *Ibid.*, p. 134 n. 193.

process is automatic. That is why the senses are infallible. There is no chance for volitional error to be introduced.

The possibility of error exists only at the conceptual level. Thinking at the conceptual level is an act of choice. The choice (i.e., free will) consists of how one chooses to use his conceptual faculty. Does one focus one's mind and try to understand the world or not? Does one choose to be rational or not? Both our perceptual and conceptual faculties are attributes of our brain, but the infallibility applies only to the senses. When we analyze, at the conceptual level, the information provided by our senses, we can make mistakes because of the volitional element that is introduced.¹⁰

Another error of Leithner's pertains to his characterization of my view of economics as an empirical science.¹¹ In my response to his review, I clearly state otherwise. Leithner may have ignored what I said because he believes (and Austrians in general believe) that economics is an *a priori* science. This means that knowledge about economics is allegedly obtained independently from experience.

In my response I state that "economic analysis primarily involves the deductive application of fundamental principles."¹² However, I also note that the fundamental principles must ultimately be grounded in the facts if they are to help us understand some aspect of reality. This means that they must be capable of being reduced to the perceptual level. Reduction involves the process of logically linking advanced knowledge to the perceptual level. Much knowledge is abstract—that is, it is not based directly on sense perception and, in fact, is several levels removed from knowledge based on direct perception. In order for such knowledge to be valid, it must be capable of being indirectly linked to the perceptual level. If one does not directly or indirectly link one's claims to the perceptual level, one opens the door to embracing arbitrary assertions (i.e., assertions devoid of evidence).

As an abbreviated example of reduction, let me reduce the concept "living organism." We do not directly perceive living organisms. Living organisms consist of animals and plants. However, we do not directly perceive animals and plants either. Animals and plants consist of dogs, bears, flies, flowers, trees, etc. Now we have reduced "living organism" to perceptual concretes. This concept consists of plants and animals, which consist of specific organisms—perceptual concretes—that we can point to.¹³ While economic laws are not directly derived from sense perception, they must be

¹⁰ On volition and the "infallibility" of the senses, see Leonard Peikoff, *Objectivism: The Philosophy of Ayn Rand* (New York: Meridian, 1991), pp. 38-44 and 55-72.

¹¹ Leithner, "Rejoinder," p. 130.

¹² Simpson, "Response," p. 125.

¹³ See Peikoff, *Objectivism*, pp. 132-33 and 138-39 on reduction.

capable of being reduced to the perceptual level in a similar manner so as to be valid.

Leithner also says that economics is based on an everyday, common-sense understanding of the world.¹⁴ This is true in the sense that he refers to in his rejoinder. In addition, it confirms that economics is based on the facts we observe, not an *a priori* means to knowledge. People tend not to explicitly link in their minds common-sense knowledge to perceptual reality because such knowledge is very basic. However, it is basic because it is easily observable, and explicitly linking this knowledge to the perceptual level provides the ultimate validation for such knowledge. It also helps to show that economics is not a rationalistic fantasy.

For example, one everyday, common-sense idea that Leithner says economics is based on is the fact that people trade when they expect to benefit.¹⁵ We can readily observe this occurring in the purchases we make on a daily basis. We could also observe it in others by, for instance, going to the grocery store and asking customers why they make purchases and asking the grocer why he is willing to sell his products. Of course, we do not need to do this *because* it is so readily observable. The fact that it is so readily observable is why, as Leithner states, it is inconceivable that it could be otherwise.

Based on his rejoinder, Leithner would claim in response to the above argument that we cannot observe purposeful human action. He would claim that we can only observe bodily movements and sounds. We need introspection to recognize that movements and sounds are purposeful, and introspection does not occur through observation, according to Leithner.¹⁶ Nonetheless, I show below that introspection is, in fact, a form of observation.

Leithner also believes that mathematics is *a priori*.¹⁷ He says that it cannot be proven through observation. However, the concepts and principles used in mathematics are reducible to the perceptual level. All concepts (not just mathematical concepts) are formed by a process of differentiation and integration. We differentiate certain concretes in reality from other concretes based on their observed similarities with each other and their observed differences with the other concretes. We then integrate them into a new mental unit (i.e., a concept) by selectively focusing on the aspect of the similar concretes that is the same in all of them.

For example, we differentiate tables from other household objects (chairs, beds, etc.) and integrate different tables together (coffee, dinner, end, etc.) to form the concept “table” by focusing on the fact that they all have flat surfaces

¹⁴ Leithner, “Rejoinder,” p. 130.

¹⁵ Ibid.

¹⁶ Ibid., pp. 131-32.

