COMMUNICATIONS

EPISTEMOLOGICAL PROBLEMS OF ECONOMICS: COMMENT

It is gratifying to find that, in Professor Ayres' review,[1] Ludwig von Mises' *Epistemological Problems of Economics* receives the space which its importance merits, but the same, alas!, cannot be said for the content. For Ayres not only errs in his criticisms of the work, but he completely fails to convey to the reader either its nature or its importance, so that one begins to wonder why a supposedly unoriginal work repeating the Austrians, criticizing a few forgotten Germans, and holding to outmoded political views, should command such a lengthy review.

One of Ayres' major criticisms, for example, is that this work, originally published in Jena in 1933, deals largely with such forgotten German social scientists as Vierkandt and Hahn. Ayres neglects to mention that a very substantial section of Mises' book deals with Max Weber, who is hardly forgotten or obscure in American sociology today, and in this connection, engages in an important critique of ideal types, the assumption of rationality, and the economic man, and their relationship to economic theory. Much can even be learned today from the disparaged critique of Hahn's theory of tillage, for in this section Mises incisively refuted the recurrent notion that primitive tribes are not subject to considerations of rationality or utility.[2]

Ayres is apparently misled by Mises' excessively modest disclaimers of originality, and therefore treats the work as a mere repetition of Menger and Böhm-Bawerk. It is not that, nor is it, as Ayres even more strongly believes, simply a political tract attacking government intervention. Mises' *Grundprobleme*, here made available to the American reader, was, in fact, the first work in which Mises developed the methodology of economics as a "praxeologic" science, i.e., a science which builds a system of logical deduction on a few universally-known axioms, and which therefore arrives by verbal logic at a system of apodictic, absolutely known, truths. It is also the first work in which Mises developed the relationship between this praxeologic economic science and the facts of human history, which cannot be used to "test" the theory, but which can be partially *explained* by that theory. One of Mises' great contributions to economics is the development of this praxeologic methodology of economic theory and history, the only articulated methodology which stands foursquare against the institutionalist method on the one hand and the now-dominant positivist (or "scientific") method on the other. Whether one agrees with this methodology or not, it is totally misleading to fail to mention that it is the central point of the work under review. Set forth first in *Grundprobleme*, Mises later expanded and systematized this methodology in his *Human Action* and *Theory and History*.[3] It is also insufficiently recognized how much Lionel Robbins' famous *Essay on the Nature and Significance of Economic Science* owed to Mises; in fact, Robbins' work may be considered an oversimplified variant of Mises' praxeological views.[4]

Unfortunately, Ayres' review is almost exclusively devoted not to methodology but to political economy. Here, his major argument, which recurs as a *leitmotif* throughout the review, is the Argument from Authority: few economists, Ayres insists, hold such outmoded,

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[1] C. E. Ayres, "Epistemological Problems of Economics," *Southern Economic Journal,* October 1961, pp. 199–202.

[2] Mises' pioneering opposition to primitivist anthropology has, in recent years, been complemented by the work of anthropologist Sol Tax among the Guatamelan Indians, and economist P. T. Bauer in West Africa and Malaya, demonstrating the sensitivity of near-primitive natives to utilitarian and even monetary considerations. Cf. Sol Tax, *Penny Capitalism: A Guatemalan Indian Economy* (Washington, D. C., 1953) and P. T. Bauer, *West African Trade* (Cambridge University Press, 1954).

[3] Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949) and *ibid., Theory and History* (New Haven, Conn.: Yale University Press, 1957).

[4] Cf. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (New York: Macmillan, 1935). On the development of the methodology of praxeology, and on a comparison of Mises and Robbins (though underemphasizing the similarities between them), see Israel M. Kirzner, *The Economic Point of View* (Princeton, N. J.: D. Van Nostrand, 1960).

laissez-faire views. In his haste to prove such views now and forever unrealistic, he inconsistently repeats that "few indeed are the economists or statesmen who advocate a return to the *status quo ante*," while also maintaining that there never was such a *status quo* anyway: "there has never been a time when government did not 'intervene' in economic life of the community." Professor Ayres cannot have it both ways: either Mises is a "voice from the past" or he is not.

This problem can, however, be resolved fairly simply. There was relatively *less* government intervention in the nineteenth century than in other eras—past or present—of human history, and in that sense there was at least a significant shift in favor of *laissez-faire*. On the other hand, the shift was never completed, so that a certain amount of government intervention still remained. Those economists and social philosophers, few though they may be, who wish to change the present system to one of *laissez-faire*, are therefore looking to the future, but as redeeming the partially-fulfilled promise of the past.

It should hardly be necessary to point out to Professor Ayres that fewness of number is not a proof of error, or that almost all ideas—true or otherwise—now accepted by the vast majority, originated with a small band of often-embattled thinkers. Nor can the field be won by employing the "Even Adam Smith" argument of authority for government intervention. I, for one, am perfectly prepared to dispense with Adam Smith as a mentor on political problems, and one would think that Ayres, in his penchant for modernity, would be willing to do the same. And at one point, Ayres transcends the facts by asserting triumphantly that "no economist has ever proposed that the economic functions of government be dispensed with altogether." The present writer, for one, is willing to come forward as a living refutation of this particular statement.

