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AN OUTLINE OF A PRAXEOLOGICAL THEORY OF POLITICS

MATEI A. APĂVĂLOAEI

ABSTRACT: Throughout his works on methodology, Mises presented economics as part of a more comprehensive science of human action, praxeology. The relation between the two was hierarchical. Praxeology encompassed economics, which was human action under the conditions of monetary calculation, together with any other number of disciplines that could be derived from the categories of human action under specifically assumed conditions. This paper argues that politics/political science can form a sub-field of praxeology. Based on the dichotomy between the economic and political means, politics is going to be defined as the discipline that studies the logic implied by a specific form of human interaction: one individual living off the efforts of another by extracting his resources. Starting from this, the paper provides an outline of politics, and argues that elements of an *a priori* theory of politics can be found in the writings of Austrian school scholars, although they have not yet been grouped under a specific field. The paper also argues that a distinctive field of politics will aid Austrian scholars in better distinguishing their approach from the positivist insights provided by the Public Choice

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This work was financially supported through the project “Routes of academic excellence in doctoral and post-doctoral research—READ” co-financed through the European Social Fund, by Sectoral Operational Programme Human Resources Development 2007–2013, contract no. POSDRU/159/1.5/S/137926.

school. A distinctive field of politics will lead to a better understanding of how far the *a priori* can go, and where the thymological enters the scene.

KEYWORDS: politics, praxeological theory of politics, methodology

JEL CLASSIFICATION: B53, B40, D72

INTRODUCTION

In his introduction to *Human Action*, Mises (2008) argues that the subjective value theory that was developed by economists in the 19th century transcended the limits of the market and exchange. It allowed the positive study of every kind of human action.

Economics had been developed by the classical economists as the first scientific study of social interaction. But due to their failure to provide a satisfactory value theory, they “had to satisfy themselves with a theory explaining only the activities of the businessman without going back to the choices of everybody as the ultimate determinants” (Mises, 2008, p. 63).

Subjective value theory changed all that as it made possible the emergence of a general theory of human action. Praxeology, as Mises chose to call it in his later works, encompassed economics (human action with monetary calculation), and any kind of human action analyzed by logical deduction that started from the categories of human action in combination with more restrictive conditions.

Up to this day, economics has remained the centerpiece of praxeology. Its insights and those of the recently developed field of praxeological ethics (Hoppe, 2006a) have provided the scientific basis for historical research and for studies in political economy and political philosophy.

The present paper will argue that politics/political science can be thought of as a praxeological sub-discipline, next to economics and praxeological ethics. Starting from the dichotomy between the economic means and the political means (Oppenheimer, 1975) we will define politics as the field that analyzes coercive action aimed at extracting resources, and we will try to identify the necessary implications of this purposeful human endeavor.

We will argue that some works that belong to the Austrian tradition have already managed to conceptualize a series of

implications pertaining to political action, but have not yet been grouped under a distinctive praxeological field.

The paper is organized into five parts. The first part will provide a general overview of the distinction between the field of the natural sciences and the field of the sciences of human action. Regarding the latter, we will follow Mises's split between praxeology and history. The second part will delimit praxeology, the general science of human action, from economics, its best-developed branch.

This discussion will provide the general framework for our third part. Here we will provide an outline of the other fields that are grouped under the aegis of praxeology. We will see that next to economics, Austrian scholars have developed praxeological analysis of war making, voting and ethics.

The last two parts of the paper will try to delimit the praxeological field of politics and will propose to group under it a series of insights that other authors have identified in their writings. We will argue that a distinctive field of politics will aid Austrian scholars in better distinguishing their approach from the positivist insights provided by the Public Choice school. A distinctive field of politics will aid us in understanding how far *a priori* can go and where the thymological enters the scene.

THE NATURAL SCIENCES AND THE SCIENCES OF HUMAN ACTION

The current stage of human intellectual development delimits epistemology, the theory of human knowledge. Due to our deficient knowledge regarding the ultimate causes of human behavior, a coherent and comprehensive monistic interpretation of all phenomena is not yet available to man as he "emerged from eons of cosmic becoming and as he is in this period of the history of the universe" (Mises, 2006, p. 1). Because the natural sciences cannot reduce human will and volition to mere physical and physiological processes, science is forced to employ a dualistic approach.

Methodological dualism refrains from any proposition concerning essences and metaphysical constructs. It merely takes into account the fact that we do not know how external events—physical, chemical, and physiological—affect human thoughts, ideas, and judgments of value.

This ignorance splits the realm of knowledge into two separate fields, the realm of external events, commonly called nature, and the realm of human thought and action. (Mises, 2007, p. 1)

Thus, the source of this methodological distinction originates in the fact that there can be no final cause attributed to natural phenomena, while the fact that man aims at definite goals is known to us. While the natural sciences search for constant relations among various events, the field of human action searches after “the ends the actor wants or wanted to attain and after the result that his action brought about or will bring about” (Mises, 2006, p. 32).

The field of human action, in its turn, consists of two main branches: praxeology and history. The former is a theoretical and systematic science that describes the invariant consequences of human action, regardless of time and space. The latter is the “collection and systematic arrangement of all data of experience concerning human action... it scrutinizes the ideas guiding acting men and the outcome of the actions performed” (Mises, 2008, p. 30).

The sciences of human action, in their attempt to comprehend the meaning and relevance of human action, apply two distinct epistemological procedures. Praxeology applies the mental tool of conception and deduces the necessary, while history uses the tools provided by all other sciences and applies understanding in order to reveal what is unique to each event (Mises, 2008).

History retrospectively presents the circumstances in which the action took place, asks what were the sought after objectives, and considers the known means at the actor’s disposal. In order to grasp the motives underlying a specific event, the historian employs his knowledge of human valuations and volitions, i.e. thymology.¹

¹ Mises started using “thymology” only in his later works because he considered that the term “psychology” became inappropriate due to its seizure by experimental psychology, a branch of the natural sciences that employed laboratory experiments. Lavoie and Storr (2011, p. 214) provide a quote from the foreword of the third edition of *Human Action* in which Mises explains the reasons for change in terminology:

[I]n the last decades the meaning of the term “psychology” has been more and more restricted to the field of experimental psychology, a discipline that resorts to the research methods of the natural sciences. On the other hand, it has become usual to dismiss those “[S]tudies that previously had been

Thymology is on the one hand an offshoot of introspection and on the other a precipitate of historical experience. It is what everybody learns from intercourse with his fellows. It is what a man knows about the way in which people value different conditions, about their wishes and desires and their plans to realize these wishes and desires. It is the knowledge of the social environment in which a man lives and acts or, with historians, of a foreign milieu about which he has learned by studying special sources. (Mises, 2007, p. 266)

Thus, the historian tries to provide a complete explanation of a complex past event. For this he uses his “specific understanding” in order to grasp the motives behind that event, and the teaching of both praxeological and natural sciences in order to evaluate the success and the consequences of that event. But, unlike the *a priori* and applied sciences, understanding does not yield certain knowledge about events.

Historians may disagree for various reasons. They may hold different views with regard to the teachings of the nonhistorical sciences; they may base their reasoning on a more or less complete familiarity with the records; they may differ in the understanding of the motives and aims of the acting men and of the means applied by them. All these differences are open to a settlement by “objective” reasoning; it is possible to reach a universal agreement with regard to them. But as far as historians disagree with regard to judgments of relevance it is impossible to find a solution which a sane man must accept. (Mises, 2008, p. 58)

Even in the event that a historian² manages to grasp the exact relevance (weight) each element played in the outcome of a

called psychological as ‘literary psychology’ and as an unscientific way of reasoning. Whenever reference is made to ‘psychology’ in economic studies, one has in mind precisely this literary psychology, and therefore it seems advisable to introduce a special term for it. I suggested in my book *Theory and History* ([1957] 1969, pp. 264–274) the term “thymology,” and I used this term also in my recently published essay *The Ultimate Foundation of Economic Science* ([1962] 1978). (Lavoie and Storr, p. 214 apud. Mises [1949] 1966, p. vii)

Mises (2006, p. 43) considers thymology a “branch of history” that “deals with the mental activities of men that determine their actions. In doing economic history, the scholar must use *verstehen* or understanding, which is a “thymological category” (p. 45).

² The entrepreneur applies the same type of thymological understanding when he elaborates forecasts regarding the allocation of scarce resources toward future uncertain production. Also see (Salerno, 2010) for an extended discussion on the methodology of historical studies.

historical event, this does not amount to the discovery of a law of history. History can never repeat itself due to the absence of any constant relations in the field of human action. Even if the same circumstances occurred, changing human valuation would ensure a different prioritization, thus altering the relevance once attributed to every element.

Up to this point, we have distinguished between the field of natural sciences and the field of the sciences of human action, and followed Mises's split of the latter into the branches of praxeology and history. The remainder of this paper is going to focus on praxeology and its subfields. Before tackling this subject we should mention that the branch of history also includes, in its turn, a number of subfields:

It is on the one hand general history and on the other hand the history of various narrower fields. There is the history of political and military action, of ideas and philosophy, of economic activities, of technology, of literature, art, and science, of religion, of mores and customs, and of many other realms of human life. There is ethnology and anthropology, as far as they are not a part of biology, and there is psychology as far as it is neither physiology nor epistemology nor philosophy. There is linguistics as far as it is neither logic nor the physiology of speech. (Mises, 2008, p. 30)³

Many researchers involved in the study of these specialized fields consider that their efforts can lead to the discovery of hard scientific truths. Armed with a positivist worldview, they try to infer laws from historical patterns.

Mises's synoptic image of the disciplines that are grouped under the aegis of history allows us to better understand the Austrian approach vis-à-vis the one endorsed by positivism, and draw a line between the two. A similar point is going to be made in the last section of this paper, where we will identify the insights and limits of a praxeological theory of politics versus what should be considered a historical/thymological understanding of political action.

³ In a footnote that appears in the same section, Mises specifies "economic history, descriptive economics and economic statistics are, of course, history."

PRAXEOLOGY AND ECONOMICS

Praxeology starts from the category of human action⁴ and deduces, i.e. makes explicit, the subsidiary notions that are implied by action. All praxeological theories start from *a priori* knowledge, that is to say, from categories that must precede any experience,⁵ and apply logical reasoning in order to obtain apodictic certainty. Praxeology produces economic laws that are universally valid and irrefutable by historical experience.

The scope of praxeology is the explication of the category of human action. All that is needed for the deduction of all praxeological theorems is knowledge of the essence of human action. It is a knowledge that is our own because we are men; no being of human descent that pathological conditions have not reduced to a merely vegetative existence lacks it. No special experience is needed in order to comprehend these theorems, and no experience, however rich, could disclose them to a being who did not know *a priori* what human action is. The only way to a cognition of these theorems is logical analysis of our inherent knowledge of the category of action. We must bethink ourselves and reflect upon the structure of human action. Like logic and mathematics, praxeological knowledge is in us; it does not come from without. All the concepts and theorems of praxeology are implied in the category of human action. (Mises, 2008, p. 64)

After unbundling the notions contained by the universal conditions of acting, one can “go further and define—of course, in a categorical and formal sense—the less general conditions required for special modes of acting” (Mises, 2008, p. 64). Thus, one can make the transition from the more general field of praxeology (the logic of human action) to more narrow subfields. Because the

⁴ The fact that human beings act can be considered an axiomatic statement. See (Rothbard, 2011), esp. “Praxeology: The Methodology of Austrian Economics” and “In Defense of ‘Extreme Apriorism’” for an Aristotelian approach that argues that the fundamental axiom of action and the subsequent axioms that can be deduced from it are derived from experience and are therefore in the broadest sense empirical. Also, see (Hoppe, 1995) for a Kantian argument of the synthetic *a priori* character of the axiom of action.

⁵ “They are the necessary mental tool to arrange sense data in a systematic way, to transform them into facts of experience, then [to transform] these facts into bricks to build theories, and finally [to transform] the theories into technics to attain ends aimed at.” (Mises, 2006, p. 14)

end of science is to know reality and not mere “mental gymnastics or logical pastime,” one must restrict his inquiry by analyzing the implications of “those conditions and presuppositions which are given in reality” (Mises, 2008, p. 65).

Economics is just a subfield of praxeology that uses the same methodological framework, but restricts its inquiry to special conditions. In his introduction to *Human Action*, Mises clarifies the relationship between praxeology and economics, or, to be more precise, between the subjectivist economic theory and what it enabled: the analysis of every kind of human action.

Subjective value theory was developed in the field of political economy, later dubbed economics, and was employed in order to explain the nature of value, economic goods and market prices. The classical economists failed to provide an explanation for the relationship between utility and market prices, and used objective labor value theory as proximate cause for the latter. All this was cleared away in the second half of the 19th century, when Menger, Walras and Jevons developed theories that explained market prices as the result of individual evaluation of a need vis-à-vis a marginal unit of a good. Prices could now be explained based on the principle of marginal utility.

As Hülsmann (2003, p. xiii) points out, this breakthrough had “two more far-reaching implications that at first escaped the attention of the pioneers of the new approach.” First, the marginalist approach offered a positive explanation of human action, thus making it devoid of any normative statements and capable of offering universally valid scientific results. Second, “the new marginal-utility theory explained human behavior in general; that is, both within and outside of a market context... [t]he new marginal-utility theory turned it into a science that dealt quite generally with acting man.” (Hülsmann, 2003, p. xiv)

The development of the subjective theory of value marked the beginning of a new stage in the study of social phenomena. By understanding that value theory applies to all human endeavors, independent of time and space, we discover that it represents the starting point for a more general theory of human action. Most members of the Austrian School recognized the fact that insights originating from the more narrowly defined field of economics

could be applied to analyzing the broader field of “sociological” studies, but for the purpose of this paper, we will focus on Mises’s view of the relationship.

Mises was one of the early economists in Austria who realized that Menger’s marginal-value theory had a much wider range of applicability than mere “economic” phenomena such as market prices. He conceived of economics as a part of a more encompassing sociological theory at least from 1922, the year in which he published the first edition of *Gemeinwirtschaft*... [The relationship between sociology and economics] was in his eyes a hierarchical relationship between a more general discipline (sociology) and a more narrow part thereof (economics), which deals with particular cases of human action. (Hülsmann, 2003, pp. xv–xi)

Throughout all his works, Mises maintained his view that economics was the more specific subfield of a more general and encompassing discipline. Only due to historical developments did he find it necessary to change the name of the latter from “sociology” to “the science of human action” and finally to “praxeology.”⁶

The modern theory of value widens the scientific horizon and enlarges the field of economic studies. Out of the political economy of the classical school emerges the general theory of human action, praxeology. The economic or catallactic problems are embedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology. (Mises, 2008, p. 3)

Both economic science and praxeology deal with teleologically oriented subjects that act in a purposeful manner in order to substitute a more satisfactory state of affairs for a less satisfactory. In this sense, acting individuals make choices regarding the scarce means that they dispose of, in order to achieve subjective chosen ends that are prioritized according to an ordinal value scale. At the same time, “[praxeology and economics] are fully aware of the fact that the ultimate ends of human action are not open to examination from any absolute standard.... They apply to the means only one

⁶ In *Human Action*, Mises (2008, p. 30) considers sociology as being used with two different meanings. Both descriptive and general sociology are grouped under the field of history.

yardstick, viz., whether or not they are suitable to attain the ends at which the acting individuals aim" (Mises, 2008, p. 95).

What distinguishes the more general discipline of praxeology from its "best elaborated part" is precisely the following distinction:

- Praxeology implies the study of human choice that is guided by value judgment alone;
- While economics implies personal value judgment and economic calculation (Hülsmann, 2003, p. xxiv).

Thus, economics is a subfield of praxeology that studies the implications of human action in the special conditions of a precise institutional setting: private property over the means of production and exchange on the market, which make possible monetary calculation.⁷

The field of economics or catallactics is concerned both with the subject matter of "economics in the narrower sense," i.e., the explanation of the formation of money prices on the market, and with the study of related issues that the economist is asked to address.

[Economics] *must study not only the market phenomena, but no less the hypothetical conduct of an isolated man and of a socialist community.* Finally, it must not restrict its investigations to those modes of action which in mundane speech are called "economic" actions, but must deal also with actions which are in a loose manner of speech called "uneconomic." (2008, p. 235, emphasis added)

But the study of such issues is possible only by understanding and contrasting them to the workings of monetary exchange, i.e. calculated action.⁸

⁷ That is to say, pure value judgments, which are unquantifiable, impossible to interpersonally compare and in constant flux, gain an objective expression only in the form of monetary prices. In this context, entrepreneurs can make rational resource allocation decisions when they engage in bidding for the factors of production. Their projects, which are nothing more than value judgments regarding the future needs of the consumers, are thus guided and validated *ex post* through monetary calculation.

⁸ In the absence of monetary prices there can be no calculation.

It is a fictitious assumption that an isolated self-sufficient individual or the general manager of a socialist system, i.e., a system in which there is no market for means of production, could calculate. There is no way which

PRAXEOLOGY, ECONOMICS AND BEYOND

Although economics is the most developed branch of praxeology and “up to now the only part of praxeology that has been developed into a scientific system” (Mises, 2006, p. 38), it seems only a question of time until the methodological framework of praxeology is applied in connection to other specific conditions. In this section, we will briefly mention what attempts have been made in this direction.

1. Praxeology and Conflict

By 1962, the year Mises’s last great work on method was published, only one attempt of extending the subfields of praxeology is mentioned: “A Polish philosopher, Tadeusz Kotarbiński, is trying to develop a new branch of praxeology, the praxeological theory of conflict and war as opposed to the theory of cooperation or economics” (Mises, [1962] 2006, p. 38).

Recent works by Salerno (2008) and McCaffrey (2014, 2015) have addressed the logic of war making in a manner that is consistent with the praxeological method.⁹ These attempts are still in an

could lead one from the money computation of a market economy to any kind of computation in a nonmarket system. (Mises, 2008, p. 206)

Robinson Crusoe takes into account only his preferences, while in the socialist commonwealth only one will prevails: that of the planner. Under these circumstances, individuals have only ordinal scales of value to guide their action. See (Machaj, 2007)

⁹ Salerno considers that “[t]he basic axiom of this praxeological discipline is that war is the objective outcome of the human endeavor of *war making*” (Salerno, 2008, p. 447, emphasis in the original). The special conditions that are taken into consideration focus on violent interaction between states. In this sense, the author proposes an analytical framework that “takes into account the war makers’ goals, the means at their disposal, the benefits they anticipate from the war, and the costs they expect to incur in executing it” (Salerno, 2008, p. 447–448). The subsequent conclusions that are reached draw heavily on what can be considered political science. E.g., the state implies coercion of an unproductive minority over a majority; there are two classes—tax earners and tax consumers.

McCaffrey’s analysis of the writings of two military strategists: Sun Tzu and Sun Pin focus on identifying the economic ideas underlying these texts.

early development phase as they rely primarily on the insights of economics and political science (see below).

2. Rothbard—Game Theory and Voting

In 1951, prior to the publication of *The Ultimate Foundation of Economic Science*, Rothbard ([1951] 2011) elaborated an outline of the categories of praxeology of his own, where he identifies five categories (A–E).

Rothbard groups under Economics A. *The Theory of the Isolated Individual (Crusoe Economics)* and B. *The Theory of Voluntary Interpersonal Exchange (Catallactics, or the Economics of the Market)*,¹⁰ and adds to the list C. *The Theory of War—Hostile Action*, D. *The Theory of*

McCaffrey identifies concepts like: the role of incentives in promoting desired behavior, entrepreneurial discovery, scarcity, and resource management all of which lead to the integration of the war making in the field of praxeology. As the author explains,

The popularity of the *Art of War* is largely due to its ability to describe complex problems of conflict using a series of simple conceptual categories. These categories distill core elements of competition into concise, universally applicable principles of strategic decision-making. (McCaffrey, 2015, p. 2)

¹⁰ In his “Praxeology: Reply to Mr. Schuller,” originally published in the *American Economic Review* and reprinted in *Economic Controversies*, Rothbard ([1951] 2011, p. 117) provides the following outline:

Praxeology—the general, formal theory of human action:

- A. The Theory of the Isolated Individual (Crusoe Economics)
- B. The Theory of Voluntary Interpersonal Exchange (Catallactics, or the Economics of the Market)
 - 1. Barter
 - 2. With Medium of Exchange
 - a. On the Unhampered Market
 - b. Effects of Violent Intervention with the Market
 - c. Effects of Violent Abolition of the Market (Socialism)
- C. The Theory of War—Hostile Action
- D. The Theory of Games (e.g., von Neumann and Morgenstern)
- E. Unknown

Games (e.g., *von Neumann and Morgenstern*), and *E. Unknown*. Unlike Mises, Rothbard considers game theory a subfield of praxeology.¹¹

Almost ten years after the initial reply to Schuller, in *Man, Economy, and State*, Rothbard restates the relationship between praxeology and its subfields, to which he adds “the logical analysis of voting.”

What is the relationship between praxeology and economic analysis? Economics is a subdivision of praxeology—so far the only fully elaborated subdivision. With praxeology as the general, formal theory of human action, economics includes the analysis of the action of an isolated individual (Crusoe economics) and, especially elaborate, the analysis of interpersonal exchange (catallactics). The rest of praxeology is an unexplored area. Attempts have been made to formulate a logical theory of war and violent action, and violence in the form of government has been treated by political philosophy and by praxeology in tracing the effects of violent intervention in the free market. A theory of games has been elaborated, and interesting beginnings have been made in a logical analysis of voting. (Rothbard, 1962 [2009], p. 74)

Throughout *Man, Economy, and State* and *Power and Market*, Rothbard makes explicit what this last addition consists of. The interesting beginnings refer to Schumpeter’s ([1943] 2013) *Capitalism, Socialism and Democracy* and Anthony Downs’s (1957) article “An Economic Theory of Political Action in a Democracy.” Voting is analyzed only in relation to politics, i.e., decisions that imply coercion and the imposition of the will of the majority over a minority.¹²

¹¹ For Mises (2006, p. 38n), “the theory of games has no reference whatever to the theory of action.” A game is nothing but a pastime activity that, by definition, has a zero-sum outcome. In Austrian circles, game theory aroused mixed feelings. For a discussion that shows the pros and cons of this approach, see (Foss, 2000). Although the theory uses many assumptions that distance it from realist and subjectivist approach of the Austrian School, all in the name of formalization, intuitively the theory can be placed under the aegis of praxeology (unlike pure mathematics, it implies the categories of time and causality). Because it operates under very restrictive conditions it can only have a very limited applicability for both the historian of the future (the entrepreneur) and for the historian of the past.

¹² Voting related to corporate governance is mentioned only in passing in order to contrast it with democratic voting. In the absence of coercion, shareholders have absolute power over their property because they can sell their stock at any time, thus escaping from undesired situations. Also, shareholders own a company’s

Rothbard keeps his analysis of voting within the constraints of praxeology. Voting appears as a decision making process that must produce a governing body that will adopt decisions pertaining to the allocation of resources in the absence of monetary calculation.

[V]oting for politicians and public policies is a completely different matter. Here there are no direct tests of success or failure whatever, neither profits and losses nor enjoyable or unsatisfying consumption. (Rothbard, [1962] 2009, p. 1070)

Lacking such an objective instrument, the voter is left open to making decisions in matters concerning complex phenomena for which he is poorly equipped to understand. This leaves the voter susceptible to propaganda. But this is not a manifestation of any imperfection inherent to human nature. On the contrary, this result is reached because actors always understand and balance costs and result.¹³ Rothbard builds on the idea of the rational ignorant voter when he states,

Very few voters have the ability or the interest to follow such reasoning, particularly, as Schumpeter points out, in political situations. For in political situations, the minute influence that any one person has on the results, as well as the seeming remoteness of the actions, induces people to lose interest in political problems or argumentation. (Rothbard, [1962] 2009, p. 1071)

The problems do not end after election day. In the absence of monetary calculation, the electorate cannot discern whether a

stock in proportion with their capital contribution, thus not every individual has an equal say in matters concerning company decisions.

¹³ Although his work is *not in the praxeological tradition*, Caplan has employed Austrian insights in his analysis of voting. Voters are presented as worse than rationally ignorant. Because “there is no associated private benefit of rationality, there is no incentive to exert efforts to learn” (Caplan, 2003, p. 222), thus voters are presented as *rationaly irrational*. This leads to a series of systematic errors, or biases as Caplan (2007) calls them—the anti-market bias, anti-foreign bias, make-work bias, and pessimistic bias. Also, Caplan (2004) identifies in the (thymological) works of Bastiat and Mises claims that the failure of democracy is due to the ignorance of the voters, whose biases are taken into account and actually put into practice by the elected officials.

political decision attained its goal, nor the quality of the expertise that went into its design.

Since there is no direct test in government, and, indeed, little or no personal contact or relationship between politician or expert and voter, there is no way by which the voter can gauge the true expertise of the man he is voting for. (Rothbard, [1962] 2009, p. 889)

Like any political decision, voting produces winners and losers and makes opting out impossible. It is irrelevant if an individual voted or abstained, because someone will still rule over him with ample discretion until the next election.

3. Praxeological Ethics

The latest attempt to present an encompassing view of the field of praxeology is that of Jakub Wiśniewski (2012).¹⁴ Besides the fact that the schematization has the merit of offering a general overview of Mises's framing of the sciences of human action, the diagram adds a new subfield to praxeology: "praxeological ethics."

¹⁴ As far as the author of the current paper knows, Wiśniewski's schematization of the fields of the sciences of human action have, up to this date, made the subject of a blog post, and was not published in another publication.

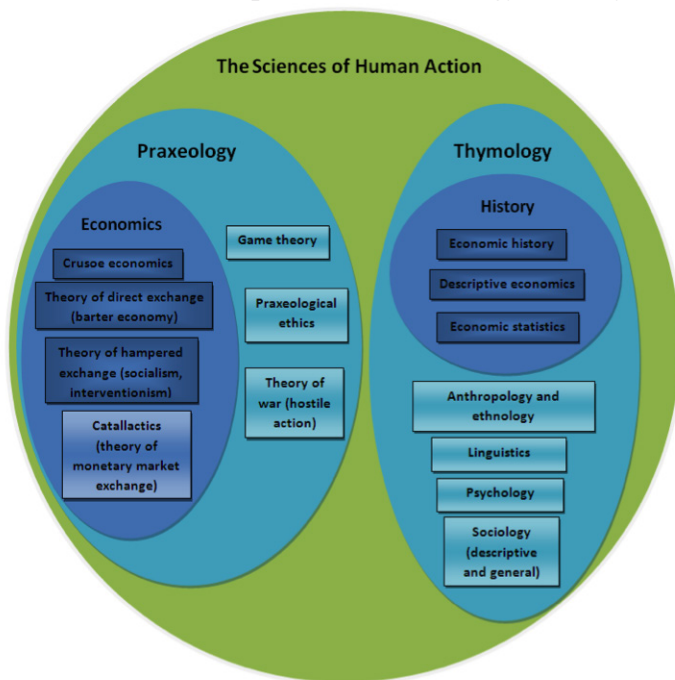
Figure 1. The Relationship Between Praxeology and Thymology

Diagram by Jakub Bożydar Wiśniewski (<http://jakubw.com>)

By including ethics in this list, Wiśniewski takes into account Hoppe's (2006a, 2010) achievement of deducing, from the *a priori* principles of argumentation, an objective ethical system based on self-ownership.

I demonstrate that only the libertarian private property ethic can be justified argumentatively, because it is the praxeological presupposition of argumentation as such; and that any deviating, nonlibertarian ethical proposal can be shown to be in violation of this demonstrated preference. Such a proposal can be made, of course, but its propositional content would contradict the ethic for which one demonstrated a preference by virtue of one's own act of proposition-making, i.e., by the act of engaging in argumentation as such. (Hoppe, 2006a, p. 341)

Hoppe offers a completely value-free justification of private property that cannot be contradicted without self-refutation on the part of the individual that argues or acts against it. This allows him to surpass any objection that could be raised against Mises's utilitarian position or Rothbard's natural rights approach.¹⁵

TOWARD A PRAXEOLOGICAL THEORY OF POLITICS

In the following section we will argue that politics or political science can represent yet another branch of praxeology. Furthermore, we will attempt to present some elements that could be integrated under the aegis of a praxeological theory of politics, many of which have been tackled by economists affiliated with the Austrian school, but never were specifically delimited from economics or political philosophy. Also, in the last part of this section, we will briefly touch upon the relation between the Austrian and Public Choice school approaches.

1. Possible, but Not Quite There Yet

In *The Ultimate Foundation of Economic Science*, Mises ([1962] 2006) paints a bleak picture of political science.

