The Question of Apriorism

by Barry Smith

It is often said that Austrian economics embraces what might most properly be called an Aristotelian methodology. Thus Austrian economists typically adopt a realist perspective, holding that the world exists independently of our thinking and reasoning activities. They hold further that the world contains certain simple essences or natures which may come together in law-like ways to form more complex static and dynamic wholes. Moreover, they hold that the given essences and essential structures are intelligible, in the sense that they are capable of being non-inductively grasped by the scientific theorist, much as we enjoy a capacity to distinguish reds from greens, circles from squares, warnings from congratulations, and so on.

The science of economics is for the Austrian Aristotelian, in no small part, a matter of establishing the laws governing the composition or combination of the given simple essences or natures in the field of economics. Such combination is not merely a matter of heaping or gluing together. It is, for example, a matter of certain entities or properties of entities arising in reflection of the existence in appropriate combinations of other sorts of entities. Thus, for example, a good exists as such, according to Menger, only if the following prerequisites are simultaneously present:

1. A need on the part of some human being.
2. Properties of the object in question which render it capable of being brought into a causal connection with the satisfaction of this need.
3. Knowledge of this causal connection on the part of the person involved.
4. Command of the thing sufficient to direct it to the satisfaction of the need.¹

If a good exists, then as a matter of de re necessity, entities of these other sorts exist also. Such structures of de re necessitation are, I want to claim, at the core not only of Menger’s work but also of the entire tradition of Austrian economics.

The tenets of Aristotelianism referred to above are first and foremost tenets of ontology: they tell us what the world is like and how its various parts and moments are related to each other. The question of apriorism, on the other hand, is skew to all such ontological concerns. It relates exclusively to the sort of account one gives of the conditions under which knowledge is acquired.

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All defenders of apriorism share the assumption that we are capable of acquiring knowledge of a special sort, called "a priori knowledge" via non-inductive means. They differ, however, in their accounts of where such knowledge comes from. Two broad families of apriorist views can be distinguished in this regard.

On the one hand are what might be called impositionist views, which hold that a priori knowledge is possible as a result of the fact that the content of such knowledge reflects merely certain forms or structures that have been imposed or inscribed upon the world by the knowing subject. Knowledge, on such views, is never directly of reality itself; rather, it reflects the "logical structures of the mind," and penetrates to reality only as formed, shaped or modelled by a mind or theory.

On the other hand are reflectionist views, which hold that we can have a priori knowledge of what exists, independently of all impositions or inscriptions of the mind, as a result of the fact that certain structures in the world enjoy some degree of intelligibility in their own right. The knowing subject and the objects of knowledge are for the reflectionist in some sense and to some degree pre-tuned to each other. And directly a priori knowledge of reality itself is therefore possible, at least at some level of generality, much along the lines in which we recognize the validity of a proof in logic or geometry.

The impositionist view, of course, finds its classical expression in the work of Kant, and I would argue that great methodological confusion in the ranks of Austrian economics has arisen as a result of the pervasive assumption that all talk of the a priori must of necessity imply an impositionist or Kantian framework: For the apriorism lying in the background of Menger's thinking is quite clearly reflectionist. Menger believes that there are a priori categories ("essences" or "natures") in reality and that a priori propositions reflect structures or connections among such essences existing autonomously in the sense that they are not the result of any shaping or forming of reality on the part of the experiencing subject. The impositionist, in contrast, insists that a priori categories must be creations of the mind, that they must be the result of some "imposition of form" upon the world. The impositionist may therefore hold that the issue as to which sorts of economic structures exist is a matter for more or less arbitrary legislation by the economic theorist, or a matter of the "conceptual spectacles" of the economic agent. No grain of this idea is to be found in Menger.