¹⁷ Ibid., pp. 129, 130, and 134.

with supports and that smaller objects can be placed on them. As another example, the concept “one” is formed by selectively focusing on the specific number of objects (one stick, rock, gazelle, etc.) and differentiating it from different numbers of the same objects (two, three, etc. sticks, rocks, and so forth) to form the concept “one.” Basic concepts of arithmetic (adding, subtracting, etc.) can also be formed directly from perceptual-level data. All of mathematics is capable of being reduced to the perceptual level by linking it to first-level concepts that serve as its base. The first-level concepts are the ones that are formed directly by integrating perceptual-level data.¹⁸

In addition, Leithner equivocates between acquiring knowledge through observation and acquiring knowledge through perceptual association. I say this because he says in his rejoinder that a dog has better senses than man and yet it cannot understand mathematics.¹⁹ He then wonders why a dog cannot understand mathematics if our understanding of it is based on observation. There are a couple of problems here. First, mathematics, and all human knowledge, is conceptual. Dogs, and all of the lower animals, do not possess reason and thus cannot think conceptually. That is why they cannot understand mathematics. They cannot advance past the perceptual level because of their lack of possession of reason.

Leithner not only ignores the difference between conceptual knowledge and perceptual-level knowledge (the latter being what a dog, lion, zebra, etc. can obtain), but he also ignores the fact that knowledge of mathematics (and all *abstract* knowledge) is not gained based on *direct* perception. It is *indirectly* linked to the perceptual level through the logical process of reduction. Mathematics also encompasses deductive applications of inductively validated fundamental principles. Moreover, mathematical claims can be verified directly in many cases through observation, such as the observation of the orbits of spacecraft and planets (which confirms the predictions of their orbits by mathematical models).

I will now address Leithner’s view that introspection is not consistent with observation. Introspection is the means by which we directly observe actions of consciousness, such as thinking and feeling. It is a part of observing the facts of reality. While we do not directly perceive the actions of consciousness, directly or indirectly actions of consciousness are based on the external facts. That is, thinking, feeling, etc. consist of thinking and feeling something about the external world (such as thinking about an apple or feeling happy when one sees one’s wife) or engaging in a process of consciousness that is indirectly linked to the external world (such as imagining bizarre worlds by rearranging elements observed in reality or fantasizing about

¹⁸ This is a *very* abbreviated discussion of concept formation. See Ayn Rand, *Introduction to Objectivist Epistemology*, expanded 2nd ed. (New York: Meridian, 1990), pp. 10-18, for a thorough discussion.

¹⁹ Leithner, “Rejoinder,” p. 134.

scoring the winning goal in the big game). So when Leithner talks about knowledge of something being based on introspection, he unknowingly links his thinking to the perceptual level (so long as his ideas are valid). The link here, as with other abstract knowledge, is just an indirect one.²⁰

Much of the confusion on the part of Leithner and the Austrians is caused by accepting the primacy of consciousness over the primacy of existence. The primacy of consciousness says that consciousness has metaphysical power over existence. The nature of existence can be controlled or affected by consciousness, according to this view. The primacy of existence says that existence exists independently of consciousness and that the nature of things cannot be controlled by consciousness. The latter view rejects Kantian notions of innate structures or categories of the mind that impose order on the world that Leithner and the Austrians embrace.²¹ Consciousness does not create its own reality or control reality. It can only observe reality. Furthermore, understanding that existence (existence being that which is) has primacy over consciousness (consciousness being the faculty of being aware of that which exists), as well as the fact that knowledge is not based on the use of logic apart from experience or experience apart from logic but is based on the application of logic to experience, provides the fundamental basis to reject false dichotomies such as the analytic/synthetic dichotomy and the *a priori/a posteriori* dichotomy that Leithner and the Austrians embrace.²²

A few other errors of Leithner's are worth considering. For example, he attempts to rationalize his mystical beliefs (in religion) by ridiculing one of my arguments. He says that my argument that denies the validity of Holy Scripture is "laughably inept."²³ However, he makes no attempt to address the arguments I make against mystical beliefs. He hopes the reader will ignore this fact and be intimidated into not challenging the Bible (for fear of being branded "laughably inept"). This is known as the argument from intimidation and is an invalid method of arguing because it does not actually make any argument.²⁴ If Leithner thinks that my argument is wrong, he must show how

²⁰ On introspection, see Rand, *Introduction to Objectivist Epistemology*, pp. 29-31.

²¹ Leithner, "Rejoinder," pp. 130-31 and 136.

²² See *ibid.*, p. 131, on Leithner's and the Austrians' embracement of these dichotomies. Also, see Peikoff, *Objectivism*, pp. 18-23, on the primacy of existence and primacy of consciousness; and Leonard Peikoff, "The Analytic-Synthetic Dichotomy," in Rand, *Introduction to Objectivist Epistemology*, pp. 88-124, on the analytic/synthetic dichotomy.

²³ Leithner, "Rejoinder," p. 134 n. 193.

²⁴ On the argument from intimidation, see Ayn Rand, *The Virtue of Selfishness* (New York: Signet, 1964), pp. 162-68.

it is logically and/or factually flawed, not ridicule it in an attempt to silence opposition to his ideas.

Resorting to the argument from intimidation does reveal a great deal, but not about the arguments of the people at whom it is directed. It reveals a great deal about those who use such a method of argumentation. It provides further evidence that their position is intellectually bankrupt because those are the only “arguments” they have left to make.

