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The Intellectual Business Cycle

An Austrian Take on Cultural Evolution

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1. Introduction

Ideas are not scarce goods. They spring up, spontaneously, from the minds of creative people, and once they have been identified in conceptual terms, they are free for everybody to copy; spread, and use to one's own advantage. Kinsella and others have convincingly made the case against intellectual property and all the monopoly-preserving jurisprudence it entails.

Nevertheless, an idea in and of itself is only a hunch, an unconfirmed intuition. Only after a process of verification by means of logic, we can identify ideas in conscious, conceptual terms. How this process exactly takes place, is a question for the science of epistemology, and is not of our concern here, but the fact that this takes time does, because time, unlike ideas, *is* a scarce commodity. At best, we live a hundred years, and at best, we only have a few hours of concentrated focus a day. As such, the time we spend thinking, can be an object of economic analysis.

In this exploring paper, we start from "focus time" as being the natural resource of every individual, and take our praxeological analysis from there. First, five stages of intellectual production are identified. Secondly, important concepts such as consuming and investing, buying and borrowing, risk and interest, credit and money, inflation, distortion of the structure of production and fiscal capacity, entrepreneurship, prices and markets, are translated from the material to the intellectual realm.

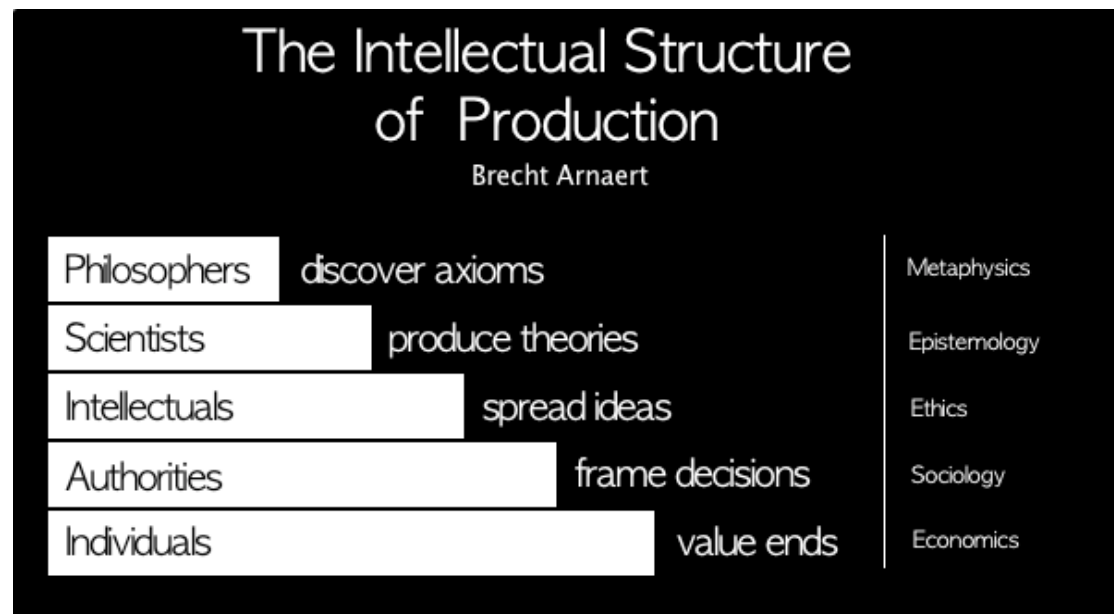
Thirdly, starting from the observation that even after the translation of some key concepts, a number of conceptual problems remain, a working hypothesis is formulated about the existence of an intellectual business cycle, the goal of which is to be able to elaborate the theory further, even though some crucial theoretical gaps are to be bridged. Which brings us to the fourth chapter, in which, using this working hypothesis, and starting from an tentative neo-Aristotelian philosophical framework, a very rough historical exploration is made, in search for intellectual booms and busts.

I welcome other authors to comment on this very brief and rough sketch - merely an outline actually - so that from the clash of ideas, new light may spring from the murky waters of cultural theories.