My claim, now, is that the Austrian economist of whatever hue works against the background of an assumption to the effect that the universals of economic reality are not created or imposed in any sense, but are discovered through our theoretical efforts. Economists do not study concepts or other creations of the mind; rather, they study the qualitative natures of and the relations between such categories as value, rent, profit, the division of labor, money, etc. As Menger puts it in a well-known passage:

Theoretical economics has the task of investigating the general essence and the general connection of economic phenomena, not of analyzing economic concepts and of drawing the conclusions resulting from this analysis. The phenomena, or certain aspects of them, and not their linguistic image, the concepts, are the object of theoretical research in the field of economy. (1883, p. 64n; Eng. p. 37n)

There is, however, one reason why an impositionist or Kantian reading of the propositions of Austrian economics has seemed so tempting to so many. This turns on the fact that Menger lays stress both on the subjectivism and on the methodological individualism of economics. Indeed, the status of economics as a theoretical science can be said to rest, in his eyes, on the acceptance of the two theses of subjectivism and methodological individualism. For subjectivism implies that an economy is not an autonomous formation with unintelligible properties of its own. Rather one can understand the workings of an economy by coming to an understanding of how the value of goods at earlier stages in the process of production is de-
rived from the value to actual consumers of the products of the later stages. Moreover, one can see why this same understanding must apply ceteris paribus to every economy in whatever time or place. And methodological individualism implies that the whole of economics can in principle admit of an understanding of this sort, that there are no economic structures that cannot be grasped at least in principle in the thought experiments of the economist.

None of the above, however, implies that the economist's understanding might flow from the fact that the propositions of economics reflect structures that have been imposed upon the world—in Kantian fashion—by either the economic theorist or the economic agent. That is, the intelligibility of basic economic structures does not imply ontological dependence of such structures on the mind, along the lines suggested by the impositionist. Rather, Menger's view implies precisely that economic reality is such as to manifest intelligible structures in and of itself. It is because economic reality is built up in intelligible ways out of structures involving human thought and action that we are able, by appropriate efforts, to read off these structures in and of themselves.

II

We know now that there is an Aristotelian alternative to the Kantian form of apriorism. Mises, however, seems to see his methodology primarily in terms reflecting Kantian doctrines. Indeed the Aristotelian alternative seems not to have been explicitly recognized as such by Mises at all, though this is hardly surprising, given that the special nature of Austrian Aristotelian apriorism was appreciated by very few at the time when Mises was working out the philosophical foundations of his praxeology.

Common to all aprioristic doctrines, as we said, is a view to the effect that there are laws or propositions which are intelligible (capable of being grasped by non-inductive means). Kantian impositionism is the view that such a priori laws or propositions reflect categorical impositions of the mind. As a result of the influence of the logical positivism of the Vienna circle, now, recent Kantian varieties of apriorism have tended to take the extreme form which sees such categorical impositions as effective always via logic or language. More specifically, a priori propositions are seen as being characterized by the fact that they can in every case be exposed—via a process of stripping out defined terms and replacing them with definites consisting of more primitive expressions—as mere tautologies or analytic truths, entirely empty of content. "All bachelors are unmarried" is revealed as analytic in this way by being converted into a truth to the effect that "All unmarried men are unmarried," which is an instance of the logical law "All A's which are B are B." Mises qua methodologist was very clearly tempted by the idea that the laws of praxeology should be analytic in this sense. The theoretical part of economics would then be a purely formal or analytic discipline whose principles would flow from the logical analysis of certain concepts. Thus praxeology, we are told, is like logic and mathematics in the sense that its content is a matter of empty tautologies: "Aprioristic reasoning is purely conceptual and deductive. It cannot produce anything else but tautologies and analytic judgments." Thus for example: "In the concept of money all the theorems of monetary theory are already implied" (Mises 1966, p. 38). Thus while impositionism is not explicitly defended by Mises qua methodologist, he does insist on the analytic character of a priori propositions. The methodology which results is thereby rendered inconsistent with a reflectionist apriorism, since it implies that such propositions are empty of content, and clearly propositions that are empty of content are unable to picture anything (intelligible) on the side of the objects of the corresponding theory.

Economics as a theoretical science rests on two theses: subjectivism and methodological individualism.