What is today called “political science” is that branch of history that deals with the history of political institutions and with the history of political thought as manifested in the writings of authors who dissented about political institutions and sketched plans for their alteration. It is history, and can as such, as has been pointed out above, never provide any “facts” in the sense in which this term is used in the experimental natural sciences. There is no need to urge the political scientists to

¹⁵ Rothbard (2011, ch. 5) criticizes Mises's utilitarian approach, although he appreciates his mentor's attempts to rationally justify private property and Liberalism. While Mises saw Liberalism as a scientifically backed system that could improve in the long run the welfare of all individuals *qua* consumers, Rothbard argues that an economist must make his ethical position explicit before advising on political matters. When reviewers criticized Hoppe's theory, Rothbard defended the soundness of his philosophical argument. See (Rothbard, 1990). For a critique based on hermeneutics see (Boettke, 1995). For a critique of both Rothbard's and Hoppe's interpretation of self-ownership and homesteading as based ultimately on faith see (Terrell, 1999). For a recent restatement based on Hoppe's position see (Hülsmann, 2004).

assemble all facts from the remote past and from recent history, falsely labeled “present experience.” (Mises, [1962] 2006, p. 72)

It comes to no surprise that Mises, a staunch adversary of the Historical School and of the American Institutional School, criticized any attempt of extracting scientific laws from the study of past experience. This kind of approach can, at best, be considered political history or sociology, which are part of the field history and cannot lead to scientific results.

In the same quote, Mises, a defender of *wertfrei*, criticizes the authors who propose scientific plans for institutional reform. For Mises, both the plans of utopian writers and the scientific design of the perfect system of government are just sterile attempts. The utopians imply that only the will of the designer prevails; the common people are not asked what they want. In this sense, “[t]he Soviet dictators and their retinue think that all is good in Russia as long as they themselves are satisfied” (Mises, [1962] 2006, p. 73). At the same time, drafting the plans for a political order that may function automatically, or for the ideal constitution, are incompatible with human nature. Due to the inherent shortcomings that characterize human character, voluntary submission to a perfect order that goes against “whims and fancies” is unconceivable.

In this context of inappropriate scientific methodology that is employed in chasing after unattainable ideals, Mises makes the following statement:

It would be preposterous to assert apodictically that science will never succeed in developing a praxeological aprioristic doctrine of political organization that would place a theoretical science by the side of the purely historical discipline of political science. All we can say today is that no living man knows how such a science could be constructed. But even if such a new branch of praxeology were to emerge one day, it would be of no use for the treatment of the problem philosophers and statesmen were and are anxious to solve. (Mises, [1962] 2006, p. 73)

2. An Outline of a Praxeological Theory of Politics

A praxeological theory of politics starts from the simple fact that actors can choose to alleviate the uneasiness brought about by

scarcity by employing either the economic means or the political means, *tertium non datur* (Oppenheimer, 1975). Based on the same distinction, and by corroborating it with Hoppe's insights on self-ownership, Hülsmann (2004) has proposed a framework that allows economists to engage in aprioristic and realistic analysis of the impact of positive law.

Consensual appropriation entails specific consequences in comparison to non-consensual appropriation, and vice-versa. These relative consequences are constant through time and space. They constitute a special class of *a priori* laws, which we have called counterfactual laws of appropriation. (Hülsmann, 2004, p. 66)

But this type of analysis, which traces its origins back to a venerable tradition of Franco-Austrian economists, is primarily concerned with the economic consequences of coercion. It has the role of complementing Mises's writings on interventionism,¹⁶ a

¹⁶ Interventionism, in the Misesian understanding of the term, is defined as a "limited order" (Lavoie, 1982), in the sense that it does not seek to take expropriation to its limit, and obtain total control over the means of production as in the case of Socialism. In interventionism, the government "wants production and consumption to develop along lines different from those prescribed by an unhampered market economy, and it wants to achieve its aims by injecting into the workings of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of violent compulsion and coercion stand ready" (Mises, 1998). Interventionism cannot be considered an economic system, as it can never reach the ends that it aims for, and thus must be considered unworkable. State command cannot alter economic law (Böhm-Bawerk, 2010). The only alternatives left are outright abandonment of the measure, or the adoption of a complementary one, a path that ultimately leads to socialism.

For a Kirznerian approach to interventionism, which is based primarily on Hayekian knowledge transmission, entrepreneurial alertness and the negative effects of government interference on plan coordination, see: (Kirzner, 1982), (Ikeda, 2003a; 2004).

While Mises starts from the assumption that policy makers are benevolent (a methodological makeshift that allows him to demonstrate that interventionism is simply an inappropriate means for achieving the publically professed goals), the Kirznerian approach focuses on the unintended consequences of interventionism.

In Hülsmann's (2006) recent restatement, interventionism's failure is explained through the forced separation of ownership and effective control, which pits owners against the state and *vice versa*. Owners will try to avoid ceding resources to the government, while the government is left with two choices: close the

sub-field of economics. A praxeological theory of politics, while starting from the same distinction, focuses on the political means involved by the Oppenheimerian dichotomy.

Politics analyzes the logic of coercion as it emerges from the interaction between an aggressor (bandit or state) and a victim. Unlike the logic of war making, which involves the interaction of at least two parties (adversaries) that are in active opposition with each other, and are teleologically oriented toward victory, politics is interested in the logic of one individual living off the efforts of another. In the case of warfare, the actors are involved in strategic thinking; they rationalize by anticipating the moves of their adversary, and allocate their resources in consequence. Politics, on the other hand, considers only the aggressor as playing an active part in what concerns the use or threat of force.¹⁷ His goal is to extract resources, while minimizing the costs of dissent. For this he must anticipate the actions of his victim, and must balance out the amount he is going to extract, i.e. the gains, with the costs of his action, i.e. loss of support or even active opposition, which leads to war. Both war making and politics lead to zero-sum outcomes. The former results in one party obtaining victory over the other. In the case of the latter, the use of the political means does not have any wealth producing capabilities; it can only extract resources and redirect them.

One may object to this claim by pointing out the case of state owned enterprises (SOE) or the socialist economies. Politics is preoccupied with the initial act of expropriation regarding these cases and with the fact that the policy maker must allocate these resources in such a manner as to remain in power, but it also has something to say about the functioning of the system.

If the SOE operates strictly based on profit and loss, politics can analyze only the initial expropriation. If the SOE is kept in operation

loopholes or restrict its infringement of property rights. "The essence of interventionism is precisely this: institutionalized uninvited co-ownership." (Hülsmann, 2006, p. 41)

¹⁷ In this case, the victim can oppose its aggressor, but does so 1. in self-defense or 2. by not conceding to the aggressor, but without taking up arms against his overlord. An example for the latter point would be an individual that tries to minimize his tax burden. By trading on the black market he has no intention of defeating the state in a military sense.

artificially or operates at a lower profitability than it could possibly achieve, then politics can provide insights about the role of such enterprises in maintaining content among the majority of the population. Also, Mises's (1944) analysis of bureaucracy could provide insight in this case, as it clearly demonstrates that in the absence of a price system, political command must direct resources.

In the case of socialism, only the will of the planning board prevails, and that leads to the impossibility of economic calculation (Mises, 1990; Salerno, 1993; Machaj, 2007). But expropriation is not total, as people still owned their own bodies. In this context, the challenge of politics is to explain how the planning board imposed its will over the majority. In the market, production is directed to serve the will of the consumer. In this sense, the market perfectly coordinates production with leisure preferences, risk preferences, time preference and liquidity preferences (Salerno, 2010). In socialism, production is attuned only to the will of the planning board. But, in order to put this will into practice, political thinking is necessary. The Soviet "price" and taxation system constitute very good examples of this. These (in name only) economic instruments were used primarily as a means of controlling and incentivizing the management of state enterprises (Bornstein, 1962). Political logic can also explain Stalin's salary policy. Workers would be paid only a subsistence wage for working a normal shift, but they were allowed to keep a greater part of their overtime proceeds (Olson, 2000) thus forcing the workforce to comply with the requirements of the dictator's plan.

3. The Minimum Conditions for Political Action

The study of politics involves the application of praxeological reasoning to a specific human endeavor:¹⁸ the extraction of resources by coercive means. Thus, its aim is to logically deduce *a priori* true propositions from the general praxeological insight that humans act, to which the condition of coercion is added. This minimal condition can be complemented by still further conditions

¹⁸ In this vein, we can assert that political action is not the result of instinct, but it presupposes that the praxeological categories (means and ends; costs and proceeds) already exist in the human mind.

with the aim of keeping the analysis relevant for real-life action. An example that will be analyzed below is the implication of coercion in a society characterized by the division of labor.

Political action begins with the means-ends, costs-proceeds framework of the roving bandit. This instance, in particular, does not necessitate a complex chain of deductive reasoning. It starts when the isolated individual, Robinson Crusoe, meets Friday. Instead of cooperating, he first analyzes his means and anticipates that he could overpower the latter. Because Crusoe has a comparative advantage in matters concerning violence (let us suppose that he has firearms) he can choose whether he is going to cooperate with Friday, or use coercion to rob him of his earthly possessions or enslave him, i.e., impose a hegemonic relation. Economic logic informs us that both Crusoe and Friday would be better off if they chose to cooperate, but under the conditions used in our construct, Crusoe's ends lead him to employ coercion.

Thus far, our analysis involved at least two individuals: the aggressor and the victim. Both of them must own at least their bodies, but the aggressor does not recognize his fellow's claim over his appropriated resources (his body and any extensions of it in the Lockean sense).

By using his reason, the aggressor considers that it is in his interest to use coercion against Friday. Because the victim did not anticipate Crusoe's intentions or because he found it in his interest not to oppose him in open combat, Friday was constrained to cede his property to the aggressor.

Starting from this simple situation, political analysis can be taken a step further by assuming that political action occurs in a society, that is, in a group of more than two individuals. This implies that the division of labor enters the picture.

Economic logic tells us that the aggressor and his retinue can represent only a minority. This is not due only to productivity limits. A situation can be imagined in which human development reaches a stage at which only a small part of the population can produce sufficient output in order to sustain itself and a majority that lives off it. The *a priori* motive behind the fact that political rule presupposes a ruling minority is to be found in the law of comparative advantage. Because skills and resources are unequally distributed among the

members of society, only a few will choose to specialize in the employment of coercion in order to extract resources.

The same law of comparative advantage informs us that the division of labor is a process that grows both intensively (as the produced output increases each member of society can specialize in a more specific task and exchange his product with that of others, thus setting in a reinforcing effect) and extensively (as more members join the market).¹⁹ Due to this fact, during the early phases of the division of labor, the emergence of a pure hegemonic relation, i.e. a situation in which an aggressor engages only in socially unproductive activities and lives off his victims, is highly unlikely. Most probably, the aggressor also engaged in other voluntary-based activities. Only with the passing of time, as the division of labor advanced, were the aggressors able to dedicate all their energies to ruling. Thus, we can understand how a political class emerges, or, to use the classical-liberal distinction, how tax-consumers impose themselves on tax-payers (Hoppe, 1990; Raico, 1993). In this sense, politics can prove instrumental in supporting the endogenous theory of the state, as it provides us with a theoretical justification for the gradual transition from a system of settling disputes by a voluntary recognized elite to its ultimate monopolization by a monarch (Jouvenel, 1962; Benson, 1999; Hoppe, 2014).

By taking only realistic conditions into consideration and by applying them to the praxeological categories, we have deduced the mechanism involved by the simplest form of political action (which presupposes the interaction of only two individuals) and extended it to include the emergence of institutionalized aggression: the state. This analysis rendered two results that are apodictically true:

1. Political action can be imagined only in a relation of subsequence to private property. First of all, self-ownership is the prerequisite of any action. Second, political action can

¹⁹ (Fukuyama, 2011) and an extensive anthropological literature mention the importance of severing kinship (blood ties) for developing a hegemonic based entity that is able to implement policies dictated by the a center of power and avoid fission (secession). Once blood ties are severed and an independent bureaucracy appears, we can talk of a transition from tribe/chieftdom to early state.

only live off and extract the product of another individual's endeavor. Even in the case of socialism, where all the means of production have been coercively expropriated, the planning board does not own the bodies of the citizens. The planning board must conceive an incentive structure in order to determine plant managers and the workers to produce according to the priorities of the ruling elite. The theory of politics applies only in situations in which some form of ownership still exists. We can assert that political action faces an *objective limit*: the resources that can be exploited. Of course, this limit can be interpreted in the *absolute sense*, i.e. the victim has no more property left that the aggressor can extract, or in a *praxeologically relevant sense*, i.e. until the economy implodes. To give just two examples: a currency that is destroyed by central bank induced hyperinflation; or the "exhaustion of the reserve fund" (Mises 2008), which is a result of interventionist measures taken to extremes, until production grinds to a halt.

2. Political action that takes place in a society that is characterized by the division of labor will represent the main activity of only a minority of its members. This is due to the fact that only a few members can possess a comparative advantage in exerting coercion.²⁰ Due to the small number of the ruling elite, political action is constrained by a *subjective limit*, i.e. whether or not the vast majority of the population is willing to continue accepting their rule. This fact is independent of the ideological preferences of the political actors.

POLITICS: WHO NEEDS IT?

The stake involved in the existence and study of any subfield of praxeology is that it can teach us something about reality. More precisely, it can aid us in gaining conceptual knowledge about time and space invariant results that occur when certain conditions are given. In this sense, we have deduced that political action is constrained by two limits.

²⁰ These minorities will tend to ensure their monopoly on coercion over a given area in order to optimize the amount of extracted resources. In this sense, Olson's (1982, 1993) differentiation between the roving and stationary bandit proves insightful.

Much of this analysis is not new. Just by arguing that a praxeological analysis of politics is possible, and that that a new field of analysis can become standard equipment for the student of praxeology does not mean that all the theories that are going to be deduced from it are novelties. On the contrary!

Due to the fact that subjective value theory has practically opened all conceivable manifestations of human action to praxeological and historical analysis, it is no surprise that Austrian economists have discussed in their political economy and political philosophy works concepts that can be introduced in a standalone praxeological discipline of politics. By claiming such a field as praxeological discipline we stand to gain on two fronts:

1. A better systematization of already discovered praxeological insights;
2. A reference point when it comes to the relationship between the Austrian school and other approaches, like the one put forward by the Public Choice school.

In the following, we will briefly address each of these points in turn.

1. Contributions to Politics from Earlier Austrian Works

Thus far, we demonstrated that politics/political science could be included next to economics and the other sub-fields under the aegis of praxeology. In this sense, it must be delimited from political philosophy, which imposes ethical judgment pertaining to the ideal political order: how society should be organized for it to be considered just (Rothbard, [1982] 2003). Also, it is distinct from political economy, as long as the term delineates a discipline that allows value judgments on the part of the economist (Robbins, 1981).

But many Austrian works do offer *a priori* insights in matters concerning the use of coercion as a means of one individual extracting resources from another. The fact that a minority must exploit a majority of producers has been an integral part of a number of works. Just to give a few examples: Hoppe (1990) and Raico (1993) deduce this insight in their philosophical and intellectual history of liberal class theory. Also Rothbard (2000) uses the same distinction in his essay “The Anatomy of the State,” a work that combines deductive reasoning and thymological

insights to produce an explanation of the present day manifestation of the state.

Thymological explanations of the role played by court intellectuals in their aggrandizement of the state and in justifying state intervention can be found in the works of Hayek (1949), Mises (1978), Rothbard (2000), and Hoppe (2006b). All these analyses implicitly recognize the subjective limit of state action. Also, Higgs' (1987) *Crisis and Leviathan* recognizes the importance of ideology in making state growth palatable, while Ikeda (2003a) uses insights from his work to propose an endogenous explanation of state growth.

As shown above, in *Man, Economy, and State* Rothbard ([1962] 2009) recognizes the logic of voting as a praxeological sub-field. By analyzing it as a means of appointing individuals to positions that allow them to coercively extract and allocate resources, and by deducing the type of decisions and behavior that such a mechanism will encourage, Rothbard's analysis can easily be conceived as part of politics. Simply put, it is political action under specific conditions: a democratic system.

The fact that democratic and monarchic systems tend to produce different results, *qua* institutional arrangements, has been analyzed by Hoppe (2001). The monarch disposes of a virtually unlimited time in office and the possibility of appointing an heir. By corroborating this with a clear class differentiation between the ruler and the ruled (an ideological constraint), Hoppe concludes that a monarch will tend to have a lower time preference as opposed to a democratically elected politician. Thus, Hoppe distinguishes between a privately owned government and a government that is under the temporary tenure of an administrator, and deduces that exploitation is going to be lower in a monarchy.

All these elements are scattered in economic and philosophic writings, but can be easily and intuitively fitted in a distinct praxeological discipline of politics.

2. Politics in Relation to Public Choice

This brings us to the second point: politics as a reference when it comes to the relation between the Austrian school and the Public Choice approach.

Public Choice comes closer to being an approach to political science than a school of economics (Butler, 2012). Characterized by Buchanan (1999) as “politics without romance,” the Public Choice scholars apply neoclassical economic theory and methodology to the process of political decision-making.

Public choice theory essentially takes the tools and methods of approach that have been developed to quite sophisticated analytical levels in economic theory and applies these tools and methods to the political or governmental sector, to politics, to public economy. (Buchanan, 1999, p. 48)

It is worth mentioning that Buchanan saw himself as having “a great deal of affinity with Austrian economics and I have no objection to being called an Austrian” (Buchanan, 1987, p. 4). Buchanan (1954) cites approvingly Mises’s view of the ballot of the market, where each vote counts as opposed to political voting.²¹ Also, Buchanan agrees with Mises that an individual might have vested interests when voting, thus he will not take into account all the costs that are involved. “[This] difference in responsibility provides a basis for Professor Mises’ argument that an individual is ‘less corruptible’ in the market” (Buchanan, 1954, p. 337).

In his work, DiLorenzo (1981, 1988) has a series of contributions that combine Public Choice and Austrian insights. In this sense he notes that:

[S]ubjective cost theory lies at the heart of many of Buchanan’s contributions to economic theory. Moreover, other Austrian-school insights, such as methodological individualism and an emphasis on market (and non-market) processes, as opposed to equilibrium conditions or end states, also figure prominently in Buchanan’s work. (DiLorenzo, 1990, p. 180)

Also, Rothbard (1995) lauds the insights revealed by Tullock’s analysis of bureaucracy, although, in this particular case, the

²¹ In discussing the effect each dollar vote has when it comes to acquiring a commodity and, consequently, in shaping the economic environment, Buchanan (1954, p. 339) states that “a dollar vote is never overruled; the individual is never placed in the position of being a member of a dissenting minority.” In the footnote that corresponds to this quote, Buchanan makes the following referral: “For an excellent summary discussion of this point see Von Mises, *Human Action: A Treatise on Economics*, p. 271.”

analysis is closer to a historical (thymological) approach than to a positive analysis.

Public Choice has revolutionized the study of the democratic decision making process by dropping the benevolence assumption, and by taking into consideration the behavior of individual (as opposed to aggregate) voters, bureaucrats and politicians as utility maximizers that react to incentives. Starting from these assumptions, Public Choice shows that government intervention can result in government failure.

In this apparent agreement between the two paradigms, a number of incompatibilities can be pointed out.

First of all, there is a problem when it comes to the methodological approach implemented by Public Choice.

The science of politics, normative and positive, should be confined to the study of the political order. The positive aspects of this science should include the derivation of propositions that are conceptually refutable. (Buchanan and Tullock, 1962, p. 213)

This positivist requirement of continually testing the theory against empirical fact until an exception is found, is taken a step further when the authors say:

[T]his assumption about human motivation is perhaps the most controversial part of our analysis. It seems useful to repeat, in this methodological context, that, by making this assumption, we are not proposing the pursuit of self-interest as a norm for individual behavior in political process or for political obligation. The self-interest assumption, for our construction, serves an empirical function. As such, it may or may not be "realistic" (Buchanan and Tullock, 1962, p. 224).

Both Arnold (1993) and Rothbard (2011, ch. 51) raise the issue of the distinctive positivist methodology of Public Choice. Furthermore, Rothbard criticizes the social contract approach of Buchanan and Tullock and the unanimity rule which endorses the status quo without any inquiry about the method of obtaining it.

Second, Ikeda (2003b) brings into discussion the question of what exactly is implied by the concept of government failure. Because of its neoclassical price theory approach, Public Choice considers that political action generates deadweight loss, a concept

that implies utility aggregation and comparison. Furthermore, because Public Choice employs the same knowledge assumption as standard microeconomics, perfect information is assumed. In turn, this assumption is used to infer intent out of result. Thus, Public Choice reaches conclusions in matters concerning the ends of policy makers. Because they are perfectly informed about the results of their actions, policymakers must actively seek to sacrifice the larger public's interest in favor of narrow self-interest, while deliberately deceiving the electorate by engaging in doubletalk.

Taking into account the Austrian school's remonstrance of the Public Choice approach, we can understand why a standalone praxeological theory of politics is important. The Austrian approach to politics can provide *a priori* valid insights in matters concerning the use of the political means. It can also offer an integrated framework for vote analysis and for institutional comparison. The theory does not assume any explicit kind of behavior, nor does it need a social contract explanation for explaining the emergence of the state.

Two last remarks should be made before concluding.

1. It might seem strange that a subject that studies political action does not mention constitutions or the importance of checks and balances. On the one hand this could be due to the relative backwardness of politics, but a closer analysis might reveal that such an approach might prove to be of secondary importance. The fundamental distinction that underlies both economics and politics is between the economic means and the political means. Only by starting from this property approach can we advance an *a priori* theory of politics.²²

²² Above we have shown that Mises considered the study of constitutions and the attempt to create the perfect political system to be futile endeavors as long as they pretend to be scientific. For Austrians, who understand the crucial importance of subjective value theory, the impossibility of quantifying utility, and the role of monetary calculation, such discussions as the ones concerning the legal framework of state action are only of secondary importance. It is not important that a certain policy is constitutional or not. What is important is that it is not based on profit and loss calculation (the consumers' wants become sidelined) and that it involves coercion. As Mises explains:

Those documents [constitutions, bills of rights, laws, and statutes] aimed only at safeguarding liberty and freedom, firmly established by the operation of the market economy, against encroachments on the part of officeholders.

2. A good grasp of the a praxeological theory of politics is important in aiding scholars to clearly distinguishing between the *a priori* part of their analysis and the historical (thymological) part that can be informed by it. Although Austrian economists are inclined to be free market oriented, they should not entertain any value judgment in their scientific analysis. If their studies start from the assumption that government is ruled by narrow self-interest, they should make clear that they take into consideration the thymological relevance of such an assumption, and are thus adding their contribution to historical studies.

CONCLUSION

This paper began by following Mises's distinction between the natural sciences and the sciences of human action and between the sub-disciplines that are contained by the latter. It then proceeded to provide a brief account of the scientific branches that make up praxeology.

Starting from this outline, the paper tried to argue that politics/ political science could be integrated as part of praxeology. Based on the exhaustive classification of the means that are at the disposal of actors to alleviate scarcity, i.e. the economic and the political means, we have defined politics as the discipline that studies the logic implied by a specific form of human interaction: one individual living off the efforts of another by extracting his resources. Under these conditions we have shown that political action employs specific instruments that lead to specific results.

Although politics has not been explicitly individualized as a standalone field of praxeology, the Austrian school has produced over the years a number of works that reach *a priori* true statements regarding the logic and implied results of coercively extracting resources. In this sense, we have argued that the field of politics can accommodate the concepts that, up to now, have been bundled up with economic analysis, political economy and political

No government and no civil law can guarantee and bring about freedom otherwise than by supporting and defending the fundamental institutions of the market economy. (Mises, 2008, p. 283)

philosophy. By understanding the insights and the limits of a praxeological approach to politics, the Austrian school can better relate to the neoclassical and positivist based research program conducted by other schools.

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WHEN I WAS SIX

WILLIAM J. BOYES

Murray N. Rothbard Memorial Lecture
Austrian Economics Research Conference
Ludwig von Mises Institute
Auburn, Alabama
March 12, 2015

INTRODUCTION: WHAT DO ECONOMISTS PREACH?

Murray Rothbard told us that liberty is what allows human flourishing, that liberty requires private property rights and the non aggression principle (NAP), and that this nation was conceived in liberty.

What do mainstream economists tell us today? I attended a seminar in my department a few weeks ago. As everyone walked into the room, the presenter had an equation showing on a powerpoint slide via a projector. Before really getting started, a lively discussion began—all about whether the function should be Cobb-Douglas or CES and whether the data were aggregated in one way or another

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and whether this or that parameter should be present. This is what passes for economics these days in mainstream departments.

Another illustration: I went to lunch the other day with a well-known macro economist. I asked him what value the overlapping generations model provides. His answer was that it gives insights about retirement and pensions. After listening to him summarize the take from the model, I asked why the model was necessary to reach such common sense answers.

Speaking of overlapping generations models, I just read a paper by Kotlikoff, Sachs and a couple of other authors (Benzell et al., 2015) that used an overlapping generations model to argue that technology will eventually lead to stagnation and that the solution to that is redistributive policies. Of course, the results were manufactured by the model parameters. To suggest or make policies on the basis of such models is downright scary.

Much of what is being taught in mainstream economics departments around the country these days is nonsense. Mises dismissed academic economists as a collection of charlatans—“The fact that the majority of our contemporaries, the masses of semi-barbarians led by self-styled intellectuals, entirely ignore everything that economics has brought forward, is the main political problem of our age.”

There are, of course, some very talented people who use the positivist methodology to do interesting work. On the whole though, I think economists in general and economics training in particular today are on the wrong track: in encouraging students to become highly trained technicians and engineers, economic education is succeeding in producing charlatans who, on the one hand, don't understand economics and, on the other, are hostile to the ideas of liberty.

I conducted a survey where I measured student attitudes towards free market ideas at various stages of their training. The result was: The more economics schooling they had, the less they liked the free market and the more they wanted government to solve issues. In addition, I found that positive attitude toward free enterprise was an inferior good.

Another survey I have found interesting is one where I present several scenarios where a scarce good or service requires allocation

and ask which allocation mechanism is favored—price, first-come first-served, random, or government. The economics students did not favor price.

A 2005 survey by Dan Klein and Charlotta Stern (Klein and Stern, 2006, 2007) found that most economists favor government intervention in the economy in a wide range of areas, including income redistribution, minimum wage laws, environmental regulation, anti-discrimination laws, and others. They also found that economists are more likely to vote Democratic than Republican by a margin of 5 to 2. But even the Republican-voting economists tended to favor some amount of government intervention in all of these areas.

These pro-government attitudes of students come from their training that represents the pervasive anti-liberty viewpoint in economics that has its origins in Walras, Pigou, Marshall and J.S. Mill. From then to the present, economists have looked for anything they can call a market failure. Several Nobel Prizes have been awarded for claiming market failure and many “new” schools of thought—new Keynesianism, new information economics—have emerged from the market failure mindset.

All the attention given to market failure has dealt a blow to free market ideas. Together with a second strand of thought—Keynesian macroeconomics—the mainstream in economics has been severely biased towards statism. Klein and Stern found only 8 percent of AEA economists supported the free market and only 3 percent were strong supporters.

I really do not understand this. How can anyone who studies markets and understands the market process be a statist? In 2010, I was discussing the global economy at a small conference; Alan Blinder also was on the stage. During his presentation, Blinder said he is really happy given the events of 2008–2009 that he is a Keynesian and that his principles book is written from a Keynesian perspective.

The problem I have with Blinder and anyone thinking from a Keynesian framework is that Keynesian economics is not economics; in fact, macroeconomics is not economics. There is no macro, no aggregates, no multipliers and there should be no economic policy based on these ideas.

Economics has been waylaid due to these two developments. Most mainstream work today doesn't even bother to acknowledge that markets require private property, the non aggression principle (NAP), and the price system. It is not widely understood that private property along with the NAP, guided by price signals and disciplined by profit and loss accounting will steer self-interested behavior in the direction of social cooperation.

Murray Rothbard recognized what was important. Rothbard was a remarkable economist, historian, and philosopher, and he has had a lasting impact on thought leaders regarding liberty.

I am amazed and very humbled that I would be invited to present this lecture in honor of him.