Brecht Arnaert, Madrid, 22nd of August 2013.

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2. The Intellectual Structure of Production



I have identified five stages of production of ideas, each having different intellectual entrepreneurs:

1. philosophers: mining. Product = axioms (ultimate intellectual capital good)
2. scientists: production. Product = theories (connecting observations by means of logic)
3. intellectuals: distribution. Product = popular concepts (ideas "that gain currency")
4. authorities: wholesale. Product = teachings (opinions on how to make decisions)
5. individuals: retail. Product = decisions. (ultimate intellectual consumer good)

General remark:

Depending on the natural given ability of the intellectual entrepreneur, he can grow to any stage of intellectual production: every individual can become an authority in his field of knowledge, any authority in one field of knowledge can become a distributor of more general ideas. Any intellectual can become a scientist, and any scientist can become a philosopher. A good philosopher is an entrepreneur that unites all the aforementioned qualities in his person: he is a self-conscious person (individual), a good decision-maker (authority), a good intellectual (spreads the message), and a good scientist (connects observations)

Note:

Henceforth, in this text, the intellectual structure of production will be abbreviated as "the ISOP", as to make a clear distinction with the proven existence of a material structure of production (Hayek), which will be abbreviated as "the MSOP". If present evidence is supported with conclusive evidence, it is my intuition that the ISOP would be the exact reverse of the MSOP, having the physical and intellectual needs of the individual as a common starting ground. (Eg. the location of "risk", not with the lender, but with the borrower, see further)

3. Translation of concepts

If the intellectual structure of production exists, then all concepts used in the classical (material) ABC-theory must be up for translation. Below, an attempt has been made to translate the concepts of consuming, saving and investing, buying and borrowing, risk, interest, credit and money, inflation, distortion of the structure of production and fiscal capacity, entrepreneurship, prices and markets.

From the material/physical (MSOP) to the energetic/intellectual (ISOP) realm:

* Consuming, saving, investing.

- The natural resource we all have is our ability to focus. This ability is given, and different for everybody. We all have a certain "focus time" in which we can do productive intellectual labor.
- We have two options: either we consume our focus time on intellectual activities that do not require an effort (relaxing, gaming, small talk), or we invest it in intellectual entrepreneurship (linking observations to previously acquired knowledge)
- The result of intellectual entrepreneurship is a higher level concept. (e.g table, chair, sofa → furniture). These save time. (e.g. Q: "What is a Sendai-dansu?" A: "A type of furniture").
- New situations/problems/opportunities are analyzed faster with greater ease. More focustime is left for other activities.

* Buying, borrowing, risk

- The cost for an individual to find out all there is to know, is quite high. Therefore, next to buying some concepts (integrating them without contradiction in what one already knows to be true) he will borrow some of them (using them without checking them, without knowing if they are actually identifying reality.)
- Buying an idea requires "paying attention": spending focus time trying to understand (eg: capture, to get ones head around, "to comprehend, perceive" (to seize or take in the mind), from com- "completely" + prehendere "to catch hold of, seize"
- Borrowing an idea requires paying attention too, but far less: the only focus time that is spent in the process of borrowing a concept, is using it in a sentence that has meaning to others - which might have borrowed the same concept. (eg: "I think mindfulness is important." - "I think so too")
- Borrowing concepts can be cheaper, but entails a risk: it is possible that one bases ones decisions on wrong identifications or reality.
- Risk, in intellectual terms, is making a decision based on uncertain grounds. Buying a concept entails no risk (only an opportunity cost): one has integrated the new concept without contradiction into what one already knows (assuming that knowing is defined as: "having identified reality"). Borrowing a concept entails the risk that the originator of the concept has made an error, which will cause decisions that are based on it to yield wrong results. The risk while borrowing an idea (using it without checking its validity) is higher than while buying it (having it integrated without contradiction).
- The repayment for having borrowed a valid concept, yielding valuable descisions, is gratitude. The more fundamental the insight one has borrowed from another person, the more potential profit may come from it, and the more repayment can be given. The seller/lender of a concept receives "moral credit"

Note: Risk, in the ISOP, lies with the borrower, not with the lender. An individual can borrow a concept from another, but if the concept turns out to be false, the cost of the actions one has to undertake to correct the error that was caused by this wrong identification of reality, does not lie with the lender. He may loose market share in influential terms, but that is not a net loss. The net loss is for the borrower.