If we wish to hold on to the view that all the propositions of praxeology are analytic in this sense, however, then we shall have to insist that the whole of praxeology can be erected on the basis of premises involving at most one single primitive non-logical concept. For suppose that there were two such concepts, neither definable in terms of the other. Consider, now, the propositions expressing the non-trivial relations between these concepts. These cannot, ex hypothesi, be analytic, for there are now no defined non-logical terms which could be eliminated in such a way as to reveal the corresponding statements as truths of logic, and no truth of logic contains a plurality of non-logical terms in other than trivial ways. But nor, from the Misesian point of view, can they be merely factual (synthetic a posteriori). On the positivist reading of the Kantian aprioristic doctrine, however, no third alternative is available, which implies that the original assumption that there are two (or more) such concepts must be rejected. This helps to make intelligible the repeated insistence of Mises and his followers and critics that there is but one single non-logical concept (or "category" or "essence") of the praxeological discipline, the concept human action:
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. The only way to a cognition of these theorems is logical analysis of our inherent knowledge of the category of action. Like logic and mathematics, praxeological knowledge is in us; it does not come from without. (Mises 1966, p. 64).

III

When once we examine Mises's practice, however, then a quite different picture is presented. For we are forced to recognize that there is a veritable plenitude of non-logical primitive concepts at the root of praxeology. Indeed, Mises's descriptions of this plenitude in his actual practice in economics, and also in occasional passages in his methodological writings, can be seen to represent one of the most sustained realizations of the Aristotelian idea as outlined by Menger.

Action, we are told by Mises, involves apprehension of causal relations and of regularities in the phenomena. It presupposes being in a position to influence causal relations. It presupposes felt uneasiness. It involves the exercise of reason: it is a striving to substitute a more satisfactory for a less satisfactory state of affairs.

Acting man transfers the valuation of ends he aims at to the means he anticipates utilizing. Action takes time, which like other scarce factors must be economized. Action presupposes choosing between various opportunities offered for choice.

Action involves the expectation that purposeful behavior has the power to remove or at least alleviate uneasiness. Thus it presupposes the uncertainty of the future. It involves meanings which the acting parties attribute to the situation. A thing becomes a means only when reason plans to employ it for the attainment of some end and action really employs it for this purpose.

Certainly some of the concepts involved in the above may reasonably be counted as logical concepts; others may no less reasonably be conceived as being introduced by definitions formulated in terms of other, more primitive concepts. Consider, however, the concepts causation, relative satisfactoriness, reason, uneasiness, valuation, anticipation, means, ends, utilization, time, scarcity, opportunity, choice, uncertainty, expectation, etc. The idea that one could simultaneously and without circularity reduce every one of the concepts in this family to the single concept of action, that they could all be defined by purely logical means in terms of this one single concept, is decisively to be rejected.

IV

Hans-Hermann Hoppe's Praxeology and Economic Science (1988) is an interesting defense of a purportedly Kantian reading of Mises which seeks to break through the opposition between impositionism and reflectionism set out above by acknowledging the extent to which "the gulf between the mental and the real-outside, physical world is bridged" through actions. In his treatment of Mises's "axiom of action," Hoppe writes:

This axiom, the proposition that humans act, fulfills the requirement precisely for a true synthetic a priori proposition. It cannot be denied that this proposition is true, since the denial would have to be categorized as an action—and so the truth of the statement literally cannot be undone. And the axiom is also not derived from observation—there are only bodily movements to be observed but no such things as actions—but stems instead from reflective understanding. (pp. 19-20)

There is much in this with which one can concur, though it has to be noted that a denial of the axiom of action need not in every case be self-refuting: the axiom might, for example, be denied by an extra-terrestrial being. Moreover there would seem to be many propositions classically accepted as synthetic and a priori which could not be admitted as such on Hoppe's criterion that

**Praxeology is like logic and mathematics in the sense that its content is a matter of empty tautologies.**

their truth "literally cannot be undone" because their denial would, in light of the fact that a denial is itself an action, be self-refuting. Consider, for example, the propositions "nothing can be red and green all over," "orange is darker than red," "a promise gives rise to mutually correlated claim and obligation," "given any three distinct tones, one lies intermediate between the other two."