INSIGHTS ON MURRAY

In lectures like this it is common to provide some inside information about the person. I did not have the opportunity to meet Murray, so I can't tell you anything personal about him. A golfing friend of mine worked with him at UNLV so I called my friend to see if he could give me any dirt on Murray. Here are several anecdotes:

1. When hired, his office had brown chairs but he wanted blue chairs like they had in the dean's office. The associate dean, thinking he was being really cute, told him it took 2 brown chairs to equal 1 blue chair. Next morning, Murray appeared at the Dean's office with two brown chairs in tow.
2. When confronted on the apparent contradiction that he wanted to dismantle the state but worked for UNLV, Murray would often say, "I told you the state was corrupt and failing!"
3. Another friend of mine tells me of the time he and Murray were arguing about something. My friend said, "Murray, why are you so nice to me? I have seen you tear others apart on these issues. Murray said, "You are a civilian. If you were a goddamn academic it would be a different matter."

I am astounded at Rothbard's achievements: the only accurate account of America's Great Depression, the most systematic defense of anarcho-capitalism ever written, contributions to economic methodology, philosophy, ethics, history, and everything

else he focused on. Because of his wide ranging and intellectually powerful work, I didn't know what to talk about here in the memorial lecture until I saw a video of Murray explaining how he became a libertarian. I thought I might follow his script and, in so doing, bring up a couple of issues related to the reach of Austrian economics. I don't mean this to be a narcissistic or ego-driven thing. My intention is to use this not only as a history lesson but a basis for a look ahead.

Murray said he rebelled against the state when he was 6. But he was happy when he did it. I got a kick out of Roderick Long's lecture¹ where he reported that Murray's fourth-grade teacher's report from 1936 said: "Murray seems to be so exceedingly happy that it is sometimes difficult to control his activities in the class. He must develop a more controlled behavior in the group." Today they would probably say he had ADD and give him some Ritalin.

MY DEVELOPMENT

When I was 6, my favorite game was cowboys and Indians. I had a six shooter and holster. I would play with a friend and we would have quick draw contests. When I wouldn't let my friend use my six shooter one time, my mother said, "Billy, you need to share." I would love to be able to tell you that I turned to her and said, "Mom, you want me to be a socialist. You don't share your car or your house or your yard, why should I share my property?"

I'd like to tell you that I said this, but I can't. I am not Murray Rothbard. The only thing I remember about the early grades was playing baseball and lusting after my 7th grade teacher.

Neither of my parents attended college. So it was a given I would attend. I became interested in economics as an undergraduate. I don't really know why. My first two instructors were a Marxist and a Keynesian.

Then I went to graduate school. There I learned very little economics. The only thing I remember about my first microeconomics course was proving Kakutani's Fixed Point Theorem and

¹ Roderick T. Long, Murray N. Rothbard Memorial Lecture at the 2006 Austrian Scholars Conference, held at the Mises Institute, Auburn, Alabama.

deriving first and second order conditions of optimization. Our text was Samuelson's *Foundations of Economic Analysis* (1965). Microeconomics II was linear and dynamic programming. And in macroeconomics we covered Keynes and Keynesian growth theory.

Even though I was awarded a Ph.D. in economics, I knew very little economics; I knew a fair amount of math and econometrics. After grad school my initial position was in investment banking, and knowledge of math and econometrics there did absolutely nothing; in fact, I panicked when I realized I could not even discuss current events. So I began reading anything that would help me get some grounding in macroeconomics. Not knowing better most of my reading came from the mostly macro Keynesian material out of *Brookings Papers*. I got up to speed on the economic outlook and linking the economy to financial markets; I could talk to Alan Greenspan at his consulting company. Even so, macro did not make sense to me.

My dissertation was focused on industrial organization, and it contained the usual econometric bells and whistles. In the years after my dissertation, I gained a little distance from the Ph.D. process and began to wonder what sense market models of traditional IO made (monopoly, oligopoly, perfect competition, etc.).

One thing you should note here: I had not heard of Mises, Hayek, or any other Austrians to this point in my career. It was not until some time later when I became convinced of the benefits of market allocation and a decentralized system.

LIVE BY WHAT YOU PREACH

I find it interesting how few economists actually live by what they preach or teach. Let me give you a couple examples. When my department was being relocated to a new building there was a problem of deciding who got the better offices. The offices were not identical—some had large windows, some small windows, some no windows. I was department chairman. Prior to this point, I, just like most other academics then and today, live and operate within a socialist system: egalitarian treatment of travel budgets, teaching and research report... even of salary increases. Classes and class times assigned, offices assigned, but phone calls, supplies,

copying, etc. were “free.” When I surveyed the faculty asking how to allocate the offices, the most senior wanted it by seniority, the most productive by productivity, the tallest by height, the former college wrestler by a fight, and so on. I used an auction to allocate offices. I allowed faculty to bid for classes and class times; I decentralized the budget. Supplies were priced, not given out free. The system worked. Phone usage dropped and travel increased. (Boyes, 1989)

Another episode was when I attended a Henry Manne Law and Economics two week long seminar held in Miami. At the end of the two weeks, students gathered together to discuss the seminars. One instructor was excellent and one was terrible, the rest just OK. The students proposed that we each contribute some amount, say \$25, and the funds divided equally among the instructors. These were economists!

Faculty meetings present a great example of economists not living economics. They typically are egalitarian gabfests with no productive output. Typically, “fairness” is a focal point. Each faculty meeting can be one of frustration. I finally learned that if I pulled a Mises and called the committee members socialists I would not be put on committees!

Rothbard recognized he was libertarian when he was 6; I was much older. That gives you some perspective on our relative intelligences. The issues I was thinking about when I was thirty or forty had already been written about by Mises, Rothbard and others in the Austrian tradition, but I was unaware of this. For instance,

Aggregation makes no sense. GDP, national income accounting, unemployment, inflation—what do these really mean? To explain that the total measure of output in the economy is $C+I+G+X-M$ not only implies that these categories are fungible but that more and more G obviously leads to more and more national income. Rothbard pointed out the idea of private product to solve this part. But more importantly, he logically destroyed the Keynesian multiplier.

Friedrich Hayek noted in “The Use of Knowledge in Society” that aggregation throws away a great deal of valuable information. If we believed the aggregation, then we could make GDP rise by simple actions—such as burning down your house, having your kids be juvenile delinquents, getting a divorce and so on. (Parks, 1998)

Keynes's suggestion to hire unemployed to dig holes and more unemployed to fill them up, echoed today by Krugman and Keynesians worldwide, is complete ignorance of Say's Law.

Unemployed resources put pressure on resource costs which lead to the market adjustment. If those resources are employed by government they no longer put pressure on resources and in the meantime, they produce nothing.

Market failures make no sense. In a system of private property rights and non aggression, there are no so-called market failures. Market failures are an equilibrium concept which in reality are instead profit opportunities.

If one begins the slippery slope by allowing one violation of NAP, then we are left with a continual growing government. Logic dictates anarchism.

THE CLUB

In all these areas, Murray Rothbard was undoubtedly brilliant. Yet, he had academic positions at two relatively low-level universities. The reason:

I believe there is an analogy with the climate change debate. A paper published in 2014 in the *American Journal of Agricultural Economics*, titled "Information Manipulation and Climate Agreements," provides a "rationale" for global warming proponents to engage in mendacious claims in order to further their cause. Cheating, lying, falsifying data, etc., are considered ethical strategies. This may be due to an attempt to protect one's human capital.

We can agree that after devoting resources to acquiring specific human capital, one wants to minimize depreciation and obsolescence of that capital. Thus cartels are formed, hiring limited to like thinkers, and so on. This is what the "climate science" debate is all about. "All scientists support man made climate change."

Similarly, if you spend 10 years in economics programs developing a specific kind of human capital, you do not want to see that capital depreciate or become obsolete. Since Samuelson's *Foundations*, the capital developed by economics has been what

Mises called physics envy, and the methodology has led to an emphasis on market failure. In a Cato paper, Dan Klein (1999) refers to the mainstream as a club.

Gary North essentially agrees when he says:

Because of Rothbard's commitment to the application of Mises's theory to virtually every area of modern politics, he has earned the respect of intelligent people who are outside of academia, and who see through the delusions of both grandeur and independence that tend to afflict those who are inside academia. In contrast, those who are inside academia, and who gain their sense of importance from their peers in academia, regard Rothbard as the turd in the punch bowl. If Rothbard was right, then almost everything they are doing is either irrelevant or worse. (North, 2013)

The club is maintained as a rent-seeking entity by the growth of the state. One of my environmental economist colleagues tells me the EPA is a full employment agency for environmental economists. In mainstream economics, research grants come from government—NSF, NIH, DOD, EPA, etc. For example, the 2014 awards of the NSF totaled over \$7 billion. Something like 400 had something to do with market failure. One dealt with Hayek's methodology and I think it was critical of Hayek.

As the interventionist state expands, it reinforces the need for trained experts who are conducive to furthering the growth of the state. The university system obtains increasing subsidies from government to initiate and expand graduate programs that will provide such personnel. Government in general is very good for economists.

So wouldn't it make sense that economists would see a role for government? And isn't there an incentive for economists to mimic each other in technique and thought? According to a recent paper,

Economists, want to fix things. They have developed a precise theoretical framework for evaluating when markets are efficient and when market failures can occur. If things don't work the way they should, then a smart intervention, a "nudge,"² may be called for. (Fourcade et al., 2014)

² "Nudge" in the sense of Richard H. Thaler and Cass R. Sunstein (2008).

The study finds:

Economics departments at the very top of the pecking order exchange students among themselves in higher proportions than in other fields, including mathematics. Hierarchy is much more clearly defined in economics.

Hiring practices sustain and foster a strong temporal persistence of the prestige rankings.

The top five sociology departments account for 22.3 percent of all authors published in the *American Journal of Sociology*, but the top five economics departments account for 28.7 percent of all authors in the *Journal of Political Economy* and 37.5 percent in the *Quarterly Journal of Economics* (QJE).

Those with Ph.D.s from the top five sociology departments publish 35.4 percent of the articles in *American Journal of Sociology*; in economics it is 45.4 percent in the *Journal of Political Economy* and a sky-high 57.6 percent in the *Quarterly Journal of Economics*.

The AEA is much more centralized than other professional societies;

AEA leaders are drawn disproportionately from the discipline's elite departments: 72 percent of the AEA non-appointed council members are from the top five departments, in contrast to only 12 and 20 percent, respectively, for APSA and ASA.

The president-elect and program committee run the program for the annual meetings, which involves selecting the sessions to be conducted and the papers to be included in the "Papers and Proceedings."

Richard Tol (2009) reported that 84 percent of economists, when asked whether climate change posed a significant risk to the U.S. and global economies, either agreed or strongly agreed.

A paper published in 2012 called "Mainstream Economists on the Defense" interviews several mainstream economists on why only the neoclassical view is provided in classes. Most answer that neoclassical economists are diverse, nothing else needs to be considered. Several said that heterodox perspectives were akin to unscientific theories, like astrology, or to outdated theories in the natural sciences. (Alberti, 2012)

Harold Uhlig of the University of Chicago said that he has not seen anything in the other schools of thought that "I think our models can't handle." (Alberti, 2012)

Deidre McCloskey noted this tendency to homogeneity in the midst of specialization and comparative advantage in her little note on Kelly Green Golfing Shoes being called the “Samuelson.”

But even given all this, we recognize that thanks to the work of Lew Rockwell and the Mises Institute and all of you, students have more chance of being exposed to Austrian economics than ever before. For many years I never had an undergraduate student who had heard of Mises or Rothbard. Lately however, there is at least 1 student out of 30 in each class who has read Mises and Rothbard or pays attention to Mises.org, even though I was the only faculty member who assigned them in readings.

But this does not mean Austrian economists are welcomed in so-called mainstream departments. Our Center for Economic Liberty has come face to face with that. Two foundations and several individual donors wanted to see ASU’s School of Business create a center dedicated to economic liberty. Part of the Center’s task is to hire people devoted to free enterprise and liberty. Because of the club or cartels formed by departments, it is difficult to overcome their barriers with respect to the use of techniques or methodology. The response to the people we put forward to recruiting committees is that they do not have enough publications in the top journals or don’t approach problems “like we do.”

Some have made arguments that the exclusion of Austrian economists from mainstream departments and journals is a market failure. Others point to the mathematical technique or to Austrian methodology.

Whatever the reason, I don’t think this will continue to be an important question. We know that the real battle is the battle of ideas, not esoteric academic journals or even tenured positions in mainstream departments. Having those might make the battles today easier. But since it is the public and thought leaders who must learn the value of liberty the work of Austrians and the value of technology will make more difference than esoteric journals.

The battle of ideas will be won outside of academic institutions. Technology is enabling ideas to spread easily and quickly. Whereas the internet essentially destroyed print media, today we have blogs, social media, podcasts, and online journals. Tomorrow we will be able to provide information and experiences regarding that

information more easily and more rapidly. Intelligent personal assistants such as Apple's Siri and Samsung's S-voice allow us to input text or speak commands with our voice instead of typing. With Kinect and Wii-like technologies we can control devices by using gestures. Brain-computer interfaces which read our thoughts are also in the make. We can buy and sell using cryptocurrencies such as bitcoin. We can take Lyft or Uber downtown, bypassing obsolete local ordinances on the way. These are just the beginnings of a new form of social coordination in which technology *itself* makes it possible to upgrade our social operating systems. Blockchain technology is decentralizing everything, and this will include the university.

Even now, the Austrian school is growing and becoming more and more accepted outside of academia. *Barron's* magazine, for example, admitted what few in the mainstream have been willing to acknowledge: *the Austrian school of economics was right*. In the latest Gallup Governance Survey, pollsters found that 25 percent of respondents fell into the libertarian quadrant, up from 17 percent in 2004.

Still, there is a great deal of work ahead. The basic intuition of the general public is to reject free markets. We know that the anti-liberty and anti-market attitude is an emotional reaction on the part of the general public and academics. To the general public, freedom can be a scary thing. It requires personal responsibility. It is frightening to many that we own or are responsible for our own lives.

The general public does not recognize the morality of voluntary association and freedom of exchange, under which violence and coercion are removed. It is not recognized that life need not be a negative sum game.

To the intellectual, "the public is dumb," as Jonathan Gruber said. Thus, the general public needs the intellectuals to guide them and tell them right from wrong—to "fix things."

The battle of ideas continues, but the public doesn't need intellectuals to fix things. Rothbard would call on us to continue to point out that a world in which free men and women may use their creative potentials in any way they desire is a world full of opportunities, a world where humans flourish, and a world where improvements in the human condition take place.

This is what Murray Rothbard understood and communicated. He might have been a lone nut, but look where he brought us.

Thank you very much.

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THE “MISSING ELEMENT” IN MODERN ECONOMICS

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The Lou Church Memorial Lecture in Religion and Economics
Austrian Economics Research Conference
Ludwig von Mises Institute
Auburn, Alabama
March 12, 2015

I'm honored, though I must admit also pleasantly surprised, to be invited to deliver the Lou Church Lecture in Religion and Economics at the 2015 Austrian Economics Research Conference. My first introduction to Austrian Economics came when I borrowed the well-thumbed copy of Ludwig von Mises's *Human Action* from my boss, then-Congressman Jack Kemp, for whom I worked as speechwriter and congressional staff economist before and during both presidential administrations of Ronald Reagan. While I have a high regard for what Austrian economics gets right that other economic schools do not, I consider myself a “Neo-Scholastic” economist, a term which I will try to explain.

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Today I would like to discuss the significance of what my book’s subtitle calls “The Missing Element” in modern economics. To address this central issue, I will begin with a question. I won’t ask for a show of hands, only that you think of the answer: Did you celebrate the most recent Christmas or holiday season by giving gifts?

According to a recent national survey conducted by the Pew Forum, “Nine-in-ten Americans say they celebrate Christmas, and three-quarters say they believe in the virgin birth of Jesus. But only about half see Christmas mostly as a religious holiday, while one-third view it as more of a cultural holiday. Virtually all Christians (96 percent) celebrate Christmas, and two-thirds see it as a religious holiday. In addition, fully eight-in-ten non-Christians in America also celebrate Christmas, but most view it as a cultural holiday rather than a religious occasion” (Pew Research Center, 2013).

The Pew Forum survey summary continues: “The way Americans celebrate Christmas present is rooted in Christmases past. Fully 86 percent of U.S. adults say they intend to gather with family and friends on Christmas this year, and an identical number say they plan to buy gifts for friends and family. Roughly nine-in-ten adults say these activities typically were part of their holiday celebrations when they were growing up” (Pew Research Center, 2013).

My working hypothesis is that economists in general, including those adhering to the Austrian School, are pretty much the same as other Americans, both in their attitudes and, more importantly, in their behavior. But rather than merely assuming that I am right, I have compiled an anonymous questionnaire drawn from the Pew Forum Christmas survey. It has no official relation to or sanction from the Mises Institute. But I’d be grateful if you would fill it out and return it to me.

Subject to contradiction by this mini-survey, I consider it likely that, though scholars adhering to the Austrian School may also be more inclined to view Christmas as a cultural rather than religious holiday, nevertheless—whatever their reasoning—they remain just as likely as other Americans to celebrate Christmas by giving gifts.¹

¹ The survey results, which are summarized in Appendix B, confirmed this hypothesis. The survey results show that Austrian economics scholars observe Christmas by gift-giving in even greater proportion than both the general population and than the same scholars’ memories of their own childhoods. The survey

But if so, this behavior creates an explanatory problem, because no school of modern economics, including the Austrian School, has an adequate theory of personal gifts.

How did this missing element go missing?

From the mid-nineteenth to the mid-twentieth centuries, even specialists in the history of economics viewed their subject much like Saul Steinberg's "View of the World from 9th Avenue": the famous poster which depicts Manhattan's Ninth and Tenth avenues in exquisite detail, right down to the fire hydrants, while across the Hudson River, the rest of the world consists of vast blank areas with labels like "Jersey" or "Japan." For years, any historical textbook would start with Adam Smith, while in the hazy middle distance were the eighteenth-century "Physiocrats" and "Mercantilists." Moreover, economics seemed a very cozy British affair, presented like a biblical genealogy: Adam Smith begat David Ricardo, who begat John Stuart Mill, who begat Alfred Marshall, who begat Arthur Pigou, who begat John Maynard Keynes, whom Keynesian economists consider the pinnacle of economics.

This view began to change radically in 1954, when Joseph Schumpeter's *History of Economic Analysis* was published. Schumpeter showed that it was not until 1848, when John Stuart Mill's *Principles of Political Economy* was published, that, as Schumpeter put it, Adam Smith was "invested with the insignia of 'founder'—which none of his contemporaries would have thought of bestowing on him—and... earlier economists moved into the role of 'precursors' in whom it was just wonderful to discover what nevertheless remained Smith's ideas." Schumpeter concluded: "The fact is that the *Wealth of Nations* does not contain a single analytic idea, principle or method that was entirely new in 1776" (Schumpeter, 1954, p. 184).

To their credit, Austrian School scholars stand in less need of such remedial history, thanks for example to the work of Murray Rothbard, who traced the development of Austrian economic

also suggests that in world views and practice, the Mises Institute might be called the Röpke-Mises Institute. That is, while nearly one-third are either atheist or agnostic like Mises, more than two-thirds identify themselves as Christians like Wilhelm Röpke, of which 59 percent practice their faith by weekly worship, a rate far higher than the national average.

theory back through the scholastic thinkers, particularly the late-scholastic School of Salamanca (Rothbard, 2006).

Despite this valuable contribution, it is necessary to correct Rothbard in one key aspect: when he summarizes,

In recent decades, the revisionist scholars have clearly altered our knowledge of the prehistory of the Austrian school of economics. We see emerging a long and mighty tradition of proto-Austrian Scholastic economics, founded on Aristotle, continuing through the Middle Ages and the later Italian and Spanish Scholastics, and then influencing the French and Italian economists before and up till the day of Adam Smith (Rothbard, 2006).

What is objectionable is the term “proto-Austrian Scholastic economics,” since it reads history—which runs only forwards—in the wrong direction, by choosing the Austrian School as the summit to which economics was always headed. Joseph Schumpeter similarly considered the scholastics to be “proto-Walrasians.” And I must admit that I also used to share such “Whig histories of economics.” But I had to abandon them about 15 years ago when I realized that they fail to wrap up all the “leftovers.” As Alex Chafuen documented in his excellent book *Faith and Liberty*, personal gifts and distributive justice were central to scholastic economic theory, early and late. (Chafuen, 2003, pp. 92–93, 101–103) Yet they are not taught in any neoclassical school, including the Austrian School (except by claiming them to be disguised exchanges).

To head in the right direction, we must begin with an important but widely overlooked fact: There have been three phases so far in the history of economics, and the logical and mathematical structures of scholastic, classical and today’s “neoclassical” economics differ fundamentally. Most students and even professors of economics are unaware of this fact because, starting in 1972 at the University of Chicago, George J. Stigler succeeded in the national campaign he started in 1954 to abolish the requirement that students of economics master its history before being granted a degree.² This is

² “In 1972, he [Stigler] successfully proposed that the history of thought requirement be dropped at Chicago. Most other economics departments later followed suit... At the same meeting Stigler unsuccessfully proposed that the economic history requirement also be dropped.” (Leeson, 1997, endnote 62). This paper later

why all of us, including (or especially) economists, require *a brief, remedial history of economics*.

Let's ask another simple question: What is economics *about*? It describes from one angle what we do all day. As Jesus once noted—I interpret this as an astute empirical observation, not divine revelation—since the days of Noah and Lot, we humans have been doing, and until the end of the world presumably will be doing, four kinds of things. He gave these examples: “planting and building,” “buying and selling,” “marrying and being given in marriage,” and “eating and drinking” (Luke 18: 27–28). In other words, we *produce* (that's the “planting and building”), *exchange* (that's the “buying and selling”), *give* (the “marrying and being given in marriage”), and *use* (the “eating and drinking”) our human and nonhuman goods.

That's the usual order in which we *act*: producing, exchanging, distributing, and consuming. But as Augustine first explained, in our *planning* we follow a different order: first, we choose *For Whom* we intend to provide, which we will express by the *distribution* of our goods among them; next *What* to provide to express our love for those persons; and finally *How* to provide those means—through *production* (almost always) and (usually) *exchange*.

So we might say that *economics is essentially a theory of providence*: It describes how we provide for ourselves and the other persons we love, using scarce means that have alternate uses. But economics has also concerned alternative theories of *divine* providence, two of which are contradict both reason and Christian faith.

became a chapter in Leeson (2001). In his earlier campaign for the change, Stigler rejected Aquinas' view that a scientist is defined by whether he understands his subject rather than having a degree. Stigler claimed instead that every science is continuously defined by a self-governing group calling themselves scientists. From this sociological definition, he said, it was obvious that “one need not read in the history of economics—that is, past economics—to master present economics.” Instead, “the young theorist... will assume... that all that is valid in earlier work is present—in purer and more elegant form—in the modern theory,” and that “the history of the discipline is best left to those underendowed for fully professional work at the modern level.” (Stigler, 1982). As my text indicates, the young economist who assumed that would be underendowed for fully professional work, because he wouldn't know his subject.

Scholastic economics (1250–1776) might be called “AAA”³ economics because it began in the mid-13th century when Aquinas first integrated these four elements (production, exchange, distribution and consumption), all drawn from Aristotle and Augustine, to describe personal, domestic and political economy within scholastic natural law⁴—all normatively measured by the Two Great Commandments: “You shall love God with all your heart” and “You shall love your neighbor as yourself.”⁵ The scholastic economic system is comprehensive, logically complete, can be stated mathematically, and suitably updated, is empirically verifiable.

The scholastic outline was taught at the highest university level for more than five centuries by Catholics and (after the Reformation) Protestants alike. Adam Smith himself was taught by his teacher, Francis Hutcheson,⁶ from Samuel Pufendorf’s (1991 [1673]) compendium *On the Duty of Man and Citizen According to Natural Law*—which, as with Aquinas and the earlier scholastics, contains all four basic elements of economic theory, organized at the levels of personal, domestic and political economy,⁷ and integrates normative with descriptive or “positive” theory by

³ Named for the originators and integrator of its four elements: Aristotle, Augustine and Aquinas.

⁴ Augustine’s theory of personal distribution: Augustine (397) I, 28 (see also Augustine [1953 (389)], cited below); Aristotle’s social distribution (distributive justice): Aristotle (1954 [350 BC]); Augustine’s theory of utility (consumption): Augustine, (1984 [413–426], XI, 16); Aristotle’s theory of production of people and property: Aristotle, (1962 [350 BC], I, 4); Aristotle’s justice in exchange (equilibrium): Aristotle, (1954 [350 BC], V, 5). In Aquinas, three of these four elements (the distribution function, the utility function, and the equilibrium conditions) are described (and the production function implied) in Thomas Aquinas (1993 [1271–1272a]). Personal distribution: Book V Lectures IV–IX, 293–318; social distribution: 294; the “equilibrium conditions”: 294–296 and 297–299, the “utility function” and analysis of money, 312–315. The production function is described in his commentary on Aristotle’s *Politics* (1962 [350 BC]), I, 2: Aquinas (2007 [1271–1272b]), pp. 19–24. The same analysis is also scattered throughout his *Summa theologiae* (Aquinas 1981 [1265–1272]), especially in his commentary on the seventh commandment.

⁵ Deuteronomy 6:5 and Leviticus 19:18; cf. Matthew 22:37–39 and Mark 12:29–31.

⁶ Ross (1995), pp. 53–54.

⁷ Personal distribution, 64–67; social and political distribution, 32 and 61–63; utility, 94–96; production of and by human and nonhuman factors, 84–89; society organized around family household, 120–131; justice in exchange or equilibrium equating product values and factor compensation, 31 and 94–95.

the Two Great Commandments.⁸ The fact that Pufendorf was a Lutheran who wrote a critical history of the Catholic Church and that his theories were taught at the generally Calvinist University of Glasgow, demonstrates that the scholastic outline of economic theory was broadly known and accepted by both Catholics and Protestants. Pufendorf was also widely read in the American colonies and recommended for example by Alexander Hamilton,⁹ who penned two-thirds of the *Federalist* papers (and who as first Treasury Secretary under George Washington would reject Smith's specific economic advice to the United States in the *Wealth of Nations*).¹⁰

Classical economics (1776–1871) began when Adam Smith drastically simplified the theory by cutting the four scholastic elements to two, trying to explain specialized production (which he poetically but inaccurately called “division of labor”) with the elements of production and exchange alone. Smith and his classical followers like David Ricardo undoubtedly advanced those two elements. But Smith also dropped Augustine's theory of utility (which is necessary to describe consumption) and replaced Augustine's theory of personal distribution (gifts and their opposite, crimes) as well as Aristotle's theory of domestic and political distributive justice with the mere (often false) assumption that “every individual...intends only his own gain,” as Smith put it in his famous “invisible hand” passage in the *Wealth of Nations*.¹¹ (In his earlier *Theory of Moral Sentiments*, Smith had already banished

⁸ *Ibid.*, 11–12.

⁹ Hamilton (1904 [1775]).

¹⁰ Smith (1904 [1776]), Hamilton (1904 [1791]).

¹¹ Smith (1904 [1776], Bk. IV Ch. 2; Vol. 2, p. 35). Though Smith discusses both benevolence and beneficence in *The Theory of Moral Sentiments* (TMS), in contrast to Augustine, he fails to distinguish them consistently and is concerned to show that benevolence is only a motivating feeling, not an act of the rational will. Without benevolence or beneficence, Smith argues, society “though less happy and agreeable, will not be dissolved,” because “it may still be upheld by a mercenary exchange of good offices according to an agreed valuation.” (Smith [1982 (1759), II.ii.iii.2]). A highly significant fragment from Smith's university lectures predating the *Theory of Moral Sentiments* also survives to reveal his early and consistent reduction of all justice to justice in exchange alone, omitting distributive justice. The fragment is discussed by Raphael and Macfie in appendix II of TMS (382–401) but is summarized succinctly by Ross:

benevolence and beneficence from rational economic theory to emotional psychology.) This is how classical economics began with only two elements.

Today’s *neoclassical economics* (1871–c. 2000) began in the 1870s when three economists dissatisfied with the failure of classical predictions (W.S. Jevons in England, Carl Menger in Austria, and Leon Walras in Switzerland) independently but almost simultaneously reinvented Augustine’s theory of utility, starting its reintegration with the theories of production and exchange. They abandoned Smith’s revised outline mostly for three related reasons: without the theory of utility classical economists were unable to answer some important questions; they made predictions about others that turned out to be spectacularly wrong; and Smith’s so-called “labor theory of value” directly fostered Karl Marx’s disastrously erroneous economic analysis. Though schools of neoclassical economics have since multiplied, all are derived from these three.