* Interest, credit, money

- Due to differences in time preference, some people like to invest their focus time (they don't want to consume it now), while others do not want to think (definition: to eliminate contradiction) too much, and like to consume it on lower level abstractions (bread & games). An intellectual capital market arises, where people borrow concepts from each other.
- In societies where everybody thinks for himself, the amount of intellectual capital at work is large, and the intellectual interest rate is low: it is on many occasions cheaper to follow other people's decisions (1), rules (2), concepts (3), theories (4) and principles (5).
- In societies where nobody thinks for himself, the amount of intellectual capital at work is low, and the intellectual interest rate is high: it is on many occasions cheaper to check the concepts for yourself.
- Those concepts that have proven their validity on many occasions become popular. The originators of these concepts gain intellectual credit. Money, in intellectual terms, means influence. Payment, in intellectual terms, is having society listening to you. Intellectuals can take entrepreneurial risks by putting their reputation at stake, and will suffer a net loss in authority when a lot of people based their decisions on their false concepts.

* Inflation, distortion of the structure of production, and fiscality

- In a free market individuals buy ideas from people they consider to be an authority in a certain intellectual field. E.g. the pope in moral matters, their bookkeeper in financial matters, their high-school teacher in professional orientation, and so forth.
- In an unfree market, natural authorities are disrespected, and replaced with fake authorities, like politicians and officials. Their authority is not based on content, but on form: not on inspiration, but on the ability to hurt: power.
- Power seeks legitimization, which is impossible, since nothing can legitimize the initiation of the use of force (cf. Rand, Rothbard, et. al). This legitimization, whatever it may be, is an intellectual product that does not identify reality. We call them ideologies. (Definition: "theories that legitimize power".
- Intellectuals are paid to divvy up these ideologies, which, by the very nature of the non-legitimacy of power as a universal principle, start to invent (and no longer discover!!!) reality: they add fiat meanings to existing concepts.
- The result is conceptual inflation: with the same concept you cannot buy as much influence as before. Eg. When somebody appeals to justice nowadays, nobody even bats an eyelid. Same goes for "freedom", "loyalty" and all other values.
- E.g. the concept "justice" used to mean: "getting what you deserve, in every meaning of the word". By inserting FIAT meanings (meanings that are accepted on faith in the intellectual credit of the author) as "social justice", "gender justice", "generational justice", "climate justice" the original meaning of the concept devalues.
- Inflation, however, is only a symptom. Much worse is the distortion of the production structure. By funding intellectual, scientific and philosophical research, capital goods sectors (principles, theories: levels 5 and 4) get overvalued while consumer goods sectors (rulings, decisions: level 2 and 1) get undervalued. The currency (level 3: popular concepts, concepts that "gained currency") gets devalued: concepts start to mean everything. Eg. "flexibility".
- Eg. HR: a lot of expensive theories, a lot of cheap decisions. The cost of a decision is the risk that one has to change one's behavior due to a wrong conception of facts. The profit of a decision is the measure in which it prevents costs. The better the theory that informs those decisions, the cheaper the production of these decisions.
- Fiscal capacity is the measure to which fake authorities can appeal to doubting individuals. This capacity drops by the measure in which the structure of production is distorted. The more intellectual capital is used to produce delirious theories, the more bad decisions get produced, and the individual experiences the more cognitive dissonance: the intellectual credit of authorities drops.
- To make up for the deficit, the only possible two solutions are taxation or inflation. Taxation, in intellectual terms comes down to denying the right to keep the products of one's own intellectual labor, or, in other words, persecuting opinions: censorship. Inflation, in intellectual terms, comes down to paying intellectuals to invent new concepts (the more delusory, the better. eg. "welfare state", "eminent domain", "domestic terrorism")