The most worrying feature of Hoppe's account is indeed that many of the most central propositions of praxeology itself will fall outside the scope of the synthetic a priori as he conceives it. "All the categories-values, ends, means, choice, preference, cost, profit, and loss, as well as time and causality—are," he tells us, "implied in the axiom of action" (p. 21). But how is this "implied" to be understood? As Hoppe correctly recognizes, it is not a matter of logical implication. Rather, he seems to argue, it is to be understood as follows: that any denial of a proposition for example relating preference to cost must be self-refuting. Let us suppose that this is true. Do we know that it is true because of what we know about the special action of denial, as Hoppe seems to suggest?
Or do we know that it is true because of what we know about preference and cost? Surely at least in part because of the latter; but then the appeal to actions of denial in the explication of a priori economic knowledge is at best insufficient, and at worst redundant. How much better it would be to accept that we are dealing here with a family of a priori categories and categorical structures which would be synthetic in the sense of the (Aristotelian) reflectionist doctrine set forth above.

1 Cf. Carl Menger (1871, p. 3; Eng. p. 52, section 1 "On the Essence of Goods"). The discussion of such de re necessitation relations in Smith (1982).

2 Here the work of the phenomenologist Adolf Reinach is especially important. For Reinach, who achieved for legal science what Menger and his school have achieved in the field of economics, was explicitly aware of the non-Kantian nature of his aprioristic views.

3 See Reinach (1913), Smith (1982), and chapter 2 of Scheler (1973), a work in part inspired by the ontological theory of the a priori defended by Reinach.

The phenomenological influence is present also in the work of Felix Kaufmann, whose relations to Mises and his circle are interestingly discussed in Zillman (1990).

I have developed this argument at greater length in "Austrian Economics and Austrian Philosophy" (1986).


Subjective Value Theory: A Reformulation

by Alexander Tabarrok

The method of Austrian economics stresses the use of words and concepts rather than mathematics, but, unlike mathematics, words and concepts change their meaning through time. That $f'(x) < 0$ implies a negatively sloping curve was as clear to Newton as it is to a modern mathematical economist. The meaning Carl Menger ascribed to the term utility, however, differed from that of Mises. Furthermore, the meaning of words in one context can infuse and distort the meaning in another context. This is why, as Austrian economists, we must occasionally "clean house," re-examine our concepts, and clarify any that have become distorted.

This is particularly true in regard to subjective value theory. The concept of subjective value is a tool used to explain the formation of prices and to clarify welfare theory. Unfortunately, it has become distorted because of four errors: (1) the theory has been confused with psychological concepts such as happiness; (2) it has been extended to areas where it has no relevance such as ethics; (3) there has been a
misplaced emphasis on “utility” and its “immeasurability”; and (4) subjectivism has been given
primacy over methodological individualism.

Subjectivism and Happiness

There is an unfortunate tendency among economists to discuss value and costs as if they were psy-
chological concepts, i.e., as if they dealt with man’s emotions. The word utility, often used interchange-
abley with value or costs (as in utility forgone), suggests that as man acquires more goods and gains
utility he becomes happier, more content, less uneasy, more satisfied, etc. Other formulations of the same
concept, such as Mises’s definition of action as an attempt to remove felt uneasiness, also associate
value theory with emotion. This is misleading. To say that a thing has value is to say nothing more than it
is an end. An end or a value is the goal of a purposively chosen course of action. This sense of value is purely
formal—it implies nothing about whether an end is in fact valuable. Economists qua economists operate
on this formal level. They cannot make any judgments about why a particular end or value is chosen.1
As Ludwig von Mises argued, “The teachings of praxeology and economics are valid for every human ac-
tion without regard to its underlying motives, causes and goals.”2