Personal gifts and distributive justice were central to scholastic economic theory, both early and late (Chafuen, 2003, pp. 92–93, 101–103). Yet they are not taught in any neoclassical school (except by claiming them to be disguised consumption, production, or exchanges).

In my book (Mueller 2014 [2010]), I note that *Neoscholastic economics* (c. 2000–?) is starting and predict that it will continue to revolutionize economics once again in coming decades by replacing its lost cornerstone, the theory of distribution: simply because, as with the theory of utility, including the essential element does a far better job of empirical description.

The lecture fragment indicates [erroneously] that “doing good according to the most perfect propriety” is known “in the Schools,” i.e., in the medieval Scholastic tradition thought of as descending from Aristotle, as “distributive justice.” TMS at VII.ii.I.10 shows how Smith had qualified this bald view. He added a footnote, citing the *Nicomachean Ethics* (5.2), to make clear that the “distributive justice of Aristotle is somewhat different... [consisting] of the distribution of rewards from the public stock of the community.” In the fragment, Smith expresses the view that commutative justice can “alone properly be called Justice,” by which he means the negative form of not harming a neighbour in person, estate, or reputation; and he holds this position throughout his career. (Ross, 1995, p. 119).

To go a bit deeper, let me explain the structure of scholastic economics in more detail.

Positive scholastic theory. To explain the Two Great Commandments,¹² Augustine had started from Aristotle's definition of love—*willing some good to some person*¹³—but he drew an implication that Aristotle had not: every *person* always acts for the sake of some *person(s)*. For example, when I say, "I love vanilla ice cream," I *really* mean that I *love myself* and *use* (consume) vanilla ice cream to express that love (and in preference, say, to strawberry ice cream or Brussels sprouts, which reflects my separate scale of preference according to utility).

Augustine also introduced the important distinction between "private" goods like bread, which inherently only one person at a time can consume, and "public" goods (like a performance in an ancient amphitheater, a modern radio or television broadcast, national defense, enforcement of justice—or even this lecture) which, at least within certain limits, many people can simultaneously enjoy because they are not "diminished by being shared."¹⁴ That is if the acoustics and technology are good enough, the fact that the people in the front row can hear what I am saying now does not diminish the ability of those in the back row also to do so.

In other words, Augustine's crucial insight is that we humans always act on not just one but two scales of value or preference—one for persons as ends and the other for other things as means: the scales of personal love and utility, respectively. Moreover, we express our inner preferences for persons with two kinds of external acts. Since man is a social creature, Augustine noted, "human society is knit together by transactions of giving and

¹² "You shall love... God with all your heart..." (Deut. 6:5) and "love your neighbor as yourself" (Lev. 19:18).

¹³ Aristotle (1932 [335–322 BC], pp. 2, 4, 102–103).

¹⁴ Augustine (1953 [389], pp. 102–217; viii, 19, 146). Private goods are now sometimes called "rival" goods. The formulation "diminished by being shared" is from Augustine (397).

receiving.”¹⁵ But these outwardly similar transactions may be of two essentially different kinds, he added: “sale or gift.”¹⁶

Generally speaking, we *give* our wealth without compensation to people we particularly love,¹⁷ and *sell* it to people we don’t, in order to provide for those we do love.¹⁸ For example, if Joe Salerno on behalf of the Lou Church Foundation and the Mises Institute pays me an honorarium to present this lecture, it’s because our ends disagree—much as I esteem Joe, we each want to provide for ourselves and our *own* families, not each other’s—while the means of our exchange overlap.

Since it’s always possible to avoid depriving others of their own goods, this is the bare minimum of love expressed as *benevolence* or goodwill and the measure of what Aristotle called *justice in exchange*.¹⁹ But our positive self-love is expressed by the *utility* of the goods we provide ourselves (like my vanilla ice cream), and our positive love of others with *beneficence*: “doing good,” or gifts.

Conversely, hate or *malevolence* (ill will) is expressed by the opposite of a gift: *maleficence* (doing evil) or crime.

The image on the cover of my book is Gustave Doré’s engraving, “Arrival of the Good Samaritan at the Inn,” because transcending nationality and religion, the parable illustrates all the possible economic transactions we can have with our fellow man, as described by Augustine: the robbers beating a man and leaving him for dead illustrate crime; the priest and Levite who passed him by illustrate indifference; the innkeeper’s bargain with the Samaritan illustrates justice in exchange; and finally, the Samaritan’s devotion of time and money to restore the beaten man to life illustrates a gift. Crime, indifference, just exchange, and gift: this is the range of possible transactions.

¹⁵ Augustine (1953 [397], p. 398).

¹⁶ Augustine (1953 [389], p. 132).

¹⁷ To be more precise, love with both benevolence and beneficence.

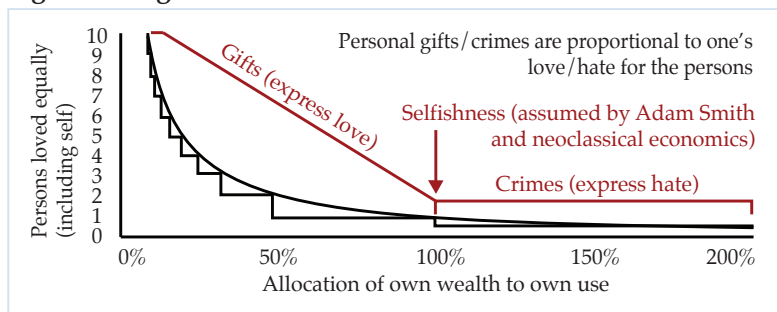
¹⁸ Or rather, love only with benevolence but not beneficence.

¹⁹ Aristotle (1954 [c. 350 BC], V, v; 117–122).

The social analog to personal gifts is what Aristotle called *distributive justice*,²⁰ which amounts to a collective gift: it's the formula social communities like a family or political community under a single government necessarily use to distribute their common (jointly owned) goods. Both a personal gift and distributive justice are a kind of "transfer payment"; both are determined by the geometric proportion that matches distributive shares with the relative significance of persons sharing in the distribution; and both are practically limited by the fact of scarcity.

These possible transactions are traced in the curve I have labeled Augustine's "personal distribution function" (Figure 1), which traces the relation between persons and things. This is "the missing element." The horizontal scale represents shares of our wealth, and the vertical scale represents the number of people among whom we share it. (For purposes of illustration I assume that we love others equally with ourselves, but in fact we can and do love them unequally.)

Figure 1. Augustine's "Personal Distribution Function"



Before my wife and I married, our individual behavior probably approximated the point that modern economics assumes for everyone, at which a person consumes all the goods purchasable with that income. After I got married, before our children were born and while they were young, I earned nearly all our family's income, and assuming we shared equally, it meant I was loving

²⁰ Aristotle (1954 [c. 350 BC], V, iii; 112–114).

two people equally with myself in economic terms. But then we had three children, and so our income had to be divided first three, then four, and then five ways. The more people among whom we share our scarce resources, the less we can use ourselves.

In the extreme, it is literally the case that no one has greater love than to lay down his life for his friends. True, it is something that can be done only once. Yet it is done almost every day, for example, in Iraq or Afghanistan when a soldier hurls himself or herself on an explosive device to save the lives of colleagues.

Now that our kids are grown and I retired from economic and financial forecasting, my wife's and my incomes are more equal again. But at every stage, no matter where the income came from, my wife and I faced the same choice: how much money we would devote to each person's needs—the kids' play clothes, replacing my suit or my wife's dress, or paying for tuition. This figuring out of the family budget is what Aristotle meant by "domestic distributive justice," which amounts to a kind of joint gift. Likewise, what Congress is arguing about in setting the federal budget is a similar exercise in "political distributive justice." In all cases, the question is, from whom does the money come, and to whom does it go?

By good fortune, a bright young Ph.D. candidate named Michael Szpindor Watson is presenting a paper tomorrow at a session on the history of economics, titled, "Mueller and Mises: Integrating the Gift and 'Final Distribution' within Praxeology" (Watson, 2015). I met Michael a couple of years ago in Krakow, when he participated in The Tertio Millennio Seminar, a two-week summer institute founded by George Weigel, the late Fr. Richard Neuhaus, Michael Novak, and Fr. Maciej Zieba, which each year produces some three dozen graduate-school-age participants from North America, Poland, and Eastern Europe (some 800 so far) in Catholic social doctrine. For the past several years I have been one of the faculty lecturers, having succeeded Michael Novak.

When I met Michael Watson, because of his interest in the Austrian School, I challenged him to show me where there is within it any theory of distribution properly so-called (personal gifts and their opposite, crimes, as well as the theory of what Aristotle called distributive justice).

Without prejudging Michael's attempt to show how a theory of gifts might be constructed within praxeology, his combing of Austrian School theory seems to confirm that I have identified a real gap in its economic theory. He summarizes, "I concede that Austrian literature neglects the gift and distributive economy, but [argue] that Ludwig von Mises gave us the concepts required to develop a theory of the gift: autistic exchange—from which I develop a theory of the gift" (Watson, 2015).

Perhaps an additional word of explanation is required about another apparent gap in Austrian economic theory. Earlier I showed a simplified version of the differences among different schools of economics, with a "yes" or "no" for each of the four basic elements. But a more nuanced classification indicates that Mises is widely interpreted as having dispensed with the theory of "equilibrium." The basic idea is that equilibrium implies an equality of values exchanged, when in fact each party engages in exchange because he believes he will gain by exchanging what he values less for what he values more. Thus exchange would seem to involve not an equality but an inequality.

I think that Philip Wicksteed adequately clarified this problem by carefully analyzing the dynamic nature of exchange. As Wicksteed noted, the demand for any exchangeable economic good comprises not only the potential consumers but also producers of that good. The purchase of milk for money, for example, while decreasing the marginal significance of milk to the buyer (by increasing his quantity), is at the same time increasing the marginal significance of milk to the seller (by reducing his quantity).

But what about someone who both produces and consumes a commodity? For example, let's suppose that that a family operates a dairy farm and also likes to drink milk. To earn its living, the family sets out deliberately to produce far more milk than it could possibly consume, on the expectation that it will be able to sell the surplus to others for whom milk stands higher in their scale of preferences than it does on the scale of the producing family.

Thus, both the quantity of the milk the dairy-farm family sells, and the quantity that it keeps for its own use, are a single continuous function of the marginal significance of milk to the family, relative to the market price.

It is part of the definition of a “perfect” or “competitive” market that no single consumer or producer can significantly affect the price of a commodity. But in fact every individual purchaser or seller in a competitive market *does* affect the market price, if only imperceptibly. This is why all consumers together, and all producers together, can affect the price noticeably. The process by which all the parties adjust their holdings of certain goods, through exchange, in light of prevailing market prices is what makes the market as a whole tend toward “equilibrium”—a state in which everyone in the community who owns any of the desired and exchangeable goods comes to share exactly the same relative preferences. If that point were ever actually achieved, exchange would cease, because no one could further improve his position by exchanging goods that he values less at the prevailing market price for goods that he values more. But because most human needs are dynamic (however sated we become by eating and drinking, everyone gets hungry and thirsty again sooner or later), most markets never reach that point, but rather are always tending toward it.

Let me switch my hats for a moment, to ask, “What caused the Great Recession?” I retired in January after 26 years of crunching the numbers for an economic and financial market forecasting firm, LBMC LLC.²¹ Basically, after failing to persuade U.S. policymakers to reform monetary and fiscal policy, four of us started a business to predict the market consequences of those mistakes.

So what caused the Great Recession? The world-wide real-estate and commodity boom and bust was caused by the dollar’s role as the world’s chief official reserve currency. The great French economist Jacques Rueff (1896–1978) was the first economist to describe the drawbacks of John Maynard Keynes’s plan to use one nation’s domestic currency, like the U.S. dollar, as an international reserve asset.²² Predicting episodes of commodity-price inflation using the World Dollar Base (the sum of U.S. domestic and foreign

²¹ Mueller (2015).

²² Rueff (1964 [1932], pp. 30–61).

official monetary liabilities) based on Rueff's economic theory has been my bread and butter until I retired from forecasting.²³ But I've noted similar peculiarities when monetary authorities issuing currencies not typically used as official reserve currencies borrow from other central banks—for example, the implosion of the European monetary system in 1992, the collapse of the Mexican peso in 1996 and hyperinflations in Israel several times since the Second World War.

The same was true also of Argentina's 2001 peso crisis, which scarred a generation of Argentines, including then-Cardinal Jorge Bergoglio—now Pope Francis. Argentina erred by trying to peg its peso to the U.S. dollar, not by *acquiring* but rather *borrowing* official dollar reserves—using the proceeds to finance domestic lending, chiefly to the government.

Therefore, I repeat here a proposal which Lewis Lehrman and I have made for the last few decades: All countries seeking to end the boom-bust cycle should join in supporting a reform of the international monetary system, which would repay all outstanding dollar and other official reserve currencies and restore prompt settlement of payments in gold: a system that worked well for hundreds of years and can do so again.

In other words, both the Great Recession of 2007–2009 and the Argentine peso collapse of 2001 were caused by the same kind of bad economic policy (which means by bad economic policymakers). And such monetary crises will continue until policymakers end the official reserve currency system, which Rueff aptly called the “monetary sin of the West.”²⁴

Scholastic economics and Catholic Social Thought. This brings us to my final set of considerations. I'd like to discuss Pope Francis's economic ideas. But to do so we need first to understand the relation between scholastic economics and Catholic social thought. In considering this question, I think it's helpful to distinguish the history of economics—the economic theory used by economic thinkers to describe any economic activity—from economic

²³ Mueller (2015)

²⁴ Rueff (1972).

history—how the economic aspect of society develops: for example, the progressive transition of the United States since its founding, and in fact most countries, from agriculture to industry to services.

Roughly speaking, scholastic economic theory is the analytical toolkit that the popes have used in Catholic social doctrine to discuss the new pastoral challenges of economic history as it unfolds.

Catholic social thought is relatively recent. It may seem that encyclicals on economics are abstract, but in fact they are always tied to an analysis of some concrete historical event. The first encyclical of the Church’s modern social thought, in 1891, was called *Rerum Novarum*—literally, “of new things—in which Pope Leo XIII (1810–1903) dealt with the new social and political challenges raised by industrialization. While affirming the right of private property, and predicting the failure of communism, he insisted on the dignity and rights of workers and the need to protect the weakest, by government intervention if necessary. Several subsequent encyclicals further developed and applied this analysis as conditions changed.

In the 1960s, after the decolonization of much of Africa, Asia and Central and South America following the Second World War, the horizons of the Church’s social thought widened to embrace the emerging so-called “Third World.” Moved by the poverty he witnessed on his travels, Pope Paul VI argued in *Populorum Progressio* (“The Development of Peoples”) that “the social question has become worldwide.”

Pope John Paul II published three major encyclicals on economic matters. *Laborem Exercens*, his encyclical on the dignity and vocation of work, and two others that began by looking back at an earlier papal encyclical. *Sollicitudo Rei Socialis* (“The Church’s Social Concern”) was published on the 20th anniversary of *Populorum Progressio*, and was intended to fill “the need for a fuller and more nuanced concept of development” than had previously been put forward. In it, he argued that the terms “poverty” and “development” mean poverty or development of the whole person, not just the economic or political system.

Centesimus Annus, as the title indicates, was issued on the 100th anniversary of *Rerum Novarum*. In it, John Paul II looked back at what remains valid in the social thought begun in that encyclical,

but also took note of the “new things” which had emerged, such as changes in the nature of Western economies and the collapse of communism. Its particular merit is to bring both strains of the Church’s social thought into a single unified framework.

Similarly, Benedict XVI’s (2009) encyclical *Caritas in Veritate* (“Charity in Truth”) was originally intended for 2007, the fortieth anniversary of Paul VI’s 1967 encyclical *Populorum Progressio*. It was notable for emphasizing the “gratuitousness”—the gift-edness, if you will—of Creation and even in the economy. But *Deus Caritas Est*, which was drafted under John Paul II and published by Benedict XVI, is quite valuable for its concise description of the relation among the natural law, Catholic social doctrine, the roles of the Church and secular politics.²⁵

In light of the history of economics I have recounted, I have suggested two simple changes regarding the teaching of economics: First, that every university economics department restore the previous requirement that to get a degree in economics you have to master its history. No matter how badly the history of economics was taught, no competent textbook now begins any

²⁵ From *Deus Caritas Est*:

Thus far, two essential facts have emerged from our reflections:

a) The Church’s deepest nature is expressed in her three-fold responsibility: of proclaiming the word of God (*kerygma-martyria*), celebrating the sacraments (*leitourgia*), and exercising the ministry of charity (*diakonia*). These duties presuppose each other and are inseparable. For the Church, charity is not a kind of welfare activity which could equally well be left to others, but is a part of her nature, an indispensable expression of her very being.

b) The Church is God’s family in the world. In this family no one ought to go without the necessities of life. Yet at the same time *caritas-agape* extends beyond the frontiers of the Church. The parable of the Good Samaritan remains as a standard which imposes universal love towards the needy whom we encounter “by chance” (cf. Lk 10:31), whoever they may be. Without in any way detracting from this commandment of universal love, the Church also has a specific responsibility: within the ecclesial family no member should suffer through being in need. The teaching of the Letter to the Galatians is emphatic: “So then, as we have opportunity, let us do good to all, and especially to those who are of the household of faith” (6:10) (Ratzinger, 2005, at 25).

later than Aristotle or excludes the scholastics. Separately, I have suggested to American Catholic bishops and educators that every Catholic educational institution, at every level, refamiliarize itself with scholastic economics. The teaching of economics is in a sorry state among Catholic colleges because most simply copied the deliberate amnesia of secular institutions.

I predict that the first change would go a long way toward curing what’s wrong with secular economics today. And that the second would make Catholic economists competitive and remove Catholic social doctrine from the sidelines and place it at the center of the national and international debate.

Pope Francis and economics. Though it seems to be a minefield, I don’t see how I can avoid commenting on Pope Francis’ views on economics. Last year, Judge Napolitano, a fellow Catholic, delivered this lecture, and he opened by remarking that in confession he had just received a penance of five rosaries; which, since each rosary comprises more than 100 separate prayers, is unusually severe. The judge explained that his offense was wishing that Pope Francis be delivered speedily to heaven.

Pope Francis has not yet issued a social encyclical, though he has addressed economic subjects, especially in his Apostolic Exhortation *Evangelii Gaudium*, in which he argued that “Inequality is the root of social ills (202).” Pope Francis is first of all a pastor, and a good one. But as my colleague George Weigel has noted, his pontificate resembles a “gigantic Rorschach test, in which various commentators inside and outside the Catholic Church have ‘seen’ their dreams and fears realized” (Weigel, 2013). I consider it possible that Pope Francis will never publish a social encyclical. The main reason begins not with Jorge Bergoglio as pope or priest, but rather with Jorge Bergoglio the man.

The national Catholic newspaper *Our Sunday Visitor* noted recently that “He is, and always will be, simply himself. The truth is that Pope Francis is simply 78-year-old Jorge Bergoglio. As he said in an interview with the Argentine newspaper *La Nacion* in December, upon his election he told himself, ‘Jorge, don’t change, because to change at your age would be to make a fool of yourself.’”²⁶

²⁶ (Our Sunday Visitor, 2015, p. 19).

There seems to be little disagreement about Jorge Bergoglio's Myers-Briggs personality type.²⁷ Pope Francis is an ESFJ: an extrovert ("I cannot live without people. I need to live my life with others"²⁸) who with a prodigious memory masters the details about people, a feeler rather than a thinker, who is also decisive.

Although all Jesuits aspire to be "contemplatives in action," in Biblical terms, rather than a contemplative like Mary of Bethany, Pope Francis is like Mary's sister Martha: something of a bossy-boots or control freak. Martha memorably tried to apply guilt and shame to Jesus himself. According to the evangelist Luke, "Martha was distracted with much serving; and she went to him and said, 'Lord, do you not *care* that my sister has left me to serve alone? Tell her then to help me.'" (Luke 10:40 RSV)

"'The irony,' says a well-placed Jesuit at the Vatican [quoted by Austen Ivereigh in his biography *The Great Reformer*], 'is that this pope, great agent of decentralization in the church, is personally the most centralized pope since Pius the Ninth [1792–1878]. Everything has to cross his desk.'"

Pope Francis is not unreflective of his personality's tendencies, particularly acting without adequate deliberation and without adequate consultation. As he told one interviewer, "the first thing that comes to my mind if I have to make a decision... is usually the wrong thing. I have to wait and assess, looking deep into myself, taking the necessary time." He similarly remarked that while head of the Argentine Jesuits, "I did not always do the necessary consultation.... My authoritarian and quick manner of making decisions led me to have serious problems."²⁹

Pope Francis has called his hyperactivity in trying to micro-manage every situation "playing Tarzan.... saying to myself, 'Look... how many things I can do'" (Ambrogetti and Rubin, 2010, p. 71).

However, fideism and introspection are insufficient basis for reflection on either economics or Catholic social doctrine.

²⁷ Briggs Myers (1980), Quenk (2009).

²⁸ Spadaro (2013).

²⁹ *Ibid.*

As Benedict XVI noted in *Deus Caritas Est*, "Faith by its specific nature is an encounter with the living God—an encounter opening up new horizons extending beyond the sphere of reason. But it is also a purifying force for reason itself." Moreover, "The Church's social teaching argues on the basis of reason and natural law, namely, on the basis of what is in accord with the nature of every human being."³⁰

Pope Benedict's immediate predecessor, John Paul II, memorably noted that "Faith and reason are like two wings on which the human spirit rises to the contemplation of truth; and God has placed in the human heart a desire to know the truth—in a word, to know himself—so that, by knowing and loving God, men and women may also come to the fullness of truth about themselves" (Wojtyla, 1998).

Pope Francis presents himself as an outspoken anti-rationalist; he distrusts reason: "The worst that can happen to a human being," he said, "is to allow oneself to be swept along by the 'lights' of reason" (Bergoglio, 2013a, p. 28). Yet equating reason with rationalism is like equating science with scientism. As a result, while he is strong on moral theology (that is, revealed theology), Pope Francis is much weaker on natural-law moral philosophy. And to follow John Paul II's metaphor, it is simply not possible to fly with only one wing, except perhaps in circles.

"Economically ignorant moralism is as objectionable as morally callous economism," as the German economist Wilhelm Röpke observed. (Röpke was the first economist kicked out of Germany when the Nazis took power.) "Ethics and economics are two equally difficult subjects, and while the former needs discerning and expert reason, the latter cannot do without humane values" (Röpke, 1960, p. 104). Pope Francis' excoriation of morally callous economism, though often justified, has occasionally fallen into economically ignorant moralism.

Yet his main point is still a good one: "The church's ministers must be merciful, take responsibility for the people and accompany

³⁰ Ratzinger (2005). Pope Benedict added, "It recognizes that it is not the Church's responsibility to make this teaching prevail in political life. Rather, the Church wishes to help form consciences in political life and to stimulate greater insight into the authentic requirements of justice as well as greater readiness to act accordingly, even when this might involve conflict with situations of personal interest."

them like the good Samaritan, who washes, cleans and raises up his neighbor. This is pure Gospel" (Spadaro, 2013, p. 31).

One must make allowances for the fact that Pope Francis is not an economist. He said in *Evangelii Gaudium* that "Business is a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to serve the common good by striving to increase the goods of this world and to make them more accessible to all" (Bergoglio, 2013b, p. 203).

I think that Madeline Del Brel expressed Pope Francis' concern when she wrote decades earlier, "It is possible to be an excellent theologian and still live God's love very poorly; we can know quite well what the church is while still being only an anemic cell within her" (Del Brel, 2000). Pope Francis recognizes that his chief task is not to analyze the church, but lead it.

Finally, an observation of per capita income by country and region strikingly illustrates the stark difference in living standards between the United States or the European Union and those whom Pope Francis calls the "marginalized." Though it must also be noted that this marginalization results partly from failure of the "periphery" to observe certain basic principles, like civilian control of the military, due process, and the rule of law (at which Argentina itself has failed for decades).

I'm afraid I have covered a lot of ground. I hope, first, to have explained the significance of the fact that the "missing element" is missing from all schools of modern neoclassical economics including the Austrian School. Second, wearing my forecaster's hat, I have also suggested the monetary flaw that caused the worldwide Great Recession of 2007–2009 as well as the 2001 Argentine peso crisis. Third, I hope also to have shed some light on the mutual incomprehension of Pope Francis and economists of nearly all schools: On one hand, the "missing element" is necessary to explain our interpersonal relations of love and hate, which are expressed by individual or collective gifts (or their opposite, crimes). On the other hand, this missing element is also necessary to understand and explain Catholic social doctrine, of which scholastic economics is the analytical toolkit. Finally, I hope that my explication of the parable of the Good Samaritan may shed light on the practical implications of what Pope Francis has called a "Samaritan church."

APPENDIX A

This statement of the neoscholastic model is adapted from Mueller, *Redeeming Economics*, 422–425n, where it is applied initially to the example of a children's lemonade stand, taking their parents into account, then generalized into accounts for each person, marriage, family, business firm, nonprofit foundation and government.

Equations beginning with "1" denote the "two-factor, one-good" model, and those beginning with "2" denote the "two-factor, two-good" model. We can typically use the first for the discussion of employment, but the second is necessary for the discussion of fertility. All the actions described are understood to have the dimension of time; for example, consumption, C , should be understood as $\delta C / \delta t$, or additional consumption *per unit of time*—the notation for which is usually omitted in this presentation for simplicity.

$$(1.1) C_{Qi} = Y_i D_{ii} / \Sigma D_{ij} \text{ [personal final distribution function],}$$

where C_{Qi} represents the use ("consumption") by Person i of the good Q ; Y_i is total compensation of Person i ; D_{ii} is the significance of i to himself; ΣD_{ij} is the significance to i of all persons.

$$(2.1) C_{Ki} + C_{Li} = Y_i D_{ii} / \Sigma D_{ij} \text{ [final distribution function],}$$

where C_{Ki} and C_{Li} represent the use ("consumption") by Person i of the services of "human capital," L , and "nonhuman capital," K ; Y_i is total compensation of Person i ; D_{ii} is the significance of Person i to himself; and ΣD_{ij} is the significance to Person i of all persons.

For clarity and simplicity, we will define:

$$(1.5) \text{ and } (2.5) Y_i = rK_i + wL_i,$$

meaning that Y_i is the total factor compensation of Person i ; and

$$(1.6) \text{ and } (2.6) T_i = (1 - Y_i) D_{ii} / \Sigma D_{ij}.$$

By substituting (1.6) and (2.6), (1.1) and (2.1) may be restated as

$$(1.1a) C_{Qi} = Y_i - T_i \text{ and}$$

$$(2.1a) C_{Ki'} + C_{Li'} = Y_i - T_i,$$

making clear that the difference between Person i 's total consumption, C_{Qi} or $C_{Ki} + C_{Li}$, and total compensation, Y_i , is equal to T_i —(net) personal, domestic, and political "transfer payments" from Person i to other persons.

By “net,” I mean that personal gifts made are offset by gifts received, while taxes are treated as political transfers paid and balanced against political transfers received. Equations (1.1) and (2.1) are the simplest and most general forms of the final distribution function for an individual person. The refinements necessary to specifically describe gifts within marriage, from parents to children and vice versa, as well as accounting for taxes and government benefits, are considered below.

Marital and domestic distributive justice: In the *Nicomachean Ethics*, 214, Aristotle notes that a household, say, J_1 , is created by the marriage of a man, M_1 , and a woman, F_1 , and that its wealth, W_{J_1} , is initially acquired by their “throwing their peculiar gifts into the common stock” of household wealth: $W_{J_1} = K_{M_1} + K_{F_1} + L_{M_1} + L_{F_1}$. This means that each spouse, M_1 and F_1 , starts marriage with an initial personal gift or transfer, $T_{M_1:J_1}$ and $T_{F_1:J_1}$, to the new joint family partnership, J_1 , consisting of all his or her human and nonhuman wealth:

$$(1.6a) T_{M_1:J_1} = K_{M_1} + L_{M_1}.$$

$$(1.6b) T_{F_1:J_1} = K_{F_1} + L_{F_1}.$$

For the marriage partnership to continue and flourish, the initial gifts must be followed by a series of gifts by which any new income realized separately by each spouse (particularly from “human capital,” since it is not alienable) is put into the “common stock”:

$$(1.6c) T_{M_1:J_1} = Y_{M_1}, \text{ and}$$

$$(1.6d) T_{F_1:J_1} = Y_{F_1}.$$

according to a new joint family distribution function, D_{J_1} . For example, the woman’s share in the use of total current family income becomes:

$$(1.1b) C_{QF_1} = Y_{J_1} D_{J_1:F_1} / \Sigma D_{J_1:i} \text{ and}$$

$$(2.1b) C_{KF_1} + C_{LF_1} = Y_{J_1} D_{J_1:F_1} / \Sigma D_{J_1:i}$$

A similar formula applies to every other family member—and, in fact, to everyone else in the world, for most of whom the distributive share in the family’s resources is zero.