There is almost no ratiocinative argument against *laissez-faire* in Ayres' review, but he does stress the "bitterest experience" of severe depression and unemployment, and supposes, here as elsewhere, that Mises and other *laissez-faire* thinkers ignore the facts of modern intervention and the mixed economy. Ayres is apparently not familiar with the fact that Ludwig von Mises was the founder of a theory of business cycles which not only explained cycles, depressions, and unemployment, but which gained ground rapidly during the Great Depression, in England especially, as offering an explanation of these catastrophic events. Nor does he point out that the Mises-Hayek theory of business cycles called for *laissez-faire*, hard money, and low budgets as a cure for depressions —precisely the reverse of the Keynesian and post-Keynesian remedies.[5] It is curious indeed that Mises and others who have devoted so many years to combatting the interventionism of our time should be accused by Ayres of ignoring the very existence of this intervention! Ayres concludes his review by declaring that the readers of Mises are invited to believe that "there ain't no such animal" as the current mixed economy. If Ayres had read the book under review more carefully, he would have found, in Mises' supposedly tiresome arguments with the German Historical School, a refutation of his own charge, so reminiscent of the very *Methodenstreit* which Ayres so brusquely dismisses. For the Historical School had maintained that classical and Austrian economic theory assumed "the absolute insignificance of governmental and other acknowledged regulations" and was therefore unable to "comprehend theoretically the organized economy of the present, the economy of regulated competition."[6] To this objection to neoclassical economic theory, Mises replied:

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[5] It has also not been pointed out that Mises' theory of cycles was the only one—with the exception of Schumpeter's—which deduced the business cycle theory from, and thereby integrated it with, the general economic theory of the price system and the market economy. There is no space here to refer in detail to the works of Mises, Hayek and their followers, but applications of the Mises-Hayek theory to the 1929 depression may be found in C. A. Phillips, T. F. McManus, and R. W. Nelson, *Banking and the Business Cycle* (London: Macmillan, 1937), and Lionel Robbins, *The Great Depression* (London: Macmillan, 1934). The first exposition of the Misesian theory in the United States was developed as an explanation of the Great Depression in an address by Professor Haberler. Gottfried von Haberler, "Money and the Business Cycle," in Quincy Wright, ed., *Gold and Monetary Stabilization* (Chicago, Ill.: University of Chicago Press, 1932).

[6] Cf. Ludwig von Mises, *Epistemological Problems of Economics* (Princeton, N. J.: D. Van Nostrand, 1960), pp. 95–96. The quotations are from the Germans Schelting and Salin respectively.

> When this objection is raised, it suffices to point out that what historically started the battle against the theory ... is the fact that precisely on the basis of the theory, and only on this basis, is an accurate judgment possible of the effects both of every individual interventionist measure and of the total phenomenon of interventionism in all of its historical forms.[7]

Mises adds that the real objection of the Historical School to neoclassical economic theory is *not* that it ignored government intervention, but that it comprehended the consequences of interventionism only too well. The same might well be said of Ayres and his objections to Mises and his *laissez-faire* school. No one denies the *existence* of the current mixed economy and network of government regulations and interventions; the real dispute—and one which persists despite attempts of Galbraith, Ayres and others to wish it away—is whether this network should be preserved and extended, or whether it should be extirpated root and branch.

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[7] *Ibid.*, p. 96.

EPISTEMOLOGICAL PROBLEMS OF ECONOMICS: REPLY

It has always been my conviction that the first duty of a reviewer is to inform his readers. Mr. Rothbard speaks of criticism and argument. I agree with him that my review is almost totally deficient in these regards. All that I undertook to do was to place the book in question among its author's works, and the author among economists and publicists past and present.

For the former task it may well be that Mr. Rothbard is more competent than I. But I question the priority he assigns to these essays, noting that he refers only to the author's later, English-language works. I also question the alleged derivation of Robbins' *Nature and Significance* from Mises.

With regard to the relation of Professor von Mises' work to the economics of the present day I note that Mr. Rothbard does not question the accuracy of my placing. He says that Professor von Mises' loneliness does not prove him wrong, and in that he is, of course, right. However, it also does not prove him right.

Mr. Rothbard chides me for citing Adam Smith. But I think most readers will have recognized my reason. As Mr. Rothbard correctly assumed, I do not regard Adam Smith as the *beau ideal* of economic wisdom. This was an "even" citation: "Even Adam Smith. . . . "

Mr. Rothbard says that critics of "interventionism" such as Professor von Mises know that we are now living in a mixed economy. This tempts me to paraphrase a celebrated rejoiner: Egad, they'd better! Nevertheless they continue to argue that what we now call the mixed economy is an economic impossibility. Future history may prove them right. But then again, it may not. I therefore repeat, we are now in fact living in a mixed economy, argument to the contrary notwithstanding; and in the opinion of the great majority of economists (most of whom do not identify themselves as institutionalists) it is a viable economy.

Mr. Rothbard offers himself as a living refutation of my statement that "no economist has ever proposed that the economic functions of government be dispensed with altogether." I should be much interested in an amplification of this proposal, and suggest that Mr. Rothbard begin by advocating that government herewith cease and desist from registering and guaranteeing titles to property.

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ON THE INEQUALITY OF THE RATE OF PROFIT AND THE RATE OF INTEREST: COMMENT

Professor Hoover would perhaps agree that the following paragraph represents the principal conclusion to his article in the July, 1961, issue of the *Southern Economic Journal*:

> In summary, one may conclude that corporate investment decisions are not made in such way that either the expected or the experienced rate of profit are customarily pushed to the point of