Unfortunately, Mises himself has led to much of the confusion over subjective value theory. For example,
his argues that there is “no valid objection to a usage that defines human action as the striving for
happiness.” He quickly adds that praxeology employs the term happiness in a purely formal sense and
reiterates that praxeology is “valid for all kinds of action irrespective of the ends aimed at.”3 But, again,
the meaning of words in one context infuses the meaning in another context. Happiness, as normally
understood, is a joyful state of consciousness. To use happiness, as Mises does, to mean simply that man
acts and pursues goals is equivocation. “Happiness,” as Mises would define it, implies nothing about a
person’s state of consciousness, i.e., nothing about his emotions or feelings. The Misesian sense of happiness
has no direct connection to the ordinary senses of the word. Insulin, for example, is ranked very high on a
diabetic’s scale of values, but the acquisition of insulin does not make a diabetic happy. Or imagine a
young man who loves playing his guitar and dreams of becoming a musician. He knows that a career in
music will make him happy, but he renounces music to follow his parents’ wishes and become a doctor. It
is disingenuous to argue that his actions show that what really makes him happy is following his parents’
wishes. The only reasonable way to interpret this situation is to say that his parents’ wishes are higher
on his value scale than his own happiness. Economists have nothing to gain by denying what we know
to be true from everyday experience: happiness is an

emotion that has no necessary connection to a
person’s goals. People can and many people do act in
ways that they know are detrimental to their emo-
tional well-being.4

By itself, Mises’s peculiar definition of happiness does not necessarily imply error. However, on the
basis of his definition Mises argues that the ordinary definition of happiness is meaningless. His argument
runs as follows: Since the aim of action is always to achieve happiness, it follows that happiness can be
achieved by any action. This is verified by the fact that different people act to achieve different ends and
the same people at different times act to achieve different ends. “Nobody,” therefore, “is in a position to
decree what should make a fellow man happier.”5 But given Mises’s tautological and formal definition of happiness—as that which all acts aim to achieve—
his conclusion is obvious and empty.6 However, when we define happiness as a particular state of con-
sciousness, Mises’s assertion is incorrect. It would be quite reasonable for someone to advise the young man
in the above example that if he wishes to achieve his own happiness he should follow his dreams and pur-
sue a career in music. In other words, to achieve happiness it may be necessary to adjust one’s hierar-
chy of values.

Happiness is an end, that like every other end, cannot be achieved in any random manner. Man is not
automatically happy. The revenues of psychologists and counsellors attest to this fact.7 None of this con-
trasts subjective value theory properly understood. Neither does asserting that we can know something
about another person’s misery.8 Just as we recognize happiness we also recognize misery. Contra Mises, we
say more than “we prefer it when others have food to eat” when we note that the starving Ethiopian peas-
ants are in misery. To deny that we can recognize happiness and misery in our fellow human beings is
ultimately to deny the very basis of economics. For if understanding (Verstehen) is not enough to tell us

![Students listen eagerly at the opening session of the 1990 "Mises University" at Stanford.](image-url)
that starving Ethiopians are miserable, then how can it be true that other people act? The only way we know others act is because we can interpret their statements and movements in terms of goals and purposes that we understand and relate to. It is our common nature as living beings, and in particular as human beings, that allows us to make statements about the happiness, misery, and actions of others.

A proper understanding of subjective value theory is completely compatible with all of the above. The primary purpose of subjective value theory is to explain the formation of prices. To do this, it is important to know that people act and choose according to their hierarchy of values. It is not important to know on what basis the hierarchy of values is graded. Whether people act to achieve happiness or to achieve some other goal is irrelevant for economics. Praxeology does not suggest that we can recognize and distinguish happy and miserable people. Whether one believes states of happiness can be identified is irrelevant to praxeology. This is a separate question and issue which has no bearing on economics.

**Subjective Value Theory and Ethics**

If the basis on which a hierarchy of goals is established is irrelevant to economics and to subjective value theory, then one’s belief or disbelief in objective ethical norms is also irrelevant (to economics). Morality arises as a science because it is not obvious what the life and happiness proper to man are—this is something which must be discovered through thought and reflection.

As Mises correctly points out, whether any ethical theory is correct is unimportant for economics. Since it is “not what a man should do, but what he does [that] counts for praxeology and economics.” The economist must explain the price of crack cocaine regardless of whether he believes drug addiction is conducive to the good life.

In many respects this discussion follows Mises’s own warnings on imputing ethical doctrines into economics. He says for example that the science of human action “takes the ultimate ends chosen by acting man as data, it is entirely neutral with regard to them.” Praxeology is subjectivistic and takes the value judgments of acting man as ultimate data not open to any further critical examination... it is indifferent to the conflicts of all schools of dogmatism and ethical doctrines, it is free from valuations and preconceived ideas and judgments..."