* Boom, bust, bankruptcy

- Due to the artificially low intellectual interest rates, people can afford to live by theories they would never have the intellectual capital to comprehend if they were to buy them themselves. For a long time the cost of bad decisions is camouflaged by the fact that the cost of a new decision, mending the problems caused by the last, doesn't cost much focus time either: one just rolls over ones intellectual debt.
- The binge goes on up until the point where the interest paid on bad decisions is higher than the cost to buy more time. It suddenly becomes profitable again to think for ones self, but the personal intellectual capital has not been built: one has no inkling of the true meaning of even the simplest concept. The problems that need solving, however, require higher abstractions. Personal intellectual - and therefore psychological - bankruptcy looms. Suicide, depression, neuroticism is the result. People scream for true leadership.
- The result of the injection of fiat meanings to existing concepts is a boom of influence for fake authorities (politicians, union leaders, high officials). They gain the moral high ground over natural authorities (business leaders, religious leaders, the elderly) and people accept their every word. Populism is the result.
- With each intellectual injection of fiat meanings, however, the productivity of the intellectual economy drops. A productive intellectual inspires authorities and individuals to make valuable decisions. The value of a decision depends on the measure in which future behavior, after having changed due to the original decision, has to change again. A cheap decision is one that postpones the inevitable. (Note to self: elaborate on "cost", understood as the number of actions that have to be taken to correct ones erroneous ways)
- Inevitably the intellectual credit of fake authorities drops, and the intellectual economy goes into a bust: philosophers, scientists and intellectuals and authorities are despised. Individuals don't trust them anymore, and take their decisions on a day-to-day basis.

* Entrepreneurship, competition and prices

- In this newly refreshed intellectual economy, interest rates are very high. It pays for intellectual entrepreneurs to produce good concepts that save focus time. The opportunity cost of wasting their focus time on relaxation is too high: in a moment where all are seeking for leadership, the production of good decisions pays off.
- If their product (principles, theories, concepts, and rulings) is good, they earn recognition, on which they can cash in while demanding reforms. They gain intellectual influence to make people follow them on new roads, and people "pay attention", "buy their ideas".

* General remarks

- All individuals exchange ideas. There always is a demand for problem solving, and there always is a supply of solutions. The price of a solution (a teaching) is based on the number of suppliers and demanders.
- In a free intellectual market, philosophers, scientists, intellectuals, authorities and individuals challenge each others authority based on logical reasoning, and try to get a market share of one another's influence. Their competitors can either try to reduce costs, by limiting the focus time they spend on concepts, or to raise prices by demanding more loyalty of their followers.
- It is impossible to corner the intellectual market, since a monopoly of one philosopher rules out the possibility of the detection of error in the market. The moment where a certain intellectual profession serves more than half of its market-segment, his internal market (the market within the firm) becomes bigger than his external market, and the accuracy of the price signals (ratio's between offer and demand) drops. He will start to spread bad ideas, which provides other philosophers with an opportunity to compete.

4. The Intellectual Business Cycle

The ISOP merely identifies five stages in the production of concepts. It says nothing about the concepts in and of themselves. If we want to apply the theory, and illustrate, historically, how conceptual inflation came about, we must add flesh to the bones of this theory. This, in itself, is a life's work, because it requires the elaboration of a non-contradictory philosophical framework from first principles, equipping each stage of production with a certain level of abstraction. In the table below, I have put forth my personal set of philosophical axioms, starting with the Axiom of Existence, followed by the Law of Identity, the Trader Principle, The Iron Law of Michels and the principle of methodological individualism.