For example,

$$(1.6e) \text{ and } (2.6e) T_{J_1:M_2} = (1 - Y_{J_1}) D_{J_1:M_2} / \Sigma D_{J_1:i'}$$

which means that the gift or transfer from the parents, J_1 , to dependent son, M_2 , is determined by his relative significance, $D_{J1:M2} / \Sigma D_{J1:P}$ out of his parents' total distributed income, Y_{J1} .

Political distributive justice. Apart from debt service, government outlays are devoted to current consumption of goods and services, investment, and transfer payments, while government cash flow includes tax receipts (which consist, in the United States, chiefly of the personal and corporate income taxes and the payroll tax), borrowing, and creation of fiat money:

(1.7) and (2.7) $C_G + \Delta K_G + T_L + T_K = \tau(w\Sigma L + r\Sigma K) + pw\Sigma L + kr\Sigma K + \Delta B_G + \Sigma K_{GMI}$ [government budget], where C_G is current consumption (including capital consumption) of government goods and services, T_L is government transfer payments to persons, T_K is government subsidies to property owners, τ is the income tax rate (assumed to be equal for labor and property income), p is the payroll tax rate, k is the tax rate levied only on property income, B_G is government debt, and ΣK_{GMI} is the issue of government fiat money. In the section on political economy, I show that to maximize both fairness and economic efficiency, the sources and uses of government funds should be paired and restricted in this way: government should not be funded by fiat money creation; general consumption of government-provided goods and services should be funded by an income tax falling equally on labor and property income; transfer payments to persons funded by payroll taxes and subsidies to property owners by taxes on property income; all of which further implies that government borrowing should be confined to funding investment in government-owned assets. That is, $\Sigma \Delta K_{GMI} = 0$; $\Sigma C_{Gi} = \tau(w\Sigma L_i + r\Sigma K_i)$; $\Sigma T_{Li} = pw\Sigma L_i$; and $\Sigma T_{Ki} = kr\Sigma K_i$; implying $\Delta B_{Gi} \leq \Delta K_{Gi}$.

APPENDIX B

The Röpke-Mises Institute?

2015 Austrian Research Conference Christmas Survey

Survey:	Mueller	Pew Forum
Date:	3/12/2015	12/3-8/2013
	N=60	N=2001

These questions were drawn from a recent national Pew Forum survey. They are intended for comparison with the results of that survey. This survey is for private research by John D. Mueller, as explained in his Lou Church Memorial lecture, not the Mises Institute.

1. Did you celebrate this past Christmas or not?
97% 92%

2. Did you either buy* or make Christmas presents to give?
93% 86%*

(Pew Forum survey asked separate questions about buying and making gifts)

3. For you personally, is Christmas more a cultural or religious holiday?

Cultural	37%	32%
Religious	40%	51%
Both equally	23%	9%

4. Did you attend religious services on Christmas Eve or Day?
40% 54%

5. Did you attend religious services the previous week?
42% na

6. Do you believe in the virgin birth?
53% 73%

Now, thinking about your childhood, usually:

7. Did you buy* or make Christmas presents to give?
90% 89%*

8. Did you attend religious services Christmas Eve or Day?
70% 69%

9. Whether or not you celebrated this past Christmas, in the past year, did you make or buy birthday presents to give?
72% na

Demography

10. What is your age?

18-29	17%	14%
30-49	34%	26%
50-64	29%	30%
65+	19%	27%

11. Are you male?

88% 48%

11. Are you female?

12% 52%

12. Are you white?

98% 74%

12. Are you black?

2% 10%

12. Are you Hispanic?

0% 10%

13. What is your religion?

100% 100%

Christian

68% 53%

Protestant

37% 23%

Evangelical

17% 17%

Mainline

13% 7%

Other

7% 17%

Catholic

22% 21%

Orthodox

7% 1%

Messianic

3% na

Jewish

0% 1%

Muslim	0%	1%
Atheist/agnostic	32%	5%
Atheist	20%	2%
Agnostic - not sure	12%	3%
Other/unaffiliated (*Volunteered answers listed above)		
	0%*	17%

(Results may not add up to 100%, because some respondents did not answer all questions.)

Pew Forum Survey: Pew Research Center (2013).

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MUELLER AND MISES: INTEGRATING THE GIFT AND “FINAL DISTRIBUTION” WITHIN PRAXEOLOGY

MICHAEL V. SZPINDOR WATSON

ABSTRACT: John Mueller claims that Austrian economics does not have the tools to explain the economy. His major criticism against Neoclassical economics and its Austrian variant is that Austrian economics does not have an economic theory of the gift and does not treat persons as ends. Institutions like nonprofits, charities, churches, and especially families cannot be explained with the concepts that Austrians and Neoclassicals use: utility, production, and exchange. There is a missing element, which he calls the “final distribution.” I concede that Austrian literature neglects the gift and distributive economy, but argue that Ludwig von Mises gave us a concept—autistic exchange—from which a theory of the gift can be developed. I also discuss how that relates to the Austrian discussion of the catallactic and non-catallactic economy.

KEYWORDS: normative economics, positive economics, Austrian economics, history of thought, Ludwig von Mises, John D. Mueller, heterodox economics, autistic exchange, catallactics

JEL CLASSIFICATION: A13, B25, B53, D64

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The author would like to thank professors Chris Coyne and Richard Wagner whose classes were used to explore the topic, Kevin Schmiesing, Dale Steinreich, and Karolina Kolpak for edits and suggestions, and John Mueller for generosity and candor in their discussions.

1. INTRODUCTION

My thesis is straightforward: John D. Mueller is wrong to argue that Austrian economics cannot describe the distributive or nonmarket order. Inspired by F. A. Hayek, Ludwig von Mises and other Austrian economists, I proceed to explain the distributive order—although Austrians tend not to focus on it. There is a qualitative difference between social orders defined by mutual exchange where persons are attempting to achieve differing ends, and social orders where persons are attempting to achieve the same end or where another person (thing or abstraction) is an end. The difference is that the purpose of the market order is to function as means to fulfill the ends of the distributive order. The distributive order is made up of ends and is never characterized by calculative mutual exchange, but by consuming, transferring, and giving the means produced by the market—or their monetary equivalent. Examples of such orders are the family, nonprofits, religious institutions, charities, ethnic associations, etc. Often such institutions exist as consumption goods achieving an end or being an end in themselves.

For those associated with Austrian economics, John D. Mueller's *Redeeming Economics: Rediscovering the Missing Element* may come off as obscure, precise, redundant, novel, confusing, clear, exciting, dull, and incorrectly correct—we are not sure what to make of it. On the Austrian front, he views Philip Wicksteed and Wilhelm Röpke as his modern precursors and cites Lionel Robbins favorably, but then criticizes Carl Menger, Ludwig von Mises, and F. A. Hayek—but in personal testimony embraces the Austrians' arguments against socialism. On the Walrasian front, Mueller claims Jacob Viner as a modern precursor, but then completely rejects the *Economic Approach to Human Behavior*, Gary S. Becker, and George Stigler. Going back further in the history of economic thought, Mueller accepts marginalism, disparages Adam Smith's contributions as a retreat from Scholastic economic thought, and then argues for "triple-A economics": "Aristotle+Augustine=Aquinas." Here Mueller contends that economics is missing an integral element: the Final Distribution—a concept Augustine developed, along with his development of the subjective theory of value (utility), which Aquinas integrated with Aristotle's theory of production and equilibrium.

The Final Distribution is the economy of gifts and their opposite, crimes—the transfers between persons (or governments) to persons, as Mueller puts it:

“Human society is knit together by transactions of giving and receiving,” Augustine noted. But these outwardly similar transactions are of two essentially different kinds: “sale or gift.” Generally speaking, we *give* our wealth without compensation to the people we particularly love and sell it to (or *exchange* it with) people we don’t. (emphasis his) (Mueller, 2010, p. 23).

Mueller believes that modern neoclassical economics on production, exchange, and consumption—or production, equilibrium, and marginal utility—cannot completely explain human society, because it lacks the theory of the gift. Thus modern neoclassical economics, Mengerian or Walrasian, is necessarily unable to entirely understand families, charities, and other societies that operate primarily on gift giving¹ (Mueller, 2010, 86–105). Instead of the usual order of production, exchange, and then consumption, Mueller inserts the gift in the economy: “... human beings *produce, exchange, give* (or *distribute*), and *use* (or *consume*)...” (Mueller, 2010, p. 18). In other words, at some point when an individual has income, a good, or a service at his disposal, he must decide what to do with it: use for oneself (a self-gift) or give it to someone else (a transfer/gift). One must choose oneself as an end or another person (or thing, animal, and concept) as an end and rank such end-persons.

Within the Walrasian tradition, Gary Becker takes on the questions of non-market behavior by “the combined assumptions of maximizing behavior, market equilibrium, and stable preferences” (Becker, 1976, p. 5). He explains everything from marriage and fertility to altruism, crime, and discrimination using his now standard approach. Meanwhile in the Austrian tradition, Peter J. Boettke, Christopher J. Coyne, and David L. Prychitko discuss the non-calculative aspect of gift-giving when they discuss nonprofits, especially how the service/good they provide are either goods of the first order (also referred to as consumption goods) or

¹ Or societies, social units, which are identified by their focus on distributing resources—distributive justice.

ends sought (Boettke and Coyne, 2009; Boettke and Coyne, 2008; Boettke and Prychitko, 2013). Though there has been recent work on families, nonprofits and other social units that are organized for the sole purpose of giving, the action of giving a gift is not the central theme—however, the authors do imply something like it when analyzing such institutions.

John D. Mueller’s “Neo-Scholastic School of Economics” has presented a challenge to adherents of the Austrian school: describe the gift, integrate it into your theory, and study the implications for the rest of the economy. The question of how a gift is situated in praxeology, as described in *Human Action*, and what the implications are for the economy is taken up. Specifically that gift-giving is classified under autistic exchange and that consumer goods or goods of the first order are used to achieve ends. The consumption of such first order goods orders the structure of production via the price mechanism: how people distribute their incomes, whether to themselves or others, orders the catallactic order. Here is my novel contribution: taking up Mueller’s challenge by teasing out where in Ludwig von Mises’s thought the gift would be classified and then developing the theory of the gift in accordance with praxeology.

I begin by comparing some Austrian and Muellerman critiques of Becker’s approach, and then discuss some of the disagreements Mueller and Austrians have with each other. In the second section I define gift-giving and discuss it within autistic exchange (autistic action). In the third section I discuss the differences between the market order and distributive order, comment on how the distributive order is the pure indulgence or “consumption” of ends and a manifestation of society’s values, and finally conclude on the general compatibility of the gift and praxeology.

2. BECKER, MUELLER, AND BOETTKE

Gary Becker’s approach, developed at the University of Chicago and thus known as the Chicago School, embraced the philosopher Jeremy Bentham:

The economic approach to human behavior is not new, even outside the market sector. Adam Smith often (but not always!) used this approach to understand political behavior. Jeremy Bentham was explicit about

his belief that the pleasure-pain calculus is applicable to all human behavior.... The pleasure-pain calculus is said to be applicable to all we do, say, and think, without restriction to monetary decisions, repetitive choices, unimportant decisions etc. (Becker, 1976, p. 8).

John Mueller and Peter Boettke, as well as other Austrians, criticize the deterministic maximizing behavior of the Benthamite man, *homo economicus*, in not dissimilar fashions. One would expect that a trained Walrasian and an Austrian might part in their joint disagreement with Becker's *homo economicus*, but they equally attack neoclassical assumptions of stable preferences and market equilibrium. Their attacks are dissimilar in the respect that Boettke argues that human ends can vary from concepts, to things, to people, etc., and rejects equilibrating equations, while Mueller believes that ends are ultimately physical persons. Let's take a look at how Boettke and Mueller criticize Becker, and how their conception of ends affects their critique.

Mueller

John Mueller argues that the maximizing worldview that Becker imposes on human behavior requires each actor to treat himself as the only end (Mueller, 2010, p. 103). The maximizing worldview is a result of collapsing what are actually ends into the means category or utility category, "Thus, in the end, according to Becker's theory, as in early British neoclassical welfare economics, *utility* is supposed to determine *final distribution*" (Mueller, 2010, p. 103). Mueller's concept of the gift and final distribution sees the actor as speculating (or evaluating) whether a thing is an economic good to the person receiving the thing—do they actually want it. Whereas when Becker's framework is applied to the family, spouses gain utility and consume each other's altruistic behaviors and gain utility when the other gains utility. Mueller puts it this way:

If both were purely selfish, in Becker's terms, each would derive utility only from his or her own direct use of the resources. In this case, therefore each person's "social income" of an "altruistic" spouse, who is supposed to derive utility from the other spouse's use of resources as well as from his or her own, would exceed his or her actual use of resources" (Mueller, 2010, p. 103).

What results is an infinite regress where wife gets utility when the husband get utility, which leads to more utility for the husband, *ad infinitum*; it's circular because the end here is the spouse or husband to each other but are treated as means toward one's maximizing of utility (Mueller, 2010, p. 103).

Mueller argues that neoclassical economics is missing the "distribution function" in describing the ends at which people aim: persons, themselves or others, as Mueller states:

A complete description of economic behavior has always required both a *ranking of person as ends* of economic activity—the distribution function—and a *ranking of scarce goods as means*—the utility function. The "economic approach" attempts to remove the consideration of persons as ends, thus reducing all human behavior to the choice of means (a maximization of utility); and then to reduce utility to the satisfaction of basic pleasures that are assumed to be the same for everyone and unchanging over time (Mueller, 2010, p. 101).

The ranking of end-persons can change, Mueller observes, so he dismisses the concept of stable preferences as avoiding the hard fact that human beings change their preferences over time—changing preferences is analogous to changing ends. Changes in ends, like the creation of new ends (babies), discovering new persons, and reordering the ranking of persons, happens—for example, when a baby is born there is a new end for the parent and he must use his current income to serve that end. For Becker, man is determined and so the problem on the formation of preferences is assumed away, as in Mueller's criticism, "Rather than putting forward a theory about how preferences are formed... Becker added two further assumptions: that the preferences for basic pleasures are the same for all persons and that they are the same for each person over time" (Mueller, 2010, p. 99).

The final consumption—how much being determined by the final distribution, which occurs after exchange—orders the production of goods and services. A change in ends as explained above, or a change in means, innovation and discovery of new means, can change the equilibrium where the market is tending. Mueller claims that even Leon Walras recognized this: "[Lionel Robbins's ordinal utility] approach also incorporated Leon Walras's previously neglected demonstration of the fact that, rather than a *single* optimum

distribution of wealth or income, market exchanges can achieve at least one efficient equilibrium for any possible distribution (Mueller, 2010, p. 90). The equilibrium point is open to change when preferences or ends change, holding means constant *contra* Becker. A change in preferences results in a change of price signals: profit-loss leads the way toward the new equilibrium.

Boettke

The Austrian rejection of Becker, and of much of neoclassical economics, is based on a focus on how the economy actually functions, instead of a world of assumptions that assumes away all the problems instead of explaining them. Boettke explains:

The language of modern economics, due to the demands for determinacy, crowds out questions of subjective assessment, institutional context, social embeddedness, knowledge (as opposed to information), judgment, entrepreneurship, creativity, process, history, etc. (see Samuels 1989). Some may be attempting to employ the tools of modern economics to analyze these questions, but in the process the questions are transformed. Institutions, for example, can be treated as formers of preferences, or as constraints. Maximizing models inevitably transform the treatment of institutions into constraints only and questions about institutions as formers of preferences are pushed aside as intractable (Boettke, 1996).

In the eyes of Boettke, neoclassical economics is a flight from reality, creating interesting puzzles with a load of assumptions. Assuming stable preferences prevents the explanation of how institutions, say churches or political parties, form people's preferences.

The market equilibrium assumption annihilates the role of the entrepreneur, in its arbitrage and innovative capacity: "Economic decision makers do not simply react to given data and allocate their scarce means to realize given ends. The entrepreneurial element in human actions entails the discovery of new data and information; discovering anew each day not only the appropriate means, but the ends that are to be pursued" (Boettke, 2012, p. 321). Here, like Mueller, Boettke argues that people's preferences of ends and means can change and that directs the market. The entire process of moving toward equilibrium (arbitrage) and establishing a new equilibrium (innovation; or change in preferences) is ignored in Becker.

Finally, the *homo economicus* optimizer of standard microeconomics does not describe the human actor, as Austrians understand it. Instead of an actor with purposes, goals, ends that can change with discovery, we have rational expectations and given preferences as described by Boettke:

In the modern text-book, the individual is assumed to possess all the relevant information necessary to maximize his utility subject to given constraints, the prices observed in the market are assumed to contain all the relevant information about relative scarcities, and reflect equilibrium values, and through price mediation profit maximizing producers perfectly coordinate their decisions with utility maximizing consumers to generate an optimal allocation of resources. The logic of this approach is sound, but it answers the question posed only by trivializing it. Theory in this fashion can proceed without concern for any particularity of the situation (Boettke, 1996).

Instead of an actor who shapes his surrounding according to his will, we have determinism. And instead of an actor who can create disequilibrium, we are left with the utility-maximizer in equilibrium.

Mueller vs. Boettke

Despite differences in approach in their criticisms of Becker and neoclassical economics, both Austrians and Mueller criticize the same assumptions. John D. Mueller would agree with Boettke that, “The human element is virtually purged from the analysis and in its place *homo economicus*, the cyborglike optimizer, is substituted” (Boettke, 2012, p. 317). Yet the reasons given above for such disagreement with modern neoclassical economics are not the same for each author. Both reject the assumption of a single equilibrium, stable preferences and ends, and sole utility maximization behavior, but the angle is different. Though Mueller finds Leon Walras more inspiring than Carl Menger (Mueller, 2010, pp. 85–86), he would not disagree with Boettke on the role of the entrepreneur on equilibrium—perhaps he could agree with all that Boettke has said; it is not clear from Mueller’s writings. An Austrian may find Mueller’s approach a bit awkward, partly because Mueller’s book mixes positive and normative economics together and partly due to his discussion of end-persons. The chief difference is that Mueller treats people as ends, while Austrians would also classify

things and concepts as ends. As an empirical fact, people are other people's ends, may very well be true, but Austrians tend to have a wider definition of ends than Mueller does.

Economist Matthew McCaffrey voiced concerns that Austrians would bring up with Mueller's work, especially when Mueller argues that Ludwig von Mises believed that only one equilibrium can be achieved—if Mueller is correct Boettke, and just about every other self described Austrian economist, and Mises are at odds with each other (Mueller, 2010, p. 120). Methodological individualism is assumed by Mueller to mean that an Austrian is an individualist in the political-ethical sense, or that all human beings are *clever* animals instead of *rational* animals. Mises, however, makes clear that such is not his understanding of methodological individualism in *Human Action*:

First we must realize that all actions are performed by individuals. A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. It is the meaning which the acting individuals and all those who are touched by their action attribute to an action, that determines its character. It is the meaning that marks one action as the action of an individual and another action as the action of the state or of the municipality. The hangman, not the state, executes a criminal.

As a thinking and acting being man emerges from his prehuman existence already as a social being. The evolution of reason, language, and cooperation is the outcome of the same process; they were inseparably and necessarily linked together. But this process took place in individuals. It consisted in changes in the behavior of individuals. There is no other substance in which it occurred than the individuals. There is no substratum of society other than the actions of individuals (Mises, 2010 [1949], pp. 78–79).

Mises concedes that society, families, language, etc. shape human beings. We come out as social creatures, not atomistic individuals. Anyhow, the goal here is not to claim that Mueller's reading of Mises is not perfect, but to take on his challenge that Austrian economics does not have a theory of the gift. Mueller may be right that there is no explicit theory of the gift in praxeology, in Mises's work, and among Austrians, so I build one that I believe is implicit.

Before furthering the discussion on the market order and the distributive order, and beginning the discussion on praxeology

and the gift, we must conclude to dismiss the concept of a meta-end, even if true, as tautological to this project. It would also block discussion with Mueller on the superficial grounds of not agreeing with his vocabulary. Such a meta-end in economics is often described as satisfaction, pleasure, or the desire to rid one of uneasiness. To seriously apply the concept of such a meta-end, would block the discussion of human action in regard to ends—since all ends are means to some meta-end: pleasure or whatnot. Nor could we discuss the ordering of ends, since there is only one end. Satisfaction or uneasiness is often a result of some set of values, whether asceticism, hedonism or whatnot. If this is true, then we get into a real conundrum, because values can be seen as ends determining the meta-end of satisfaction—what determines satisfaction or eliminates uneasiness is one's values? Or does a meta-end of satisfaction determine one's values—but then a believer confused by the economists' debate will say: God is our ultimate end and from Him we understand what satisfies, what pleasures, or calms the uneasiness of the soul! A mundane economist may respond: God is just a means toward your ultimate satisfaction. Although serious questions, let us avoid such circular debates and accept that individuals do have ends—we are teleological.

3. TOWARD A PRAXEOLOGICAL THEORY OF THE GIFT

Behind Mueller's Final Distribution is the premise that when actors acquire a good they then must do something with it. They can use it as a factor of production, exchange it for something else on the market, consume it or give it to someone else. Such a contention is not controversial, as goods are always means to be used. Mueller defines the gift as an act of love, but not in the sense of an emotional state of happiness, a high, or sympathetic affectionate love.² He is speaking of *agape*, or "agapic love."

Agape is willing the good of the other, an act freely made. *Agape* is Greek and in English is usually referred to as charitable

² Matthew McCaffrey errs in his paper believing that love is a psychological state of mind (McCaffrey, 2012, p. 184), so misunderstands Mueller's use of "love" and "hate." If love, *agape*, were a psychological state, McCaffrey is correct, since praxeology (and economics) cannot discuss emotional or psychological states of mind—praxeology is not psychology.

love, charity, Christian love, unconditional love, and in Latin it is known as *caritas*. The concept of *agape* goes back at least to Aristotle, was labeled the highest virtue by Jesus Christ, and is known as the highest theological virtue in the Christian intellectual tradition represented by figures such as Augustine and Aquinas. It is not a psychological state of mind that can be described as desire, want, enjoyment, or satisfaction; it is an act where the actor apprehends what is the good for the other person—or for oneself. It is an act in which the actor speculates on what the other actor perceives as a good (relative to bad) and then gives it to that person without expectation of being given anything in return—reciprocity does not necessarily exist, though if the person is a conscious actor she must choose whether to receive the gift or not. St. Thomas Aquinas sums up *agape* thusly, “but that love which is together with benevolence, when, to wit, we love someone so as to wish good to him” (Aquinas, 1920, “Whether Charity is Friendship”).

What is to will the good of the other? Aquinas again gives us the answer, “Now man is master of his actions through his reason and will; whence, too, the free-will is defined as “the faculty and will of reason.” Therefore those actions are properly called human which proceed from a deliberate will.... But the object of the will is the end and the good. Therefore all human actions must be for an end” (Aquinas, 1920, “Whether it belongs to man to act for an end”). Human action is teleological, he chooses ends and means via his reason, and acts. When choosing the good of the other we must choose means to accomplish this end, such means are the gift. Mueller’s point is that many such gifts are easily verified in everyday life, especially by income, goods, and service transfers from parents to children—the clearest being children whose productivity level to the family is negligible and forever may be due to a physical or mental handicap. There are also two types of agapic love discussed by Mueller, beneficence and benevolence:

...Thomas Aquinas, accordingly distinguished two ways in which we can love our fellow man: benevolence, or goodwill, which can be extended to everyone in the world, and beneficence, or doing good, which cannot. We can always avoid harming others, which is why there are no exceptions to the prohibitions against murder, theft, adultery, and so on. But the share of one’s scarce goods that can be distributed to others

is practically limited, because no one, however rich, can share equally with everyone in the world and still leave himself enough to live on (Mueller, 2010, p. 36)

One may retort that this is all nice and good, but what does *agape* have to do with praxeology and economics? Well, first it must be established that *agape* as a concept is compatible with praxeology as well as giving gifts without expectation of return.

Praxeology is the study of human action, literally translated as the logic of action: “Action is will put into operation and transformed into an agency, is aiming at ends and goals” (Mises, 2010, p. 11). Ludwig von Mises in his work *Theory and History* addresses many of our concerns: “The field of the sciences of human action is the orbit of purpose and of conscious aiming at ends; it is teleological” (Mises, 1957, p. 85). What about free will? Mises comes down in favor of it:

The determinists are right in asserting that everything that happens is the necessary sequel of the preceding state of things. What a man does at any instant of his life is entirely dependent on his past, that is, on his physiological inheritance as well as of all he went through in his previous days. Yet the significance of this thesis is considerably weakened by the fact that nothing is known about the way in which ideas arise. Determinism is untenable if based upon or connected with the materialist dogma. If advanced without the support of materialism, it says little indeed and certainly does not sustain the determinists’ rejection of the methods of history.

The free-will doctrine is correct in pointing out the fundamental difference between human action and animal behavior. While the animal cannot help yielding to the physiological impulse which prevails at the moment, man chooses between alternative modes of conduct. Man has the power to choose even between yielding to the most imperative instinct, that of self-preservation, and the aiming at other ends. All the sarcasms and sneers of the positivists cannot annul the fact that ideas have a real existence and are genuine factors in shaping the course of events (Mises, 1957, pp. 59–60).

So teleology and free will are congruent with *agape* as defined by Aquinas. But, what about gift-giving without expectation of return from the receiving person, doesn’t Mises say that every action is an exchange?

Action as exchange: interpersonal and autistic

It is true that Mises characterizes all action as an exchange: “Action always is essentially the exchange of one state of affairs for another state of affairs” (Mises, 2010, p. 195). Not in the respect that all actions are under the guise of commutative justice or that all exchange is simply a market transaction where goods are bought and sold; but in the respect that every single action any actor ever takes is always in regard to tradeoffs—opportunity costs. When we decide to change one set of circumstances for another we act to change it, i.e., we trade one set of circumstances for another or we exchange one set of circumstances for another.

Market exchange where people buy and sell is classified as interpersonal exchange. There are two categories of exchange within praxeology as developed in *Human Action*: autistic exchange and interpersonal exchange,

If the action is performed by an individual without any reference to cooperation with other individuals, we may call it autistic exchange. An instance: the isolated hunter who kills an animal for his own consumption; he exchanges leisure and a cartridge for food.

Within society cooperation substitutes interpersonal or social exchange for autistic exchanges. Man gives to other men in order to receive from them. Mutuality emerges. Man serves in order to be served (Mises, 2010 [1949], p. 195).

When interpersonal exchange, or social exchange, is said to (peacefully) exist it can be said that commutative justice has been achieved. People buy and sell without theft or violence and interdependence emerges. Not dependence in the sense of one person requiring the assistance of another, but does nothing in return; but interdependence where people with divergent ends serve each other to accomplish the other’s end, without necessarily having the other’s end in mind. It is the justice of the marketplace and not of the gift—commutative justice versus distributive justice. Autistic exchange is where the category of *agape* and the gift lies.

Terminology: exchange vs. transaction

As someone who has a deep skepticism on the creation of new terms or changing of terms, I compelled myself to avoid discussing

the patent possibility of misunderstanding the argot of both Mises and Mueller. Alas, the difference in terminology, as well as the terminology itself, muddles the otherwise clear arguments each author presents. I found myself unpleasantly replacing “exchange” with “action,” lest confusion linger.³ Thankfully, I did not have to invent the term “autistic action” as Mises uses it at least once in *Human Action*, “It does not matter whether the autistic action is beneficial or detrimental to other people...” (Mises, 2010 [1949], p. 224).

The terms “exchange” and “transaction” are analogous in the works of Mises and Mueller, albeit their respective use of each term clashes with any definition I could find in any dictionary. Mises describes all action as exchange, because he defines exchange as any act where opportunity-costs exist—which is any and every act, “Action always is essentially the exchange of one state of affairs for another state of affairs” (Mises, 2010 [1949], p. 224). Perhaps as a metaphor the sentence is coherent, but exchange was never defined as opportunity-cost or anything akin in the Merriam-Webster, Cambridge, Oxford, or any of the dictionaries I perused. Every definition mentioned the giving up of something to get something in return; there were always two parties and/or two things doing the transferring or being transferred.