Unfortunately Mises does not take his own warnings seriously enough. To be entirely neutral and indifferent to all ethical doctrines is to remain neutral (qua economist) on the issue of their truth or falsity. According to Mises, however, 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... Any examination of ultimate ends turns out to be purely subjective and therefore arbitrary.” In Theory and History, Mises is even more explicit on this point, asserting that “judgments of value are voluntaristic. They express feelings, tastes, or preferences of the individual who utters them. With regard to them there cannot be any question of truth or falsity. They are ultimate and not subject to any proof or evidence.”

**Welfare Theory**

What about welfare theory? If it is quite reasonable to make distinctions about people’s happiness and misery, is this not tantamount to claiming that interpersonal comparisons of utility are possible? Although the standard account of subjective value and the impossibility of interpersonal comparisons of utility may suggest this, Austrians need not and should not give up their strictures against comparing “utility.” But neither should they retreat into radical skepticism in regards to gauging happiness and misery.

The standard story about the subjectivity of value and the impossibility of comparing subjective states hinges on the immeasurability of “utility.” There are no “utils” with which pleasure or satisfaction can be measured, it is argued, and hence interpersonal comparisons are baseless. This argument, while nominally correct, suggests that if some device capable of measuring satisfaction or pleasure were developed then interpersonal comparisons would be possible. Jeremy Shearmur, in an attack on this view, which he (and many Austrians) considers to be the essence of subjective value theory, argues that biology may be one way to make interpersonal comparisons of utility. Imagine, for example, that we come across a society where we are told that one group is given fewer goods because they are less capable of feeling pleasure than another group. Shearmur suggests we may be able to check this claim through physiological examinations. Proponents of subjective value theory who equate it with pleasure, satisfaction, or emotion have no reasonable answer to this argument. Pleasure is, at least partly, a result of physiological facts. However, when subjective value theory is interpreted to mean merely that people have a hierarchy of ranked ends that have no necessary connection to emotion, pleasure, happiness, or satisfaction, this problem then disappears.
Interpersonal comparisons of value or “utility” are suspect because there is no common denominator by which the purposes of different people can be compared. The problem as traditionally stated is that the utilities of A and B cannot be compared because there is no unit of utility. This incorrectly suggests that there is something common to A and B, namely that they both are experiencing “utility.” In fact, there is no commonality at all. The problem is not the absence of a unit of measurement; the problem is that there is nothing to attach the unit to. Comparing “utilities” is like comparing apples and angels; there is nothing common to them.

Using the terms happiness, satisfaction, and utility in economics is not incorrect so long as one remembers that these terms must be interpreted in a purely formal manner—i.e., as definitional categories without content. It is true that all action is motivated but there are many different motivators (love, hate, pain, pride, duty, selfishness, etc.). If we wish to classify all of these under one general, but contentless, term such as happiness, utility, or satisfaction we may do so. But there are compelling reasons not to use these terms in economics. First, the ordinary meanings of these words leads one into the types of errors which were analyzed above. Second, and more importantly, these terms add nothing to our understanding of human action. To say that z is an end of Joe’s is already to say that Joe wishes to achieve z. Our knowledge is not increased by adding that Joe wishes to achieve z in order to increase his utility. This confusing and inadequate terminology leads to serious error. When we say that z will increase Joe’s utility and q will increase Bob’s utility we suggest that Joe and Bob have some aim in common (to increase their utility) which in principle is capable of being measured. The proper way of stating this situation is to say that Joe has end z and Bob has end q. This describes the situation exactly as before except we are no longer led into any notions of commonality.