Leithner also attempts to rationalize his mystical beliefs by claiming that I worship Ayn Rand as a god.²⁵ In essence, this argument says that it is okay to believe in God because the intellectual adversaries of the mystics believe in a god too. He is hoping the reader will not notice that nowhere did I ever say Ayn Rand is a god or that I worship her as a god. It is true that I agree with her philosophical system, known as Objectivism. However, I agree with it because it is right, not because I view her as a god. Her philosophy is valid logically and factually. That is something that certainly cannot be claimed about any mystical ideas, whether religious or otherwise. As a result of the great advances in knowledge for which she is responsible, I have great respect and admiration for her. But that is not the same as worshipping a god. It would be irrational to do that.

Leithner also claims that Ayn Rand engaged in *a priori* reasoning when she defined capitalism as “a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.”²⁶ His claim is that no one could directly observe a capitalist society because one has never existed. Therefore, how was she able to establish this definition of capitalism based on experience if no one, including her, has ever experienced it?²⁷

Leithner’s error here is that he confuses the argument that there is no knowledge independent from experience with the argument that no knowledge can be obtained beyond that derived *directly* from experience. I make the former argument, not the latter. The latter argument ignores knowledge that can be *indirectly* tied to the perceptual level. For example, it ignores, as discussed above, the deductive application of principles that can be reduced to ideas and concepts formed from direct perception. It also ignores abstractions from abstractions: concepts—such as “furniture” and “entity”—that are one or more levels removed from the concepts that identify perceptual concretes.²⁸ One must understand that there is a conceptual hierarchy of knowledge that

²⁵ Leithner, “Rejoinder,” p. 134 n. 193.

²⁶ For this definition, see Ayn Rand, *Capitalism: The Unknown Ideal* (New York: Signet, 1967), p. 19.

²⁷ Leithner, “Rejoinder,” p. 135.

²⁸ See Rand, *Introduction to Objectivist Epistemology*, pp. 19-28, on abstractions from abstractions.

extends from the concepts and ideas established by integrating information obtained directly from perceptual observation up to the widest abstractions that are several levels removed from first-level concepts and ideas.

This is how one forms a concept that identifies a political system that has yet to exist. It also helps that enough variation in political systems has existed—from socialism and other forms of totalitarianism to systems that have come close to laissez-faire capitalism—to allow one to abstract the fundamental principles governing political systems (i.e., freedom vs. slavery) and apply those to form concepts that identify them. So an abstract concept such as capitalism is tied to the perceptual level through reduction and the variation in political systems that has been witnessed.

Leithner's last argument in his rejoinder shows that Austrian economics and Objectivism might not be as far apart as appears at first glance on the issue of whether knowledge is *a priori*. It may be that the Austrians believe that knowledge *is* grounded in experience. However, they appear to have a poor conception of what experience is. I say this because Leithner quotes Murray Rothbard as saying, "My view is that the fundamental axiom and subsidiary axioms are derived from the experience of reality . . ." That sounds good so far. But then Leithner goes on to say, "Rothbard calls such axioms *a priori* because, although they're grounded in reality, they're prior to 'the complex historical events to which modern empiricism confines the concept of 'experience'."²⁹ See the error? If we ignore all aspects of experience beyond "complex historical events," then we can call the axioms "*a priori*." But that is not what *a priori* refers to. It refers to alleged knowledge apart from *any* experience, not just the part of experience we choose to focus on.

Leithner and, apparently, Rothbard have a poor understanding of "experience," and it is based on this poor understanding that they believe that the axioms come prior to experience. Their understanding of experience is poor because it ignores a lot of experience—namely, everything other than "complex historical events." This means that it ignores, for instance, everyday events we have knowledge of that do not make it into the history books or documentaries. This includes most of the experiences people have in their lives—their own personal experiences. Such experiences are extremely important to the knowledge people gain because they include what individuals directly perceive. If we choose not to ignore events we personally witness—or any other part of experience—we can see that the axioms are not *a priori* knowledge. However, for the Austrians to understand this, it appears that, at a minimum, they must adjust their concept of "experience" to include all aspects of experience.

In conclusion, we have seen why the senses are "infallible." I use the term "infallible" to address the specific claim made by Leithner, since he claims that the senses are "fallible." However, I put the term in quotation marks

²⁹ Leithner, "Rejoinder," p. 136.

because the senses are, in fact, neither fallible nor infallible. The senses merely use inputs to generate output. They have no power to distort or deceive.³⁰ The potential for error comes into play only at the conceptual level, in our interpretation of sensory data.

We also discussed some other differences between perceptual and conceptual knowledge and addressed why knowledge in economics, mathematics, and any field is not *a priori*, but must be grounded either directly or indirectly in the facts of reality. We have seen that introspection is a form of observation and why Ayn Rand was not engaging in *a priori* reasoning in her identification of the fundamental characteristics of capitalism. In addition, we have seen that the Austrians have a poor understanding of the concept “experience,” which may largely be responsible for the error they commit in believing that knowledge is *a priori*. Embracing a sound concept of “experience” would help them move closer to sound epistemological ideas, but there are a number of other errors the Austrians would need to correct as well. A discussion of those errors will have to be the subject of another article.

³⁰ Peikoff, *Objectivism*, p. 40.