Mises’s two categories of exchange, interpersonal exchange and autistic exchange, are thus either redundant or contradictory. Interpersonal exchange is redundant since exchange implies at least two people are trading, and therefore any exchange is between persons, i.e. interpersonal. The word autistic comes from the Greek *autos*, meaning “self,” hence autistic is “self-istic.” But self-istic exchange is a contradiction in terms: one cannot exchange with oneself, nor can one exchange violence or agapic love. If Mises had substituted “action” for the term “exchange,” he could have avoided any such possible misconceptions.

Mueller has the identical problem as Mises. Every definition of transaction I found was related to business, buying and selling, exchanging, and *quid pro quo*. Acts of agapic-love and gift-giving

³ Dale Steinreich’s questions and comments, as well as my discussions with John Mueller and others, helped me realize that much of the disagreement that Mueller has toward Austrians relates to terminology. I decided to discuss the elephant in the room.

is not about making a profit or receiving something in return, but giving away something because the recipient is one's end. Furthermore Mueller's definition of exchange is when equilibrium has been achieved, i.e. when people have bought and sold to each other. So when Mueller sees that Mises describes all acts as exchange he errs in believing that Mises sees all action as equivalent to buying and selling or trading. That is, in Mueller's framework of production, *exchange*, *distribution*, and consumption, Mises cannot discuss distribution. The term "exchange" for Mises has a different definition and if we were to rewrite Mueller's framework with Misesian jargon it would be: production, *interpersonal exchange*, *autistic exchange*, and consumption.

From hereon in order to avoid such confusion I will use "exchange" as it is normally used⁴, as well as "transaction." Instead of autistic *exchange*, I will use autistic *action*. Therefore I hope my argument will be clear for Mueller and be in conformity with Aquinas or any dictionary where action is defined as "an act of the will."

Autistic action

Autistic action is where *agape* and the gift—and their opposites, hate and crime—are classified as explained by Mises,

Where there is no intentional mutuality, where an action is performed without any design of being benefited by a concomitant action of other men, there is no interpersonal exchange, but autistic exchange [autistic action]. It does not matter whether the autistic exchange is beneficial or detrimental to other people or whether it does not concern them at all. A genius may perform his task for himself, not for the crowd; however, he is an outstanding benefactor of mankind. The robber kills the victim for his own advantage; the murdered man is by no means a partner in this crime, he is merely its object; what is done, is done against him (Mises, 2010 [1949], p. 195).

Mutuality in the terminology of Mises only occurs in interpersonal exchange, even if the recipient of a present has the choice to accept or deny it. Autistic action is an act directed toward

⁴ Mises also uses "exchange" as normally understood throughout *Human Action*.

oneself or others (or cats, trees, etc.) that is not determined by the intention to peacefully receive anything back in exchange for his deed. Cutting down a tree to feed a fire, committing violence against one's fellow man, and the actions of the Good Samaritan are all classified under autistic action.

Mises never discusses the concept of *agape* concretely, nevertheless his category of autistic action allows for it—what I describe as “agapic autistic action,” particularly in its beneficent form. Though *agape* is a term where willing the “good” has an objective moral definition and economics *qua* economics is concerned not with morally objective claims, but with what actors subjectively perceive the “good” to be, *agape* is a useful term in describing gifts for the good of the other where no return is expected. When a person acts with beneficent agapic love he wills the good of the other (or himself) in a gift (or self-gift). In order to choose what “good” to will he must rank his ends and subjectively choose what means are “good” or beneficial to his end(s). There are two sides of such autistic action, one side loving and the other side receiving love. There is the lover, i.e. the giver, and the beloved, i.e. the recipient.

There will be two types of recipients, those that can reject or accept and those that cannot. A husband in a coma who is being kept alive by the income of his wife cannot choose whether to accept or reject. She must decide on what is the “good” or beneficial circumstance for her husband. The person who is conscious, an actor, may accept or deny a gift—if the gift is given to him despite his absolute rejection, violence has been committed to him. The giver must consider the receiver's subjective evaluation of what is “good.” That is why a pure sociopath cannot be said to act with *agape*, for he cannot imagine another's conscious or subjective evaluation of what is “good” and commits every action because he expects to earn a return from a “gift.”

A sociopath does not receive “satisfaction,” in Mises's terminology, from treating a person as an end. He never expects nothing in return when he gives charity to another, but always something. The sociopath can only engage in hateful autistic action with others (treating the person as purely a means for his own consumption) or in interpersonal exchange with other actors, never in agapic autistic action—beneficent or benevolent. The sociopath never treats others as ends and never partakes in a social movement for

the betterment of the other; he must always receive something in exchange—he is only ever his own end. The gift as Mises explains below, is not open to him,

Making one-sided presents without the aim of being rewarded by any conduct on the part of the receiver or of third persons is autistic exchange. The donor acquires the satisfaction which the better condition of the receiver gives to him. The receiver gets the present as a God-sent gift. But if presents are given in order to influence some people's conduct, they are no longer one-sided, but a variety of interpersonal exchanges between the donor and the man whose conduct they are designed to influence (Mises, [1949], p. 196).

Ironically, Mises seems to recognize the agapic nature of a freely given gift by calling the gift “God-sent,” which describes the relationship between God (and Christ) to humankind—but I digress. We can conclude that there is a theory of the gift implicit in Mises's work, but it remains undeveloped and not explicit—let us explicate it.

Agape as a subcategory of autistic action

It is not controversial to say that Mises believed that men gave willingly to the benefit of their fellow man. It must logically follow that man gives according to what he judges to be the other's good and, if the other is conscious, then with what she understands as her good. She, and all her values, purposes, and ends, becomes his end in that moment of gift. If he speculates correctly she receives the gift, if incorrectly she rejects—may I suggest a signal concurrent to profit and loss?

Of course two persons may have different understanding of the good. He may give medicine to her that will cure her illness and prevent her from death, that she believes is a poison and rejects; or he may violently prevent her from drinking a poison she believes is a cure. He has acted with *agape* in both situations and if he is to act with *agape* he should ignore the signal (rejection of his love) and save her—a gift may not always be peaceful. A mother may violently push her son out of the way of a speeding car and save his life, or discipline her son to teach him patience so that he may live a life of wealth and happiness. The particularities of circumstance,

custom, and culture often determine whether force can be an act of beneficent agapic love. Only between two reasonable persons in a situation where there is a common understanding can it be said that *agape* is predominantly peaceful—a sane man and woman courting each other, for instance, is a peaceful endeavor where they discover the other and their conceptions of the good so as to give what they would receive.

Therefore it follows that agapic action is a subcategory of autistic action. Any act where there is no expectation of reward from the recipient or from a third party is *agape*. There is *agape* toward non-actors and actors. The first is not concerned about the subjective evaluation of the recipient, because she is not in the capacity to judge. The second form of *agape* is seeking the good for an actor. It always requires alertness on the part of the giver-entrepreneur to how she will respond, which requires him to speculate on the ranking of her ends: he gives according to her ends—her ends become his ends when giving. In evaluating her ends he must use his faculties of sense and reason to imagine what she believes the “good” is. If she accepts he cannot know exactly where on the ranking that “good” is, but he can informally judge in the manner she accepts: shouting for joy or a simple smile—signals that he can only understand by the tacit and local knowledge he has of her personality, disposition, and circumstance.

To truly incorporate *agape* with its use in Mueller, the doctors of the Church, or contemporaries that preach agapic love, one would need to objectively define what is “good.” A paper on normative economics, where we mix the theory of positive economics with an ethical system, can be easily done, but is outside the scope set here. In positive economics all “goods,” even if described as beneficial or of enhancing well-being, are subjectively determined by actors. Economic theory’s claims are not normative, but positive. Economics *qua* economics cannot say whether human beings choose the objective good and or act with genuine agapic love. All we can say is that when people give without expectation of receiving a reward, they are attempting to express *agape*. That manifestation is the gift.

If I have demonstrated that agapic love exists as a subcategory of autistic action there is a significant conclusion regarding the relationship between ethics and economics: An ethical system that

recognizes agapic love as a virtue or principal should be able to be integrated with praxeology to form a normative praxeology and normative economics. Such an ethical system can do what praxeology cannot do: discuss the objective good of a gift, i.e. ends. Without an ethical system, all that a praxeologist can say is that the giver gives a gift he subjectively believes is good. The ethical system determines whether a gift is objectively good or bad. Praxeology and ethics can thus be bound in separate systems of thought in regard to particular questions: the is/ought distinction and the means/end distinction. When the questions are combined, praxeology can be seamlessly integrated with ethics: what efficacious means ought we to use to achieve the good? The process of integrating and discovering the seams will require the identification of what is separate and what is shared, and to discover the consonant in what appears to be contradiction.

4. THE CATALLECTIC ORDER AND THE DISTRIBUTIVE ORDER

In the praxeological science there are two types of action: interpersonal mutual action and autistic action. When money exists in interpersonal exchange we have catallactics, or the economics of the market society (Mises, 2010 [1949], p. 280). Money prices give the entrepreneur the ability to calculate whether he has made a loss or profit. Prices are exchange ratios (or a common denominator between all goods) that fluctuate according to changes in supply and demand. Profit and loss tells the entrepreneur whether he is productive or not: whether he has produced what consumers demand, given his constraints. The profit and loss mechanism determines which plans in the market order are sustainable and which are not. It allows for the coordination of plans of people who will never meet each other toward ends they may never know of. Profits and losses are the ultimate test of the market; without money prices there is no catallactic order.

Economic calculation and the distributive order

Without money prices (indirect) exchange cannot take place, and we are either in a barter (direct exchange) economy or a socialist

economy. What defines the socialist economy is that production is not directed by prices but by some other criteria: statistics, output-input charts, or other measurements describing inputs and outputs. There is no common denominator to compare different inputs or outputs, and it is impossible to gauge how much demand there is for what is supplied, apart from noticing an abundance of goods or lines of consumers waiting on goods in empty stores. Also money is not an immutable yardstick, it is not a set measurement that can compare all inputs-outputs over time and space. Money has a demand and supply of its own that fluctuates—often representing the fluctuation in demand and supply for loans and savings. There is no efficient means for the socialist commonwealth to estimate how much its citizens wish to save, invest, or loan without money or what the interest rate should be on such things (Boettke and Prychitko, 2008, pp. 20–21).

The family is often called a socialist economy, because it does not coordinate its activities through prices and suffers the same type of calculation problem that the socialist economy faces. Especially before the industrial revolution, the family did function like a socialist economy not only by pursuing ends (children) but also by producing the majority of the food and goods for themselves and their children—the socialist economy is an attempt to mimic the family unit for all of society.

Often families and nonprofits are compared to firms, but this is a false comparison. Firms are similar in the respect that they often produce inputs themselves instead of paying a price for it, like a family cleaning the house instead of hiring a cleaning service. The firm, however, produces something for sale for a price to society. Whether they make a profit or loss tells them whether they are efficient or inefficient. Family businesses do exist, but the sole purpose of the family is not to produce children for the consumption of other persons or to give them a return, but to raise children as ends in themselves—especially in the western world where children will almost never result in a return for their parents. The family does not produce children for sale—except in extreme and dire situations—so there is no pricing mechanism to determine whether families efficiently produce and raise children. The firm exists because it is less costly to internalize a production process rather than paying a price for it; a family may exist because

it the most efficient way to raise children and a nonprofit may exist because it the most efficient means to help the poor, but the purposes of the firm versus the family and nonprofit are completely different—the former for money-profits, and the latter for children and the poor in and of themselves (Horwitz, 2005).

All nonprofits, and other groups that provide a scarce resource for free or perhaps at subsidized rates, cannot calculate—the profit-loss mechanism does not provide the relevant information about how many sandwiches they should make for the hungry. Profits and losses do not tell nonprofits if they have achieved their end. They must measure their success using statistics or other measurements, ideal or material, to determine whether they are achieving their ends (Boettke and Prychitko, 2008, p. 25). Families and nonprofits are not a catallactic order but are part of the distributive order in which people coordinate through mechanisms other than prices.

An important difference between the catallactic order and the distributive order is that the first is a society in which people interact to achieve different ends via market exchange, whereas in the latter people interact to achieve the same end(s). A nonprofit exists to achieve an end: to end poverty, to increase literacy, to support liberty, end hunger, encourage virtue and scholarship etc. A family exists to raise children in companionship. If a family goes bankrupt in raising children, but has seen them all into adulthood, the family has succeeded. If a charity increases its donor base and grows tremendously in size, but does nothing for the poor, it is an utter failure and has likely defrauded its donors. Profit-loss is not the mechanism of coordination for the distributive order; the characteristic of the distributive order is the transfer or giving of resources to pursue particular ends, not to produce anything for sale on the market—ends cannot be priced: there is no economic calculation (Boettke and Prychitko, 2008, p. 25).

Distribution orders the catallactic order

The distributive order does exist within a world of scarcity, however, and often that scarcity can be described in the prices actors face when they buy their inputs to achieve their ends. In achieving their ends, they take means (goods, services, or money) and transfer or give them to others—or consume the goods and

thus treat themselves as an end. Such inputs purchased toward directly meeting an end can be classified as consumption goods or goods of the first order:

Economic goods which in themselves are fitted to satisfy human wants directly and whose serviceableness does not depend on the cooperation of other economic goods, are called consumers' goods or goods of the first order. Means which can satisfy wants only indirectly when complemented by cooperation of other goods are called producers' goods or factors of production or goods of a remoter or higher order. (Mises, 2010 [1949], p. 131)

Charities, nonprofits, and families are either goods of the first order or ends in themselves in Mises's argot. However, it seems most prudent to classify such institutions and organizations as ends in and of themselves rather than goods of the first order. Often, though, such organizations are means to achieve other ends, like the persons that are served by a charity. Thus, the charity is a type of capital for achieving ends—instead of direct transfers from individuals.

All things within the catallactic order have a price, whether consumer goods (goods of the first order) or higher order goods (goods used in the production process that result in goods of the first order). The prices of first order goods determine the prices of all other goods in the market and are a manifestation of peoples' ends:

The prices of the goods of higher orders are ultimately determined by the prices of the goods of the first or lowest order, that is, the consumers' goods. As a consequence of this dependence they are ultimately determined by the subjective valuations of all members of the market society. It is, however, important to realize that we are faced with a connection of prices, not with a connection of valuations. The prices of the complementary factors of production are conditioned by the prices of the consumers' goods. The factors of production are appraised with regard to the prices of the products, and from this appraisal their prices emerge. Not the valuations but the appraisements are transferred from the goods of the first order to those of higher orders. The prices of the consumers' goods engender the actions resulting in the determination of the prices of the factors of production. These prices are primarily connected only with the prices of the consumers' goods. (Mises, 2010 [1949], p. 378)

How we distribute our resources directly affects the market, because when we give money to a charity they spend it on inputs, and when we give to our children they spend it on consumption. When the recipients of our gifts spend that money, that sends profit signals up the chain affecting the entire structure of production. Ludwig von Mises in the above quotation makes it emphatically clear that our appraisements are what determine the structure of production in a free catallactic order—the catallactic order responds to consumers. Those consumers can be a nonprofit, a child, a spouse, or a beggar. When Mises claims the sovereignty of the consumer he means exactly the above: our ends determine production in a free market.

The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. With every penny spent the consumers determine the direction of all production processes and the minutest details of the organization of all business activities. (Mises, 2010 [1949], p. 317)

Consumers are not necessarily wage earners; they are also the recipients of gifts in between exchange (labor for a wage) and consumption. The wage earner can distribute his earning and make others consumers as well. If people value the wellbeing of a beggar and give him resources he will spend the money and the catallactic order will adapt to the demand of a beggar.

The distributive order as a manifestation of values

In contrast to Mueller who treat ends as always relating to persons (or immorally to things), Mises treats ends as ideals or real things. For Mises, an end can be a concept like honor, faith, love, and justice, or a person and thing. He puts an incredible emphasis on the role of ideas shaping peoples' preferences and ends in all of his books. Mueller would see such language as flimsy and not concrete for empirical research. His suspicion is correct, but all of the ideals that Mises claims people aspire to always relate to some person or some thing—perhaps Mises should have made this

clearer. Honor can be an end, but whose honor? Justice can be an end, but justice for whom? The extreme environmentalist wants justice for the environment; they treat the environment as an end in itself such that even human society should serve as a means for it. Contrast this to a conservationist or "lite" environmentalist who believes that the environment should be a means toward human ends: more or less, that the environment should be a consumption good for humankind. If a person were to truly treat an ideal as an end, that end would be a god to him. He would make sacrifices, worship, and honor it. There is no evidence that Mises believed that each ideal is a god unto itself for people who aspire to such ideals. Whenever he spoke of ideals it was in relation to the person conceptualizing them or that person's relationship to other people and society.

Imagine that someone's end is wellbeing, but wellbeing of whom? Unless he worships the idol of the ideal of wellbeing, wellbeing surely only means the wellbeing of him or others. Wellbeing is not a thing in and of itself, but an adjective or ideal describing the state of someone. Treating persons (or things) as ends makes the analysis concrete, avoids speculating on people's motives, and allows us to empirically measure how people order their ends by the amount of resources they distribute to themselves or others.

When someone distributes their resources among their competing ends, they indulge their preferences and motives: the persons and institutions that receive their gifts are manifestations of their values. The person may be psychologically stable or unstable, reasonable or irrational, loyal or traitorous and a thousand other things. He may give his earnings to his spouse or to a harlot; he may be afraid of what others think of him or care not; he may desire the wellbeing of his family and others or be completely consumed with his own selfish delights. Once a person has either earned his income or received a distribution from another, his motives and values will guide his use of the money.

In the giving economy we can choose practically any end to support: if we are racists we can give to or join a racist fraternity, if concerned for the poor we can give to charities, if religious we can give to a religious group. Nonprofits and the like are competing over how we order our preferences, so they can help us achieve a greater "utility" use of our resources by reaching our ends. Sometimes the

ends are to change the constraints on society, or to change people's expectations, or sometimes to reorder their ends—as earlier, when I quote Boettke who mentions how institutions often are seeking to change people's preferences. The pro-life and pro-choice movements have completely different ends: one to stop abortion either through changing people's preferences or by changing the constraints (laws) of society, the other to keep abortion legal and make it available to all women—the ends here are the unborn child or the pregnant woman. If either group is successful, there is a possible change in the structure of production: if pro-choicers win we would expect technological innovation and production for abortion goods; if pro-lifers win we would expect the bankruptcy of abortion firms and greater production of baby strollers.

Many donations, distributions, or transfers (Boettke and Prychitko's term) of resources are to change society—whether preferences, constraints, or expectations. Churches are out to evangelize, political causes to change the constraints imposed upon society by the state, and scholarships to promote particular agendas in society by reducing the cost for students likely to pursue the agenda. When people distribute their resources they believe that the market order and its profit-loss mechanism is not enough to achieve the society they envision—or that the state fails (or prevents) society from being that vision. Groups, like charities, arise because they advertise themselves as achieving ends that the market order cannot achieve (something like market failure) or the government cannot achieve (government failure), but that society must achieve nevertheless—distributive, commutative, and general justice.

The distributive order is a manifestation of preferences, where the sole criterion is immeasurable subjective valuation; the catalactic order is toward fulfilling the ends in the distributive order. Such institutions still rely on inputs from the market, so are still constrained by how much the catalactic order has grown, and are limited in scope. The catalactic order may supply the inputs for the distributive order, but it is often the distributive order's end to restrict, expand, or regulate the catalactic. If the distributive order is successful, yet follows a misguided policy not only could the catalactic order's productive capacity halt, but the very means by which the distributive order prospers could disappear.

When people distribute their resources, they are making a moral claim, and often that moral claim is that the market is not enough to ensure the good. Many institutions provide services for free to people who will never pay them back when they become productive, or who will never be productive because of some ailment—there is often no way to internalize the positive externalities of institutions partaking in the distributive order. A drunk who attends an Alcoholics Anonymous meeting, reforms, and becomes a productive member of society may never give back to Alcoholics Anonymous, but society becomes richer as a result of their good works. Much of the distributive order's existence is built upon the inability to internalize such positive externalities. People value such positive externalities and so they distribute their resources accordingly.

It is not always clear where the distributive order begins and the catallactic order ends: often they are mixed together, but that does mean neither exists. The example Mises gives explains:

The businessman who owns the whole firm may sometimes efface the boundaries between business and charity. If he wants to relieve a distressed friend, delicacy of feeling may prompt him to resort to a procedure which spares the latter the embarrassment of living on alms. He gives the friend a job in his office although he does not need his help or could hire an equivalent helper at a lower salary. Then the salary granted appears formally as a part of business outlays. In fact it is the spending of a fraction of the businessman's income. It is, from a correct point of view, consumption and not an expenditure designed to increase the firm's profit. (Mises, 2010 [1949], p. 287)

The employer is taking a loss by employing his friend, since the friend cannot produce enough to justify his wage. The employer is indulging his preference of his delicate feelings and treating his friend as an end. He is distributing his resources to him, not engaging in interpersonal exchange to meet separate ends. Despite the employee working as if he were part of the catallactic order, he would be classified in the distributive order. If the entire market worked like this, it would dissolve, since prices would not achieve their purpose of signaling waste and productivity.

When people act with *agape* we are in the realm of the distributive order. When society is said to be achieving distributive justice and

expressing agapic love, what is really being said is that the catal-lactic order is producing means toward the achievement of the ends of the distributive order—and that the ends chosen are good and right. The distributive order is where one can indulge one's preferences/values⁵, whereas in the catallactic order one is not guided by preferences/values but coordinated by profit and loss. However, profits only occur when producers produce what people prefer. Thus, the distributive guides the catallactic. If the values of a society are moral, its ends as manifested in the distributive order via distributions of resources, will direct the catallactic order to producing means to meet such ends. Of course in the real world, the division between the two orders is not always clear: we may boycott companies involved in slave labor and support others that pay their employees a just wage.

5. FINAL THOUGHTS ON MUELLER

Though Austrians characterize ends as a multitude of things and Mueller defines all ends to be persons (even cats can be persons, though this is a corruption of personhood), there is an empirical usefulness in using his definition. The goods and services produced in an economy serve human ends and wants. Humans produce, exchange, and consume them—and distribute them in gifts. There is no way of giving or purchasing "honor," "truth," "patriotism," "duty," or "goodness." They may be ends that we aspire for, but they are mere adjectives associated with the people who use products and services produced in the catallactic order. The end of all products and services are actors or persons and their ends. Measuring abstract ends is difficult. How should we quantify honor? If honor is a subjective end, how can we measure how many means aim toward that end? Perhaps when we can see a person give his life for another (which is *agape*), but was he acting toward honor as an end or toward an honorable end? We cannot measure such inquiries, but we can measure and study how goods and services are produced, exchanged, given, and consumed. When examining the goods that are produced, how they are exchanged, to whom they are

⁵ Indulging one's preferences is economic jargon and can be described as pursuing one's values, fulfilling one's moral obligations, or pursuing selfish vice. One's preferences can be moral or immoral.

given, and by whom they are consumed, we can then make value judgments as historians or ethicists about what ends are manifested by society. Austrians may disagree with Mueller's definition of ends on positive grounds, as it is a normative statement he makes, but it is a rather practical definition.

6. CONCLUSION: PRAXEOLOGICAL AGAPE

John D. Mueller claimed that praxeology and Austrian economics does not explain the gift, and could not, because it lacked the distribution element of the economy. He was essentially saying that Austrians could not understand *agape*. He was right to say that the gift and distributive order in Austrian literature is neglected and mentioned only in passing. But here I demonstrated that the concept of *agape* can be integrated into praxeology, specifically under autistic action. Then the concept was pushed to identify two different categories of gifts: gifts to non-actors and actors. Giving gifts freely to people as ends in of themselves flows naturally from the manner in which autistic action is discussed in *Human Action*. Even the ancient notion of agapic love, once understood as the striving to discover and will the "good" of the other, is compatible. Mueller can no longer claim that Austrian economics cannot *understand* gifts. Now what needs to be done is to explore the implications so that he will no longer be able to claim that Austrians *ignore* gifts.

Afterward I discussed the distributive order versus the catal-lactic order and how they interconnect—how the distributive guides the catal-lactic and the catal-lactic acts as a constraint on the distributive. The Austrians have and can discuss the economy of gifts and the distributive order, especially when we discuss economic calculation. John D. Mueller would be wise to take heed of the calculation problem of the distributive order and how the Austrian discussion of it could be of use to him.

The praxeological theory of the gift also adds strength to the Austrian critique of socialism and neoclassical economics, and should furnish a rhetorical strategy bound to explain economics in a more humane manner. It is also compatible with the Austrian literature on the non-calculative aspects of non-profits and the problems of local and tacit knowledge, as well as Israel Kirzner's

understanding of entrepreneurship and discovery. The most interesting opportunity, however, is the ability to fluidly integrate ethical systems that depend on agapic love with praxeology to form a normative economics. But perhaps before that project can be taken on the next step is to develop, within the category of autistic action, an understanding of the opposite of gifts: violence and theft, or acts of hate when people are coerced as means to meet other people's ends.

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COMMENT ON MICHAEL V. SZPINDOR WATSON'S "MUELLER AND MISES: INTEGRATING THE GIFT AND 'FINAL DISTRIBUTION' WITHIN PRAXEOLOGY"

JOHN D. MUELLER

ABSTRACT: I am pleased to comment on Michael Watson's paper, "Mueller and Mises: Integrating the Gift and 'Final Distribution' within Praxeology" (2015), which continues a conversation we have had on a gap I believe the Austrian school has in the matter of gifts and crimes. Despite Peter Boettke's and my agreement in some criticisms of the Chicago School, I believe that the Austrian school's theory suffers from essentially the same gap in its own version of neoclassical economics. While I welcome Watson's effort to fill this theoretical gap with Mises's concept of "autistic exchange," I think it too falls short through "underdetermination," because it attempts to make a single element—the theory of utility—explain both consumption and "final distribution." I suggest that further research is needed before we can establish the conditions under which the value of personal gifts can adequately be calculated.

KEYWORDS: normative economics, positive economics, Austrian economics, history of thought, Ludwig von Mises, John D. Mueller, heterodox economics, autistic exchange, catallactics

JEL CLASSIFICATION: A13, B25, B53, D64

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I am pleased to comment on Michael Watson’s paper, “Mueller and Mises: Integrating the Gift and ‘Final Distribution’ within Praxeology” (2015). I first met Michael a couple of years ago when we both participated in the Tertio Millennio Seminar in Krakow, where he was one of three dozen participants from North America and Eastern Europe, and I as a faculty member presented the thesis of my book in two lectures, much as I did in my Lou Church Memorial Lecture in Religion and Economics.

Table 1: How the Structure of Economics Has Changed: Detail

The Origins and Historical Structure of Economic Theory				
Common-sense meaning	Gifts (or Crimes) & Distributive Justice	Consumption	Production	Justice in Exchange
Generic meaning	1. Preference for persons as ends	2. Preference for scarce means	3. Actualization of means: a.	4. Actualization of means: b.
Element of Economic Theory	Final Distribution (social unit described)	Utility (type)	Production (factors typically assumed to vary)	Equilibrium (type)
Source	Augustine, <i>On Christian Doctrine</i> 1, 26 (person); Aristotle, <i>Ethics</i> V, 3 (household, business, government)	Augustine <i>City of God</i> XI, 16 (ordinal: 1 st , 2 nd , 3 rd , ...)	Aristotle, <i>Politics</i> 1, 4 (none)	Aristotle, <i>Ethics</i> V, 5 (partial)
Period				
Scholastic (1250–1776)	Yes (all: personal, domestic, & political)	Yes (ordinal)	Yes (none)	Yes (partial)
Classical (1776–1871)	No	No	Yes (tangible human)	Yes (partial)
Neoclassical (1871–c.2000)	No	Yes	Yes	Mixed
School				
British	“	“ (cardinal: ... -1, 0, 1, 2, ...)	“ (tangible nonhuman)	Yes (partial)
Austrian	“	“ (ordinal)	“ (“ ”)	No (Mises)
Walrasian	“	“ (ordinal)	“ (“ ”)	Yes (general)
Chicago	“	“ (cardinal)	“ (“ ”)	Yes (partial)
(1920–1960)	“	“ (cardinal)	“ (“ ”)	Yes (partial)
(1960–)	“	“ (cardinal)	“ (all: tangible & intangible human & nonhuman)	Yes (partial)

Neo-Thomist <i>Solidarist</i> (1900–Pesch)	Mixed (domestic & political only)	Mixed (cardinal)	Yes (all: tangible & intangible human & nonhuman)	Yes (mixed)
<i>Distributist</i> (1910–Belloc)	Political only	No	Tangibles only ("labor theory")	Yes (partial)
Chesterton	Yes (all)	Yes (ordinal)	Tangibles only	Yes (general)
Neoscholastic (c.2000–)	Yes (all: personal, domestic, political)	Yes (ordinal)	Yes (all)	Yes (general)

As Michael Watson’s paper points out, the critique of modern neoclassical economic theory that I presented in *Redeeming Economics*¹ is illustrated primarily with what Nobel economic laureates Gary S. Becker and George J. Stigler called the Chicago School’s “economic approach to human behavior.” In fact, one interesting feature of his paper is his comparison of Peter Boettke’s with my own critique of the “economic approach to human behavior. As Michael summarizes:

John Mueller and Peter Boettke, as well as other Austrians, criticize the deterministic maximizing behavior of the Benthamite man, *homo economicus*, in not dissimilar fashions. One would expect that a trained Walrasian and an Austrian might part in their joint disagreement with Becker’s *homo economicus*, but they equally attack neoclassical assumptions of stable preferences and market equilibrium. Their attack is dissimilar in the respect that Boettke argues that human ends can vary from concepts, to things, to people, etc, and rejects equilibrating equations, while Mueller believes that ends are ultimately always physical persons.