Intellectual Stage	Level of Abstraction	Organizing principle
Philosophers	Metaphysics: What exists?	Non-nothingness (Axiom of Existence)
Scientists	Epistemology: How can know what exists?	Non-contradiction (Law of Identity)
Intellectuals	Ethics: How can we relate to what exists?	Non-aggression (Trader Principle)
Authorities	Sociology: How does order arise from this?	Non-equality (Iron Law of Michels)
Individuals	Economics: How do individuals value ends?	Non-objectivity (Human Action)

Note: This framework is being elaborated in rudimentary terms in a forthcoming volume, fall 2014.

Depending on which philosophical principles one takes as a starting point, cultural evolution can be explained as progress (measured by the rate to which the principle is heeded) or regress (measured by the rate to which the principle is ignored).

By applying a neo-Aristotelian perspective (third column above), to my very limited historical knowledge, I believe to recognize two intellectual booms, followed by two intellectual busts, starting, without exception, in a perversion of the relation between metaphysics and epistemology:

INSERT PICTURE OF HISTORICAL EVOLUTION

1. Booms: Greece, Renaissance, future?
2. Busts: Dark Ages, Reformation, today
3. Tipping moments: Fall Roman Empire, Murder on Henry IV in France, WW III?

A short elaboration of a bust - Fall Roman Empire

1. Law is a science: it connects axioms with observations in a logical way.
2. During the Roman era there were hardly any philosophers. There is Marcus Aurelius (meditationes), Lucretius (in part) but that's it (I define a philosopher as an intellectual entrepreneur specialized in the discovery of first principles, the mining ore of thinking)

3. Most of them were orators, rhetoric people: Seneca, Cicero, and a lot of populists. In my conceptual framework these would be “intellectuals” and “authorities”, not even scientists.
4. Therefore, while roman culture seemed to be blooming on the intellectual and political level, the romans neglected the capital goods of thinking they inherited from the Greek period. After a while a highly reasonable culture got replaced with deep metaphysical nihilism (Level 5), yielding epistemological constructivism (Level 4), intellectual relativism (Level 3), political totalitarianism (Level 2), and a centrally planned economy (Level 1).
5. That is why one can see roman culture withering away into the Dark Ages in a very short period of time! From Roman Law to Medieval Torturing practices in less than a century.

A short elaboration of a boom:

1. Cultural Renaissance is mostly dated between the 14th and the 16th Century, but numerous authors have stated that there was a 12th Century Renaissance too. How to connect these two?
2. Using this conceptual framework, the following hypothesis can be formulated: in the 12th Century, translations were made of Aristotle, which made it possible for Thomas of Aquinas to lay out the philosophical groundwork that gave rise to the later cultural renaissance on lower conceptual levels.
3. Therefore, when writing about the Renaissance, one should always define the intellectual level on which one is observing facts. The lag by which intellectual capital goods produce intellectual consumer goods can take several generations, and if we take three generations (or: one century) as a standard for securing commonly understood notions, it becomes comprehensible why there is no gap between the 12th and the 14th Century.
4. To take an example: one could easily conclude that, because of the fact that in the 14th Century witch-hunts were still prevalent, you cannot speak of renaissance. But this is an arrangement on the level of authorities (second level). The condemnation of these practices by intellectuals (third level), scientists (fourth level) and philosophers (fifth level) is already present, and would lead the same observer to conclude that Renaissance is already taking place.

5. Conclusion

This paper is a mere reconnaissance of the possibilities of applying the Austrian Business Cycle Theory to culture (definition: “the highest abstractions that inspire human action, and the material consequences thereof”) but I think it has fruitful applications. More philosophical and historical research is needed to illustrate the validity of the model, but first a first batch of historical analysis (forthcoming) (e.g Descartes (level 5 to 4) – Frankfurter Schule (level 3 to 2) – the Welfare State (level 2 to 1)) look promising.

Those who conduct research in the fields of intellectual history, sociology of knowledge, Austrian economics, or philosophy as such, are welcome to join me in my efforts. I am looking forward to your comments, but please do not quote without permission.

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Brecht Arnaert, Madrid, 22nd of August 2013.