I can agree *except* for his attributing to me the view that “ends are ultimately always *physical* persons.” As I point out, one great advance of Augustine’s over Aristotle’s philosophy and economic theory was that Augustine succeeded where Aristotle had failed, in devising a single theory which embraced both God (who is a non-physical person), and man (who is a physical person).

Despite Peter Boettke’s and my agreement in some criticisms of the Chicago School, as Michael notes, I do mention that the Austrian School’s theory suffers from essentially the same gap in its

¹ Mueller (2014 [2010]).

own version of neoclassical economics. In a series of conversations in Krakow and since, I challenged Michael to inquire into the treatment within Austrian economics of ‘final distribution’: gifts/ crimes at the personal level and what Aristotle called “distributive justice” at the domestic and political levels.

Michael has answered this challenge in his reply published in this volume (2015). As he summarized his argument: “I concede that Austrian literature neglects the gift and distributive economy, but argue that Ludwig von Mises gave us a concept—autistic exchange—from which a theory of the gift can be developed.”²

As I mentioned in my Lou Church Memorial lecture, this gap in Austrian economic theory is also reflected in Alex Chafuen’s excellent book, *Christians for Freedom*, which (besides correctly attributing the theory of [ordinal] utility to Augustine of Hippo) shows that the theory of final distribution—including both personal gifts (which he calls “donations”) and distributive justice—was central to scholastic economic theory.

While I welcome Michael’s effort to fill this theoretical gap with Mises’s concept of “autistic exchange,” I don’t think it works, for the main technical reason I identified in all schools of neoclassical economics: namely, the resulting theory is logically “underdetermined,” because it has fewer explanatory equations than variables to be explained—thus requiring circular logic or empirically false assumptions (or both). This is the necessary result of attempting to make a single element, the theory of utility, explain both consumption and “final distribution.”

Michael Watson correctly notes that it is “unpleasant” to replace “gift” with “autistic exchange.” The terminology I have used, which includes gifts (and their opposite, crimes) as well as exchanges among “transactions,” originates with Augustine of Hippo (not me), was followed by Aquinas and the later scholastics, and has the advantage of agreeing with common sense. As I summarized in my Lou Church Lecture: “Since man is a social creature, Augustine noted, ‘human society is knit together by

² “Here is my novel contribution,” Michael Watson summarizes: “taking up Mueller’s challenge by teasing out where in Ludwig von Mises’s thought the gift would be classified and then developing the theory of the gift in accordance with praxeology.” Watson (2015, p. 5).

transactions of giving and receiving.³ But these outwardly similar transactions may be of two essentially different kinds, he added: 'sale or gift.'⁴

I think Michael Watson rightly disagrees with Matthew McCaffrey's reduction of love to an emotion, a "psychological state."⁵ Michael instead specifies "agape" love. I actually don't use the word in my book. I worry about making the everyday expressions of love with personal gifts seem too rarefied. As the German economist Wilhelm Röpke drily observed, "When we speak of 'service' to the consumer, we obviously have in mind not St. Elizabeth but the assistant who wipes the windshield of our car at the filling station."⁶

G.K. Chesterton once remarked, "Many a man has been lucky in marrying the woman he loves. But he is luckier in loving the woman he marries." (Chesterton, 1990 [1953], p. 91). The first is a deep or passionate affection (in McCaffrey's term, "a psychological state") while the second is an act of the rational will. Most higher animals can love in the first way; only persons love in the second way; and only human persons, as rational animals, can love in both ways.

One final point: The first edition of *Redeeming Economics* went to press in 2010, and did not take into account Peter Boettke's

³ Augustine (1953 [397], p. 398).

⁴ Augustine (1953 [389], p. 132).

⁵ "Love, however, is a psychological state, whereas economics is concerned with action." McCaffrey argues that "Human beings do not choose between means and ends," hence "there is then no separation of value scales." He does not address the necessarily resulting "underdetermination" in any theory with fewer explanatory equations than variables to be explained. (McCaffrey, 2012).

⁶ Röpke (1960, p. 117). As I note in *Redeeming Economics*,

The Good Samaritan is the classic case of "loving your neighbor as yourself." He loved the man he found beaten by robbers as himself by regarding him *as a person* like himself; but he did not love him *equally with* himself, by dividing his property equally with him. The economic value of the Samaritan's time and the two coins he gave to care for the man probably amounted to half his wages for the week—not for the year or his whole life. This was a generous but also properly human—not superhuman—act, and everyone should be prepared to undertake such a sacrifice in order to prevent the death or extreme misery of a fellow human being. (Mueller, 2014 [2010], p. 37).

papers with Chris Coyne and David Prychitko on philanthropic and nonprofit enterprises.⁷ Far from claiming to have wrapped everything up, I think that (together with Boettke, Coyne and Prychitko) I suggest a new direction for empirical research. As Michael Watson notes, I agree that Mises won the “calculation debate” with the socialists. But if there are in fact two kinds of economic transaction—exchanges and gifts—not only exchanges, under what conditions can the value of personal gifts be adequately calculated? Is a certain critical mass of exchanges necessary in order to apply calculation to exchangeable personal gifts, say, within a family? I think the question requires further research.

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⁷ Boettke and Coyne (2007), Boettke and Prychitko (2004), Boettke and Rathbone (2002).

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WHAT'S LOVE GOT TO DO WITH IT? ACTION, EXCHANGE, AND GIFTS IN ECONOMIC THEORY

MATTHEW MCCAFFREY

ABSTRACT: John Mueller believes economics is fatally flawed because it cannot account for charitable love between persons. It therefore lacks an explanation of gifts, and thus, of “final distribution.” Mueller’s argument is especially important for Austrians because it draws on a shared heritage in the history of economic thought, namely, ideas from Scholastic political economy. In this article, I survey some of the major points that emerged from the symposium on Mueller’s work, and suggest additional criticisms of his thesis. First, love and gifts can be explained with reference to the exchange element in human action. Second, Mueller’s four-part economic system is based on a somewhat arbitrary classification of basic concepts, including a faulty conceptualization of distribution. Third, love, which Mueller claims economics must explain, can be accounted for through Mises’s notion of *thymology*. I close by posing some questions for future research, especially regarding the contributions of pre-classical schools to the history of economic thought.

KEYWORDS: action, exchange, gifts, crime, love, distribution, praxeology, thymology, history of economic thought

JEL CLASSIFICATION: B11, D19, D30

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INTRODUCTION

John Mueller's paper on "The 'Missing Element' in Economics" offers both a critique of the dismal science and a challenge to virtually every school of economic thought. As such, it is part of a larger effort to revise the foundations of economic theory; in fact, if Mueller is correct, several fundamental economic principles are mistaken, and need to be replaced. Whatever we make of his arguments then, certainly no one can accuse them of lacking ambition. Philip II of Macedon famously warned the Spartans that, "If I bring my army into your land, I will destroy your farms, slay your people, and raze your city." Mueller offers a similar warning to economists, and I make the same reply as the Spartans: "If."

In other words, I have doubts about both Mueller's criticism of economics and his alternative approach. Each of these is explained in detail in his book *Redeeming Economics: Rediscovering the Missing Element* (2010). Mueller's recent paper (2015a) is mainly a summary and extension of this earlier work, and, I would argue, suffers from similar faults. Specifically, Mueller's criticism of Austrian economics is misplaced, because the "missing element" he identifies is already accounted for in the writings of Ludwig von Mises (Mises, 1998, pp. 13–14, 97–98; McCaffrey, 2012). Michał Watson's paper (2015) elaborates on this point by invoking Mises's concept of "autistic exchange" to show that economics can incorporate gifts and loving action. Nevertheless, in his response to Watson, Mueller remains critical of attempts to reconcile Austrian views with his own (Mueller, 2015b). This indicates that despite a fruitful exchange, several underlying questions remain unanswered. It is therefore worthwhile to turn over the main problems once more, in hopes of reaching a resolution. To that end, this paper discusses several major points of contention, offers further criticism, and suggests opportunities for future research. I begin with a summary of Mueller's thesis.

THE MISSING ELEMENT

What exactly is the missing element in economics? Mueller argues that since the time of Adam Smith, economics has neglected a vital aspect of human action, namely, gift-giving. According to

Mueller, people choose each other as ends and rationally express their choices through acts of love, or gifts. Gifts are a vital element of human life that economics must be able to explain. However, economists' narrow assumptions about utility maximization are insufficient to show how individuals could give without the expectation of receiving something in return. Without a theory of gifts, Mueller contends, economics is woefully incomplete, because it cannot explain the "final distribution" of goods. To overcome this problem and return economics to its proper foundation, Mueller proposes an alternative "Neo-Scholastic" political economy based on the works of Aristotle, Augustine, and Aquinas. This approach places gifts and love—and their opposite concepts, crimes and hate—at the forefront of economic theory (Mueller, 2010, 2015a).

What are Austrians to make of Mueller's project? Certainly they agree that economists are often misled by unrealistic assumptions about human behavior. Furthermore, both sides also believe that the current state of the economics profession is due in part to its neglect of its own history, especially in university teaching. However, despite these points of overlap, Watson (2015) points out several places where Mueller and the Austrians either draw the same conclusions for different reasons, or reach different conclusions based on the same reasoning. An example of the former is both camps' criticism of the Chicago school, while the latter is illustrated by the work of Philip Wicksteed and Wilhelm Röpke. Notwithstanding these differences, I believe the Austrian and Neo-Scholastic approaches have more in common than Mueller proposes.

ACTION, EXCHANGE, AND GIFTS

Mueller's challenge is as follows: if economic theory takes all human behavior to be self-interested, how can it explain gifts, which are selfless expressions of love? The answer lies in our understanding of action, means, and ends. At first glance, it might seem as if all notions of self-interest fail Mueller's test, because personal gain only accounts for exchanges of goods, not gifts. However, if we take the view that all action incorporates an exchange *element*, we can explain both gifts and what Mueller calls "sales."

In fact, this approach has already been suggested by Mises and others. Specifically, Mises held that all human action strives to

exchange conditions that are less satisfactory for conditions that are more satisfactory.¹ This constant effort may involve trade between individuals, but it need not. This is because in the universal, praxeological sense, it is not material goods that are exchanged, but rather *states of the world*, as subjectively interpreted by the actor. For instance, when a mother feeds her infant, she exchanges the less desirable state of the child's hunger for the more desirable state of the child's nourishment.² The food she provides is a gift that expresses her love and her desire for the child's well-being. Watson's critique of Mueller further explicates Mises's position, drawing particular attention to the concept of "autistic exchange" (or "autistic action") to account for non-market behavior such as gifts (Watson, 2015).³

However, Mueller remains unconvinced by these arguments. He has one major objection to the notion of action as exchange, namely, that if gifts and sales are combined under the same heading, economic theory will again lack a vital component (Mueller, 2015b). His reasoning is based on the assertion that any economic theory must explain four types of action: production, exchange, distribution, and consumption (Mueller, 2015a). These four comprise what Mueller describes as the Scholastic economic system. Each element is defined with an equation, and together they explain what Mueller considers the fundamentals of economic behavior. The problem with the Misesian view is as follows: if all action involves exchange, then utility theory must explain both consumption and distribution. This means Mueller's economic system is left with only three equations to describe four variables, and is thus indeterminate. Mueller therefore rejects the possibility that action is a kind of exchange (Mueller, 2015b).

¹ Mueller does not explicitly deny this claim, although he does dismiss it on the ground that it conflicts with his four-equation economic system (Mueller, 2015b). Importantly, his denial implies that in order to salvage his system, he must assert that not all action is aimed at improving conditions from the point of view of the actor. If this is indeed his position, it is vital that he provide examples of such action.

² In the marketplace, praxeological and material exchanges coincide: for instance, I exchange my apple for your orange because I prefer the state of affairs "I possess an orange" to the state of affairs "I possess an apple."

³ Watson further argues that the differences between Mueller and Mises are more about terminology than substance.

Unfortunately, this criticism only holds if we assume Mueller's four-equation system is a valid benchmark against which to measure other theories. Yet this is exactly what needs to be shown. Mueller's criticism is question-begging: a praxeological approach cannot be valid, because it fails to fit his own theoretical framework. This kind of argument leaves the important problems unresolved. I suggest that if this debate is to be truly productive for economists, each side should address the other's argument on its own terms.

There are two ways economists might critically engage Mueller's work: first, by showing that his system is internally inconsistent, and second, by arguing that some other account of action is more appropriate. Following Mises, Watson and I have already argued for the second claim. The first, however, requires further attention. Specifically, Mueller's approach to theory invites several important questions. For instance, why is economics defined by the four variables he proposes? Why not a different number or composition of variables? Further, why explain economics through a series of equations in the first place?

As to the number of variables, consider the following: if determinacy as such is what ultimately undermines Mises's system, the problem can always be resolved by simply reducing the number of variables to be explained. The resulting system would be determinate by Mueller's standard. However, while a system with fewer variables would eliminate Mueller's objection of indeterminacy, it would not say much about whether the new system is internally consistent or relevant to the real world. Mueller would be obliged either to accept the new system based solely on its determinacy, or else find other reasons to criticize it. This example is intended to show that determinacy as such is not the problem, but rather the validity of the underlying theory.

As to which variables economics must explain, here too there is room for differing views. Of course, there is widespread agreement that any economic system worthy of the name should explain production, exchange, distribution, and consumption *in some form*. Yet how exactly these concepts are defined and distinguished is an open methodological question. For instance, the notion of action as exchange is already one example of an alternative view of consumption—one Mueller must deal with on its own terms if

his argument is to be successful. A second example is the concept of distribution. Economists often refer to distribution as if it were a distinct kind of action. However, it is actually part of the broader theory of production. As Murray Rothbard explains,

“distribution” theory is simply production theory. The receivers of income earn wages, rent, interest, and increases in capital values; and these earnings are the prices of productive factors. The theory of the market determines the prices and incomes accruing to productive factors, thereby also determining the “functional distribution” of the factors. “Personal distribution”—how much money each person receives from the productive system—is determined, in turn, by the functions that he or his property performs in that system. There is no separation between production and distribution, and it is completely erroneous for writers to treat the productive system as if producers dump their product onto some stockpile, to be later “distributed” in some way to the people in the society. “Distribution” is only the other side of the coin of production on the market. (Rothbard, 2004, p. 623)⁴

It is strange that Mueller—who criticizes the British classical school for abandoning the vital element in economics—should insist on a separate theory of distribution. Distribution is an artifact of the classical era that became unnecessary once marginal analysis was returned to its rightful place at the center of economic theory. Marginal utility leads naturally to value imputation and marginal productivity, which in turn explains distribution.

Lastly, it is worth mentioning the deeper question of why core economic concepts need to be formalized in the way Mueller suggests. I wonder what he makes of the numerous criticisms of mathematical methods in economics, especially given his fundamental claim that economists have eliminated a vital human element from their science. It appears hasty to claim that the complexity of human action—including love and hate—can be captured using four basic equations. Is there not some conflict between the desire to recognize the full personhood and moral agency of human beings, and the desire to reduce their behavior to a few simple calculations?

⁴ McCaffrey (2012) further discusses the question of distribution.

LOVE IN THE TIME OF ECONOMISTS

For Mueller, the role of gifts in economics is about more than simple distribution. Gifts are also expressions of love or goodwill from one person to another, while crimes are expressions of hate or ill-will. A gift demonstrates that a person has chosen another human being as an end; a crime indicates using another person as a means.

This approach raises the important question of the proper place of concepts like love and hate in economic analysis. My initial criticism—which I believe is consistent with Mises’s views—was that love is a psychological state that may precede and influence action, but ultimately falls outside the scope of economics (McCaffrey, 2012). Watson (2015) and Mueller (2015b) both object to this characterization, stressing instead the notion of love as a rational act of the will. This leads them to conclude that understanding love is compatible with, and even vital for, economics. Can these two positions be reconciled? With some clarification and qualification, I believe they can. Two problems to consider are whether love can be completely separated from psychology, and furthermore, whether love provides a possible basis for economic research. I begin with the question of psychology.

Although colloquially love designates an emotion or feeling, this is not the type of love Mueller has in mind. As Watson points out, Mueller refers to *agape*, or charitable love.⁵ *Agape* is “willing the good of the other, an act freely made... where the actor speculates on what the other actor perceives as a good (relative to bad) and then gives it to that person without expectation of being given anything in return” (Watson, 2015).⁶ Charitable love therefore

⁵ Mueller does not use the word *agape*, because he fears it makes love seem too rarified (Mueller, 2015b). This point is not relevant to my argument, however, which depends only on the idea of love as action, not *agape* specifically.

⁶ Watson (2015) observes that there is an entrepreneurial element in love, because an individual who gives a gift must be alert to the implications of that gift for the recipient. I believe it would be more accurate to say that gift-givers are entrepreneurial because they make judgments about the use of their resources (e.g. gifts) in the face of uncertainty. The judgment view also seems more in keeping with the concept of agapic love, which is a form of rational *action*, as opposed to passive alertness.

seems closer to a kind of action rather than a mental state, a point Mueller also emphasizes (2015a, 2015b).

Yet without some reference to psychology, how can we distinguish between love and other kinds of action, such as hate? I am not convinced we can. Because love is a kind of choosing, it informs valuation. It is thus closely linked to psychology, which tries to explain how values are formed. Psychology precedes and explains action, and what makes love distinct is its psychological character—its specific motivation and content. In fact, only through some type of psychological insight can we identify cases of love and hate in the real world. The observation of physical action is not enough to know whether love is present: only through knowledge of human beings' values and intentions (and thus, psychology) can we be sure. For example, there may be no physical difference between a mother who assigns chores to her child in order to encourage responsibility, and one who assigns chores out of laziness or cruelty. Yet there is obviously a great deal of difference in terms of love and hate. Only knowledge of the mother's "psychology" can tell us which act occurs in each case.

As it turns out, Mises anticipated the need for this type of psychological understanding, which he called *thymology* (Mises, 2007, pp. 264–284). Thymology is the historical counterpart to praxeology. Praxeology explores the implications of action as such, while thymology explores "the content of human thoughts, judgments, desires, and actions" (Mises, 2007, p. 266).⁷ Love is thus a thymological concept in that it reflects human beings' "specific understanding" of

⁷ As Mises explains:

The very act of valuing is a thymological phenomenon. But praxeology and economics do not deal with the thymological aspects of valuation. Their theme is acting in accordance with the choices made by the actor. The concrete choice is an offshoot of valuing. But praxeology is not concerned with the events which within a man's soul or mind or brain produce a definite decision between an *A* and a *B*. It takes it for granted that the nature of the universe enjoins upon man choosing between incompatible ends. Its subject is not the content of these acts of choosing but what results from them: action. It does not care about what a man chooses but about the fact that he chooses and acts in compliance with a choice made... Why one man chooses water and another man wine is a thymological (or, in the traditional terminology, psychological) problem. (Mises, 2007, p. 271)

each other's action. Love in Mueller's sense is not then a part of pure economic theory, but is instead a concept in applied economics. Love represents a special (empirical) characteristic of valuation that can be used to analyze specific types of action such as gift-giving, the family, and nonprofit business activity.

It is understandable that my original phrasing caused confusion, as my review did not fully explain this position. I would like to point out though that I did not, as Mueller (2015b) suggests, reduce love to an emotion. My major claim was that love is a "psychological state" with ambiguous relevance for action and economics (McCaffrey, 2012).⁸ However, in raising this point, I did not sufficiently emphasize the areas of overlap between psychology (thymology) and economics. Love, as it pertains to action, is one of these areas. Although it is not a part of economic theory as such, it is a concept that can and should be explored more in applied economics.

CONCLUSION: THE CHALLENGE OF THE HISTORY OF ECONOMIC THOUGHT

Mueller's Neo-Scholastic theory is firmly grounded in his understanding of the history of economic thought. It is therefore appropriate in closing to reflect on this history and to use it to suggest questions for further discussion and research. As mentioned above, Mueller and the Austrians agree that contemporary economics is seriously deficient when it comes to teaching its own history. They also agree which trends in the history of economics deserve more emphasis, and which less. For instance, both sides generally believe the Scholastics warrant further attention for their founding role in economics, while the British classical economists merit at least some criticism for leading it astray. There are, however, important differences regarding exactly how a revised history of economics should treat these topics. Mueller and the Austrians each claim certain thinkers as their own, and so the question naturally arises whose interpretation of intellectual history is more accurate.⁹ I do

⁸ In hindsight, "psychological process" is more accurate than "psychological state."

⁹ This assumes the claims of each side are incompatible. However, an obvious question is whether historians of thought really need to choose between different

not believe this problem can be resolved in a short paper; however, we can pose questions to inform future research.

The most important problems revolve around the Scholastic heritage in economics. Although the Scholastics deserve more credit than they currently receive, this fact does not imply that they resolved (or even recognized) every significant problem in economics. A first question then is: to what extent did the Scholastics, especially the Aristotle-Augustine-Aquinas tradition, develop a distinct and consistent *system* of economic theory? Did they produce such a system at all? Could it be argued, for instance, that Scholastic economics was not an integrated and fully-developed system of economic doctrine, but rather a series of scattered insights into aspects of what we now call (normative) political economy?

I will not argue strongly for this last claim, but I do believe it is worth discussing—it even fits with other facts in the history of economics. For instance, Mueller laments the disappearance of Scholastic economics following Adam Smith. Yet is it possible that Smith's success can be attributed to the Scholastics' failure to provide a sufficiently clear alternative system? Perhaps one reason British classicism replaced Scholastic thought was that the British provided a more expansive, detailed, and explicitly economic body of thought (however flawed it may have been).¹⁰ A similar question can be asked about contemporary economics: could it be that the reason Mueller and the Austrians disagree over the Scholastics is because the Scholastic tradition is broad and unsystematic enough to invite competing interpretations and research agendas?

Asking these sorts of questions is not an empty exercise: it is a way to revisit basic assumptions and avoid anachronistic readings of past authors. With that in mind, I would like to gently suggest that Mueller's reading of the history of economics is too ambitious. For instance, he argues that the Scholastics successfully integrated

traditions; it appears reasonable to claim that certain economists belong to more than one tradition.

¹⁰ Mueller focuses his attention on the British classical economists, but neglects the writings of the French liberal school. Like the Scholastics, the French are claimed by the Austrians as precursors of Carl Menger. However, there is room for further research on possible connections between the French and the scholastics.

theories of “production, exchange, distribution, and consumption,” in order to describe “personal, domestic and political economy,” thus forming a “comprehensive, logically complete” economic system. These claims stretch the economic meaning of words like “theory” and “system” past the breaking point. Likewise, it appears overly generous to attribute a theory of “equilibrium” to Aristotle, or the development of a “personal distribution function” to Augustine (Mueller, 2015a).

None of this is intended to slight Scholastic contributions to economics. My aim is simply to show that it will be a long time before the last word is written on any school of economic thought. In fact, the history of economics serves as a constant reminder of how much work is yet to be done in the science, as well as the extraordinary difficulty of building a unified economic system. It is for these reasons that we should always appreciate the insight of economists like Mises. Praxeology in the Misesian sense is far more than a series of narrow deductions about economic behavior: it is a rich and continuously fruitful approach to analyzing human action in all its many forms. Together with thymology, praxeology provides the basis for a far-reaching research agenda in the social sciences, one that incorporates both for-profit exchange and charitable action. In this sense, the Misesian system holds enormous potential. Nevertheless, progress in economic thinking is rarely easy or rapid. It can only be won through time and hard labor: it is not a gift.

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BOOK REVIEW

RISKY BUSINESS: INSURANCE MARKETS AND REGULATION

LAWRENCE S. POWELL, ED.

OAKLAND, CALIF.: INDEPENDENT INSTITUTE, 2013, 311 PP.

DALE STEINREICH

In *Risky Business*, editor Lawrence S. Powell has, in addition to his introduction, assembled nine chapters on the topic of insurance markets that run the gamut from a general history of insurance to using panel regressions to estimate the added cost to consumers of multiple regulatory jurisdictions.

Arnold Kling begins with a primer on insurance. He makes the great point that there are a number of institutions that offer or serve the purposes of insurance without being considered insurers or insurance: Fannie Mae, Freddie Mac, manufacturer and extended warranties, and derivatives such as options and futures contracts.

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In contrast is comprehensive health insurance, which rarely fits the form of true insurance: it pays for routine services which actually makes it prepaid consumption.

Federal deposit insurance was created to address the problem of bank runs. However, it entails moral hazard. Kling reveals that before the Great Depression, banks formed risk pools to address the problem of moral hazard. To Kling, the problem with such private insurance is that an adverse event can occur in which losses are so large that private insurance is inadequate to indemnify all losses. The public, anticipating such a real or imagined event, can start a bank run (pp. 21–22). Sure, but Kling leaves the reader hanging: what happened to these private deposit insurance pools? Certainly they were drained, but why ignore the government causes of the crisis that led to the alleged market failure of private deposit insurance?

Kling believes that natural economies of scope and scale lead insurance inherently towards oligopoly.

This natural industry structure invites regulation. It raises concerns about the ability of the market to be self-regulating through competition.... Regulation of insurance company soundness has economic justification, in that it can help prevent consumers from being effectively defrauded by companies writing insurance contracts that they lack the capacity to fulfil. (p. 24)

How anyone who has had to file even a small number of insurance claims could assert this is a mystery. It is becoming exceptional to encounter family members, friends, or co-workers who have not been stiffed or stonewalled by an insurance company on a legitimate claim. In case after case, the only help have been private attorneys, with Kling's heroic state regulators nowhere in the picture to supposedly help the average consumer.

Kling's contribution stands in stark contrast to Martin Grace's succeeding chapter, which is composed of five case studies of regulatory failure. From the Florida homeowners' insurance market to the New Jersey, Massachusetts, and South Carolina auto insurance markets, to the workers' compensation insurance markets in Maine, Grace demonstrates again and again the unanticipated effects of regulation and the harm it inflicts on consumers and taxpayers.

Grace cites Harrington's studies showing that over the long run, there is no statistical difference in prices between states in which they are regulated and those in which they are not. So why on earth would any particular state consume the large amount of resources that price regulation demands? Grace also cites Bukame and Ruser, who found that removing price regulation from workers' compensation insurance markets not only reduced premiums but also injuries.

Here is the usual vicious cycle: an adverse event occurs where losses are greater than anticipated. Insurers attempt to re-price their policies to compensate for the unanticipated losses and increased risk. The state rejects these premium increases and thus insurers have to abandon the market. The state becomes both a primary insurer and reinsurer, as artificially low premiums prevent private competition. This significantly increases the risks being taken on by the state, since it has cut itself off from a nationwide or even global insurance pool.

Florida's troubles began when insurers tried to re-price policies in the wake of the costly losses of Hurricane Andrew in 1992. The state stepped in to regulate prices and placed a limit on policy cancellations. High-risk areas were undercharged on their premiums while low-risk areas were overcharged. As insurers began fleeing the state, Florida had to form its own risk pools. It created Citizens Property Insurance Corporation (CPIC), the largest company in the state underwriting homeowners' policies. After State Farm quit writing homeowners' policies in Florida, the state legislature passed a bill reversing some of the earlier price restrictions, but the bill was vetoed by the governor (pp. 36–43).

The auto insurance markets in New Jersey, Massachusetts, and South Carolina displayed the same pattern. New Jersey's high-risk pool of bad drivers exploded in cost because the bad drivers had no incentive to change their behavior. Rate caps and an "excess profits" law were put into place. By 2003, with twenty-five insurers having withdrawn from New Jersey's market, insurance reform brought less stringent rate controls and a repeal of mandatory universal issuance. Companies gradually returned to the state and rates fell (pp. 44–45).

Editor Lawrence Powell contributes a chapter on the use of scoring in insurance markets. An insurance score is a computation

using information from an applicant's credit history to predict the applicant's potential for loss (p. 68). Powell is very much in favor of insurance scoring, and thus his chapter is one long argument in favor of it. It is inexpensive, accurate, and its opponents seem to be mostly driven by misunderstandings about its use. Scoring involves credit variables such as the types of credit used, the length of use, and account status. Race and income are not legal to use as variables (p. 68).

While Powell cites studies that suggest that scoring keeps premiums low among a large number of policyholders and obviates bad risks being subsidized by good ones, some issues remain. First is the issue of privacy. Are all applicants fully aware when they perfunctorily sign on the dotted line that their credit information will be factored into their rate quote? Second, Powell does not explain in detail the theoretical basis for a supposed correlation between credit scores and predicted losses. Intuitively, one can see how a relationship would exist, but not in every case. If Jane Doe loses her job, makes two or three late payments on her credit cards, and then finds work again, why is she now a more careless driver?

Patricia Born and Barbara Klimaszewski-Blettner (hereafter B&KB) perform some interesting if not decisive work in comparing the performance of the highly regulated homeowners'-insurance market versus the performance of the much less regulated commercial-insurance market. The authors regress the three dependent variables of the natural logarithm of loss ratios, losses incurred, and premiums earned on explanatory variables including catastrophic events, the types of insurance lines a carrier writes, the strategy of state regulation, and the firm's total premiums in the U.S. market. They test three hypotheses for each of the three regressions. The authors have much faith in econometric methods, despite the fact that their first regression estimate has a rather unimpressive adjusted R-squared of 0.021.

B&KB feel that their econometric regressions bolster their conclusions that unanticipated disasters increase losses more so among homeowners' insurers than commercial insurers because the latter face much less stringent regulation. Controls on rates significantly inhibit profitability after unanticipated disasters and raise loss ratios.

Regressions notwithstanding, B&KB's economic reasoning is sound. Like Kling, however, they have their unfortunate statist predilections. While they would not extend subsidies to new buildings in high-risk areas, they feel that it would be unfair to force low-income households to move away from coastal areas because they could not afford wind insurance. While they might be correct that "flood stamps" would be more efficient than cross subsidies, a "flood-stamp" program, besides inviting new unintended consequences, would also rightfully elicit questions about fairness *versus* unfairness, namely, why should low-risk inland taxpayers now pay the bill for high-risk low-income coastal households? A strong case could be made that both policies seem unfair.

Eli Lehrer's "'Watery Marauders:' How the Federal Government Retarded the Development of Private Flood Insurance" is probably the most insightful chapter in the book. In 1927 a very damaging flood occurred at the confluence of the Mississippi and Missouri rivers near St. Louis, Missouri. Herbert Hoover's large relief campaign greatly increased the power of the Army Corps of Engineers under the pretense of flood protection (pp. 120–121). An extensive flood in New England helped drive the passage of the National Flood Control Act of 1936. After the 1936 law was passed, the size of the flood control program doubled (p. 121). Throughout the 1930s and 1940s, private insurance was severely under-developed because the Army Corps of Engineers built hundred-year flood walls which reduced risk enough for homeowners (but not enough for insurers) to render private flood insurance too costly.

In 1953, the Tennessee Valley Authority (TVA) began tracking flood-prone areas in and around one hundred and fifty towns and cities in its jurisdiction. At first it used a worst-case standard it borrowed from the Army Corps of Engineers, regardless of whether a flood of such magnitude had actually occurred. This prudential standard fell quickly by the wayside when it was realized that it would eliminate huge areas of development that not only local private and public planners wanted, but TVA as well since part of its mission was spurring development. TVA thus switched to a standard skewed in favor of development that was based on past floods that occurred inside of 60 or 100 miles from proposed development. Outside TVA's jurisdiction, the U.S. Geological

Survey and Army Corps mapped flood plains with roughly the same backward-looking standard (pp. 129–130). By the end of the 1960s, all three aforementioned agencies had laid the groundwork for a national map of floodplains. A very bad die had been cast.

The next milestone was the Southeast Hurricane Disaster Relief Act of 1965, signed by President Lyndon B. Johnson, authorizing the spending of \$500 million to assist in repairing damage left by Hurricane Betsy. The National Flood Insurance Act of 1968 covered up to \$250,000 in damage to single-family houses and buildings divided into no more than four apartments per building in cities and towns meeting the severely flawed federal flood-plain criteria. The absolute death knell for any semblance of economic and actuarial soundness in the National Flood Insurance Program (NFIP) came in 1973, when Congress authorized coverage to eligible property owners who did not even enroll in the program.

In chapter seven, Martin Grace returns with Robert W. Klein to discuss regulatory regime options for the insurance industry in the U.S. The states have regulated the insurance industry since the early nineteenth century, and the industry overwhelmingly favored this arrangement until about the 1990s, when it increasingly began supporting an optional federal charter (OFC). An OFC would place insurance firms and their agents only under federal regulators by choice.

State-level responsibility for insurance regulation had been bolstered by the courts until *U.S. v. South-Eastern Underwriters* in 1944 (pp. 148–151) when the U.S. Supreme Court's majority had decided that the Constitution's commerce clause applied to insurance and that federal antitrust law could be applied to the industry. The response by the industry and states was the passage of the McCarron-Ferguson Act of 1945 which explicitly recognized state authority to regulate insurance and exempted the industry from antitrust laws to a certain extent (p. 151).

The state-based system is now seen as costly and tedious by the industry. Most industry executives now prefer a single federal OFC-like regulator rather than 56 separate regulators nationwide (p. 151). While the OFC proposal is the most widely supported, another idea is to create a federal framework for state regulators to impose greater uniformity in regulation across states. This would

simulate the effect of an OFC without creating one (p. 165). Known as SMART (State Modernization and Regulatory Transparency), this is the current regulatory environment for Medigap insurance (p. 169). Unlike OFC, SMART would not involve the establishment of a federal bureaucracy. It could also avoid the constant pendulum swing of policy from one regime to another, creating constant turmoil as rules constantly change. Unfortunately, it could also create rigidities that prevent states from best meeting circumstances unique to them (p. 170).

The third major alternative is single-state regulator (SSR), where insurance firms choose one state as their regulatory home. Like OFC, this would provide one body of rules but like SMART it would avoid the establishment of a federal bureaucracy. Further, states would be forced to compete with each other in terms of simplifying their regulations (p. 175).

Chapter eight, by Martin Eling, Robert W. Klein, and Joan T. Schmit, compares U.S. regulation to Europe's. In 1994 the EU implemented insurance regulation of premiums and policies. Solvency I in 2004 established capital requirements. Solvency II for 2012 set principles- and risk-based rules for capital (p. 183). Within the past two decades fixed capital (FC) standards have been replaced by risk-based capital (RBC) standards for solvency regulation around the world (p. 184). The U.S. embraced RBC in 1994. There have been three recent trends in regulation of solvency: recognition of the relationship between assets and liabilities, an emphasis on general principles rather than one-size-fits-all rules, and fundamental analysis that takes into account managerial decisions and other qualitative considerations.

U.S. regulation of insurance is on the state level, where a rules-based, accounting regulatory method is followed. Balance-sheet risk and assessments of management quality are ignored. Financial statement data are examined to determine the extent to which solvency regulations are being followed. This is considered obsolete and now behind the EU and rest of the world. It is also considered by the authors to be a hindrance to U.S. global competitiveness (pp. 185–187). The RBC standard has been lax to prevent regulators from taking actions that would be found unjustified by a closer analysis of a firm's balance sheet. In addition, the data in the RBC formula are static and vulnerable to manipulation (p. 190). Better

would be dynamic analysis customized for the particular firm being analyzed in combination with fundamental analysis of managerial competence, among other qualitative aspects of the firm.

The authors make the case for regulation in arguing that shareholders of insurance firms steer the firm toward risky projects at the expense of policyholders. While maintenance of the firm's name and prestige can serve as a countervailing market force, there is an asymmetry between short-term profit objectives and insurance policy liabilities which extend over the long term. The purpose of the regulator, in theory, is to balance this conflict in favor of solvency. In practice this has hardly worked as the S&L debacle of the 1980s and the banking and insurance debacle of 2008 both demonstrated. Regulators can be captured by the industry to keep insolvent institutions open.

In chapter nine, David Eckles and Lawrence Powell repeat the complaint about insurance being state regulated. They note that some companies are subject to as many as 55 different regulators. (There is a real problem of redundancy in the book when it is read as a whole.) This chapter attempts to measure the costs of many different regulators by examining the relationship between the number of regulators per insurer and two measures of cost (pp. 227–228). The cost proxy dependent variables are expense ratio (total expenses divided by premiums) and inefficiency score (difference in inputs for a level of output). The number of regulators per insurer is the independent variable (p. 230). Two panel regressions are estimated that each include a vector of control variables reflecting geography, lines of business, risk of disaster, firm size, and organizational form. Two fixed-effects variables measuring the impact of the firm and the year are included as well.

After the econometric smoke clears, the authors find a statistically significant relationship between the number of regulators and cost. They find that 2009 data predict roughly a \$3 to \$5 billion cost savings per year by the adoption of a single regulator compared to 55 different regulators (p. 237). They conclude that a single federal regulator or much more uniform regulation across different states would result in much greater efficiency and thus lower premiums for policyholders. The authors think that states should heed this warning or see their power diminished by a federal OFC.

The final chapter is J. Tyler Leverty's study examining the differences in the effects between single and multiple regulators in the current industry environment. This is done through a comparison between standard firms and risk-retention groups (RRGs), which are the insurance industry's analogue to credit unions in banking (p. 245). The Federal Liability Risk Retention Act of 1986 required RRGs to choose a single home state in which to be regulated and from which it to sell products (pp. 245–246).

Despite the average standard firm issuing policies in 4.8 states while the average RRG issues policies in 8.5 states, Leverty found that RRGs had much lower costs of regulatory compliance. He also found that multiple regulators discouraged firm expansion and played a crucial role in a firm's decision to choose the RRG form over that of the standard firm (p. 246). Costs from multiple regulators were estimated to be about 24 percent over a single regulator (pp. 246–247).

What is so refreshing about Leverty is his concession that his study leaves some important questions unanswered. The superior performance of cooperative RRGs might not be attributable just to the fact that they are regulated in a single state but perhaps because of better management from well-informed owners in the same line of business. Leverty's study also ignores the fact that a decentralized regulatory system, while more costly, could address unique local problems more quickly and efficiently when they arise (p. 262).

Risky Business covers a wide range of topics in insurance that graduate doctoral students in economics or finance could be expected to navigate with little difficulty. Unfortunately, that is not the audience this volume is aimed at. Editor Powell informs the reader in the introduction that "the primary purpose of this publication is to provide clear information and supporting evidence about choices in insurance regulation in a format that is accessible and meaningful to policymakers and consumers." (p. 1)

This is a laudable objective. There is much that consumers and legislators could learn about how insurance first developed in general, in the U.S., and how and when it turned into today's cozy corporatist edifice supported by political revolving doors, lobbyists, and captive demand *via* state mandates.

Unfortunately there is not a lot in this volume that is helpful in that regard. Just about all consumers and most legislators, judges, and state executives (usually formally educated as attorneys) will be lost in the economic jargon and advanced econometrics. However, most egregious in this age of the unraveling Obamacare debacle is the omission of a detailed discussion of health insurance. In two hundred and sixty-five pages, excluding end notes and the book's index, the topic is briefly mentioned only a few times. Some of the studies in this collection are already a bit dated. Editor Powell places them into the dichotomy of 1) making an argument for deregulation (chapters 1–6) and 2) options into which that deregulation could instantiate (chapters 7–10). As this review has attempted to demonstrate, the arguments for deregulation by the contributors are neither consistent nor strong.

Given all the aforementioned concerns, it is hard to conceptualize the optimal market for this book. As the basis for an undergraduate course, it would certainly not be appropriate as a principles-level main required volume. It could play a supplementary role in a principles- or intermediate-level class, but with such limited and selective use as to surely not be worth the cost. Post-graduate or post-doctoral economics or finance scholars who are new to the field of insurance and who desire a volume that will quickly get them up to speed are probably the best target market. Unfortunately it is mostly far above the level of understanding of the part of its intended audience comprised of consumers and voters.

BOOK REVIEW

PEDDLING PROTECTIONISM: SMOOT-HAWLEY AND THE GREAT DEPRESSION

DOUGLAS A. IRWIN

PRINCETON AND OXFORD: PRINCETON UNIVERSITY PRESS, 2011, 256 pp.

DAVID HOWDEN

The Smoot-Hawley Tariff Act of 1930 could be the best-known piece of Congressional legislation. It also remains among the most controversial; both vilified and embraced by politicians of all stripes to further their cause, whether that be increasingly protectionist trade measures or an expansion of unencumbered free trade. Over the course of four succinct chapters, Dartmouth economics professor Douglas Irwin expertly separates the wheat from the chaff of this oft-misunderstood Act to give life to its evolution, as well as its role in deepening the Great Depression.

Chapter one overviews from whence the Act emerged. Interestingly in the context of American politics, Smoot-Hawley's origins

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are not found in an economic depression or specific lobbying by special interest groups. Instead the Act emerged during the 1928 election year as a way to appease economically depressed farmers without offering them a direct subsidy. With the Republican establishment opposed to farm subsidies and unwilling to reduce tariffs on manufactured goods, the final solution (however imperfect) was higher tariffs on agricultural goods.

This simple origin quickly ran amok as Congress debated the merits and form of the tariff. Conflicts between groups that would be harmed (manufacturers that would see input costs rise) and helped (primarily producers that would see reduced competition and increased selling prices) by a specific tariff were usually resolved by offering tariffs to both sides.

Perverse incentives in Congress are not new, nor are the means to deal with them. In response to Congressional logrolling, "flexible tariff" authority was slipped into the Act to enable the President to modify rates after it was passed, sometimes by as much as 50 percent. While easily passing through the House, the Act met more resistance in the Senate and it was only with the inclusion of this flexible tariff authority that it was finally presented to President Hoover. Hoover, for his part, was generally disinterested in the Act despite his own misgivings of it (reinforced by a letter from the American Economic Association strongly condemning the bill's passage), but was content with the authority he would have to adjust the specific duties later by exercising his flexible tariff authority.

No bill in U.S. history was met with as negative a reaction from the public as Smoot-Hawley. Irwin focuses on three reasons. First, the logrolling and vote trading in Congress was more apparent than with prior pieces of legislation, likely due to the visibility created through its lengthy debate in the Senate. Second, with the country in the midst of a boom there was little rationale to change economic policy. Finally, the Smoot-Hawley duties were a sharp increase on top of the already high Fordney-McCumber tariff of 1922.

The final three chapters reassess the effects of the Act. It is here that Irwin's neutral prose and objectivity is most valuable in determining what role Smoot-Hawley actually had in propagating and

promoting the Great Depression. Notably, short of the uncertainty created by lengthy Congressional debates, the Act served little role in setting the Great Depression in motion.

According to Irwin, the Act would also not have greatly worsened the Depression if not for the accompanying price deflation that defined much of the 1930s. Import prices plunged by 18 percent in 1930, 22 percent in 1931 and another 22 percent in 1932. Since many of the duties were specific and not *ad valorem*, price declines increased the real size of the duty. By 1932 the average duty rate had increased to 59 percent from about 40 percent at the passing of Smoot-Hawley. Of this increase, only one-third is directly attributable to the Act, with the remaining two-thirds the result of price deflation.

Despite this increase, what role did the Act have on imports? Not much, according to Irwin. Duties applied to only about one-third of imports in 1930. While Smoot-Hawley increased the average tariff rate by 16 percent, this represented only a relatively small increase in the average price of imports (since the specific duties themselves were relatively low), and thus increased the average import price by even less (because two-thirds of imports were not affected). Irwin estimates that Smoot-Hawley is directly responsible for a five percent decrease in total imports.

As someone who enjoys illustrating the ill effects of trade restrictions to his students via the Smoot-Hawley tariff, this conclusion came as a surprise. Irwin is quite clear that imports were more affected by the general economic downturn, and only secondarily by the actual increases to duties. There is a silver lining, however, for those looking to illustrate the negative effects of trade restrictions.

The real damning consequence of Smoot-Hawley came from decreased American exports. Chapter 3 aptly named “foreign retaliation” outlines how the U.S.’s largest trading partners, especially Canada, responded with even harsher restrictions on American imports than the U.S. imposed on theirs. U.S. imports to Canada—its largest trading partner then as now—fell by 50 percent in 1930 alone. European countries largely refrained from large-scale retaliatory tariffs on U.S. goods, though because they accounted for such a small percentage of total trade, they were overshadowed by the reactions of America’s closer neighbors. In

sum, Irwin chastises Smoot-Hawley as the ungainly legislation it was, though not on the grounds on which it was established.

Spending 200 pages talking about the negative effects of this infamous chapter of U.S. history, Irwin closes with a hint of optimism. Similar trade restrictions are unlikely to happen again in America's future. Indeed, the average duty rate stands today at less than 5 percent, a far cry from the average of nearly 60 percent in 1932. Specifically, Irwin cites the extensive social safety net in place today that removes the necessity of trade restrictions to protect depressed economic classes, as well as the availability of more extensive fiscal and monetary policy tools at the government's disposal.

This reviewer is skeptical that these alternative measures are any less damaging than another comprehensive tariff act. This quibble aside, *Peddling Protectionism* is a real gem. Irwin does not mince words, and he ably tosses aside misconceptions of Smoot-Hawley (many of which this reviewer had prior to reading the book) and replace them with objective economic analysis. Austrian analysis of America's Great Depression rests largely on Murray Rothbard's book of the same name. While Rothbard's analysis is unparalleled as to the causes of the Depression, one glaring omission is his only tangential discussion on the Smoot-Hawley tariff. While Rothbard is well-equipped to answer the question of "what caused the Great Depression," supplementing his analysis with Irwin's views on Smoot-Hawley allows one to begin explaining the complementary question of "what made the Great Depression so great?"

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BOOK REVIEW

AN OUTLINE OF INTERNATIONAL PRICE THEORIES

CHI-YUEN WU

AUBURN, ALA.: LUDWIG VON MISES INSTITUTE, 2007, 373 PP.

CARMEN ELENA DOROBĂȚ

The present volume, prepared as a Ph.D. dissertation, is the only known work of Chi-Yuen Wu, a Chinese scholar contemporary with Ludwig von Mises. In 1939 Wu completed his doctorate at LSE under Lionel Robbins, and then returned to China at Southwest Associated Universities. Since nothing is known of his career after this time, we are left wondering if he kept writing, or how he coped with the rise of the communist regime in his native country. Nevertheless, the achievements of the present work are even greater for this reason. *An Outline of International Price Theories* was single-handedly able to keep Wu on the radar of economic research for almost a century, a testimony to his acumen and mastery of his topic.

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The book is an overview of the historical development of international price theories. All such theories attempt to answer a manifold question: what are the relationships among trading countries concerning (1) the value of their currencies, (2) the price level, (3) the prices of similar goods and (4) the prices of production factors? Wu's analysis is closely structured along these aspects, and outlines a period of four centuries of international trade theory, from the 1500s to the 1930s. Notwithstanding, Wu's survey is more comprehensive than that, as the author brings up issues that pertain also to the monetary, banking, and business cycle theories of those centuries.

Wu opens with a detailed analysis of the economic aspects of mercantilism. Chapter II discusses the theoretical systems of Thomas Mun and Gerard de Malynes, and maps the price revolution controversy and the balance of trade debate. Chapters III to V are structured in a similar manner. Wu reviews the contributions of Hume, Smith, Ricardo and John Stuart Mill to the equilibrium theory of international price relationships, and laces his presentation with historical information about 18th and 19th century debates. We learn in this way how theories have been "attacked and refined" by participants in the Restriction controversy and the Bank Act controversy in England. (p. 142)

Further, Wu meticulously reviews the doctrine of comparative costs and the theory of international values, building blocks of the classical international trade theory. In chapter V, the inquiry continues with the post-classical developments, viz. the works of Marshall, Wicksell, Taussig, Mises and Hawtrey. On the subject of the purchasing power parity doctrine, the author extensively quotes passages of "great clarity" from Mises's *Theory of Money and Credit*. (pp. 232–235)

The analysis contained in these chapters is very valuable for several reasons. First, the finesse of Wu's inquiries, as well as the rich historical information he offers, contextualize and enhance what could have otherwise been a wearisome list of theories. Second, Wu brings to light the works of some economists that are now neglected or forgotten, like Weatley, Blake, Bosanquet, Goshen, Bagehot, Laughlin, Nassau Senior, and John E. Cairnes. The only regret is that Wu restricted his investigation to the British contributions, and thus overlooked the French liberal tradition.

Third, the author challenges some of the well-established assumptions of international price theories, e.g., the theoretical separation between domestic and international trade. Wu writes: “unimportant as it may appear, [this] has been the subject of much criticism. First there has been the criticism that the difference between international and intra-national trade is only a difference in degree and not a difference in kind.” (p. 154) A decade after the publication of Wu’s book, this became a crucial insight of Mises’s *law of association*, and had significant implications for the theory of the division of labor and social evolution. Though Wu’s conclusions regarding this ‘unimportant’ point are not necessarily those of Mises, Wu should be commended for his judicious and thorough scrutiny.

Finally, the last four chapters look at international price theories after the Great War, in connection with the most important controversies of the period: international exchange with depreciated currencies and the transfer problem. Pigou, Viner, Heckscher, Cassel, and later Keynes, Ohlin, and Haberler are some of the economists whose views Wu analyzes closely. In chapter IX, Wu discusses the state of the theory of international price relationships at the time and its perspectives for the future. He concludes: “There is, of course, much room for improvement, especially in the dynamics of the theory” (p. 321), a remark still valid today.

All throughout the volume, Wu is poised and thoughtful, so in turn his analysis is lucid and sharp. Despite it being such a comprehensive survey, the writing style is effortless and uncomplicated, and makes the book a pleasure to read.

There are few works that undertake the considerable task of mapping the theoretical development of international economics. Among these select few, the present volume stands out. Wu’s approach to the topic is more balanced than Viner’s *Studies in the Theory of International Trade* (1937), and his analysis of mercantilism more penetrating than Heckscher’s (1955). Also, Wu goes into more depth with his inquiries than did Angell (1926) in a similar endeavor. Consequently, *An Outline of International Price Theories* is a perfect complement to these works, as well as to the noteworthy contributions of Joseph Salerno (1980) and Murray Rothbard (1995).

Such a well-written outline of international price theories is indispensable to any serious student of international economics and of the history of economic thought.

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BOOK REVIEW

THE SOCIAL ORDER OF THE UNDERWORLD: HOW PRISON GANGS GOVERN THE AMERICAN PENAL SYSTEM

DAVID SKARBEEK

OXFORD: OXFORD UNIVERSITY PRESS, 2014, 240 pp.

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Neither Carl Menger, Ludwig von Mises, Murray Rothbard, nor Israel Kirzner are found within the bibliography of David Skarbek's latest book *The Social Order of the Underworld: How Prison Gangs Govern the American Penal System* published by Oxford University Press. In fact, no citations are made to any of the popular field journals of contemporary Austrian economics. And yet, I would urge readers to consider this book both one of the best and most important pieces of scholarship for Austrian economics to be published in recent years. In short, if one does not recognize the role of the Austrian paradigm within the text itself or the

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relevance of the text to the Austrian tradition, one might consider reassessing what exactly are her understandings regarding the essential facets of Austrianism. As Mises suggested in *Theory and History*, the inherent purpose of theory is to do history, to explain the complex social world around us. In this vein, the proof of the pudding is in the eating, and readers will likely want seconds of Skarbek's compelling research.

Skarbek's thesis is straightforward and I would argue correct. Prison gangs have emerged in recent decades, they possess dominant power within the American penal system, and they have taken on the particular qualities and characteristics that they possess, because they service a much needed function for maintaining social order amidst the unique circumstances created by the confines of incarceration and penal growth in recent decades. In short, prison gangs emerged to provide security, property enforcement, and conflict adjudication when formal government enforcers explicitly failed to provide such for inmates behind bars.

Skarbek's work should be recognized as an ideal application of the most foundational concepts within the Austrian paradigm as well as a methodological approach accessible to those interested in pursuing Austrian economics as a progressive research program. The success of such research represents a significant professional victory for the Austrian tradition, first because the insights and methods of Austrianism have been effectively internalized and second, they have been meaningfully applied to offer a compelling account for a real and important social phenomenon. For those interested in pursuing a professional academic career in the Austrian tradition, this book provides a methodological pathway for how similar research can and ought to be conducted henceforth.

Skarbek adheres to methodological individualism by investigating the unique incentives and knowledge limitations faced by rationally motivated inmates. Inmates desire security of their persons and property as do ordinary citizens but in the context of extreme risk and uncertainty of the prison community. He then explains how interactive processes of these decision-makers contribute to the spontaneous development of institutional forms complex and functional beyond the planning capacities of any individual inmate alone. Prison gangs conform to self designed and enforced systems of electoral politics, checks, and balances.

Their profitability from controlling production and distribution chains within the prison economy stems from their relative power over administered violence in the prison social order more generally. Lastly, readers inevitably posit the broader implications for society write large by comparing the operations of prison gangs and related institutional forms to those in the traditional world around them. If prison gangs stem from the inabilities of traditional government enforcers, how do similar failure processes operate outside of prisons? What gang-like institutional forms stem from governmental failure beyond the prison walls?

Such techniques are an obvious parallel to the approaches taken by scholars throughout the classical liberal and Austrian traditions such as Adam Smith, Carl Menger, Ludwig von Mises, and F.A. Hayek. Though Smith is perhaps best known for his phrasing of the “invisible hand” to describe the self-adjusting properties of prices in market economies, his broader political theory encapsulated in his comments surrounding the “man of system,” communicates an even more nuanced and insightful perspective. Not only do free, choosing individuals naturally contribute to a structure of spontaneous and functional social institutions, but such organic forms are also systematically displaced and manipulated by the imposition of centrally enforced and planned schemes.

Menger’s *Origins of Money*, arguably one of the most foundational pieces of scholarship in the Austrian corpus, does so similarly. It was not merely to pontificate the potentials of a voluntarily coordinated monetary mechanism that prompted Menger, but also the conceptual need for a benchmark of comparison from which to assess the political manipulation of monetary stocks and flows in the real economy around us. Mises’s hypothetical construct, the evenly rotating economy, echoes with regard to the broader coordinative processes of economic production, distribution, and consumption. Lastly, Hayek’s contributing insights surrounding the role of knowledge in society reaffirms, mainly that political processes decidedly lack the unique forms of local, tacit, decentralized, and dispersed knowledge particularly necessary for effective social coordination.

Prior to Skarbek, structural functionalist and prison ethnographer Gresham Sykes perhaps most closely embodied this inherently liberal perspective as he explained in his *Society of*

Captives that prison management techniques were inevitably short sighted of the complex details undergirding the otherwise natural and organic self-governance of inmate communities. It has long been argued that the prison community can and does provide a conceptual microcosm of social operations as a meaningful point of comparison from which to assess traditional institutional forms throughout society. In such light, Skarbek's work replicates Sykes's observations that the origins of extreme social disorder stem from the tensions arisen between excessively totalitarian controls forcefully imposed and out of step with the tendencies and operations of the inmate social order. Prison gangs in part mitigate such disorder.

Skarbek's research also uncovers the pervasive influence of gang power beyond their prison walls and as such invokes a disconcerting question in the minds' eyes of his readers. Mainly, given how prison gangs have emerged in consequence from the extreme growth of prison populations and as a counter-reaction to administrative state failures therein, how has prison growth shaped and influenced institutional forms throughout conventional society? How much of our endured social disorder stems not from the inherent tendencies of free acting individuals but from the direct and indirect effects of state failures and tensions between natural and imposed social controls? Work like Skarbek's gives us some basis for conceptually separating these trends.

Again, I sincerely hope that Skarbek's work is well read and well received as it represents a unique and much needed perspective on an undeniably important subject matter. This book and the rich legacy of applied research it draws upon are both inherently informed by and crucially valuable to the Austrian tradition. Hopefully more similar research will be provided in the future both by Skarbek himself and those influenced by his groundbreaking work.