To clarify this, let us imagine we are trying to decide who should receive a gift of $100 and that we wish to do this on the basis of “utility.” If we give the $100 to Bob he will buy a bowling ball. If we give the $100 to Joe he will use the money to buy a book he wishes to study. The problem we face is not one of comparing satisfactions or happiness. We may very well know that Bob will be overjoyed by the chance to buy a bowling ball while Joe will not attach any pleasure at all to reading the book. (Perhaps the book is necessary reading for a university class he is not particularly interested in.) Or let us imagine that some economist suggests that society would be made better off if citizens were taxed in order to provide them with a public good. Not everyone will value the good in the same way. The public good will be beneficial to some citizens, and they will in consequence be able to move down their hierarchy of values, i.e., achieve more important ends than they would have without the public good. Other citizens, however, will have to move up their hierarchy of values, i.e., the taxes incurred will force them to forgo some ends that they otherwise would have been able to achieve. How can we possibly compare these ends or purposes? The issue involved is not centered on the absence of a unit of measurement. The issue is: how can we possibly rank the purposes of individuals in a value-free manner? One man might have to forgo surgery, another might now be unable to attain tickets to the ball game. These purposes are all unique. There is no common factor by which they could even in principle be measured.

The Primacy of Methodological Individualism over Subjectivism

Some Austrians have argued that what makes Austrian economics different is its insistence on subjectivism. Methodological individualism, however, is more fundamental than subjectivism and should be seen as the true Austrian differentia.

Methodological individualism implies that individuals are different, they have different and varied tastes, goals, purposes, and ideas. Subjectivism, in other words, is implied by a consistent and principled understanding of methodological individualism. The greater fundamentality of methodological individualism is evident in subjective value theory and welfare theory. Interpersonal comparisons of value are verboten because value is subjective but value is subjective because individuals are unique. To compare “utility” is to try and compare the unique goals, ends and purposes of individuals. Ultimately this means to compare and rank the lives of individuals—a task to which economics is singularly unsuited.

1Nor do they need such judgments.
4Of course it is often true that what makes a person happy is ranked highly in that person’s hierarchy of values and vice versa.
6For Mises’s description, see Human Action, p. 15.
7Oprah Winfrey, Phil Donahue, and others have made a career of doing this, as well as numerous self-help books, the phenomenon of friendship, and a multitude of other things which we do not want to deny. Economists need not make themselves look foolish by rationalizing away all these things in order to maintain subjective value theory.
8For Mises’s position, see Human Action, p. 243.
9Ibid., p. 123.
10Ibid., p. 96.
11Ibid., p. 22, emphasis added.
12Ibid, pp. 95-96.
13Mises, Theory and History, p. 19. It is interesting that Mises, who rejected positivist dogma in so many other areas, accepted it
in the area of ethics.


13Although these terms add nothing to our knowledge, they can be useful as shorthand descriptions. Therefore, when we deal with ordinary economic problems which do not hinge on the precise meaning of these terms they can be appropriate.

Second, rights specified in the Social Charter are particularistic, violating one of the central axioms for fairness and equity in the law, i.e., that laws must not be applied with different results for different persons. It should be understood that the primary beneficiaries of these particularist rights (trade unions in the richer countries) are by no coincidence the conventional political constituency of its drafters and supporters. (Besides, expanding the governmental mechanisms in Brussels provides a political home

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**Trade unions will certainly be the big winner of the joint European Community.**

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for nationally disenfranchised socialists where they can preserve or expand their locally-defeated platforms.) Other winners will be those who are promoted or hired by the necessarily expanded Brussels "Eurocracy." The real losers will be low-skilled workers of the poorer European countries kept out of the market due to rising labor costs.

Third, a hidden political agenda is served by isolating Prime Minister Margaret Thatcher as the most outspoken critic of the Charter. All socialist parties benefit by weakening the power of the most successful conservative force within the European Community.

Fourth, the interventionism and centralism embodied in the Social Charter places it in conflict with the "subsidarity" principle of the EC, whereby public policy actions are to be left with member states unless unambiguous gains can be derived from centralization. Enlargement and centralization of political powers in the Brussels bureaucracy is a move from democracy of citizens to dictatorship by functionaries.

Fifth, concentration of power will give rise to more extensive manipulation of public policy by interest groups. Pay-offs from special interest groups will induce a diversion of funds away from jobs and investment. It should be pointed out that rent-seeking should be eliminated by all groups, capital as well as labor.

Finally, the interregional protectionism in the Social Charter should give pause to the United States and Japan. Such reasoning is symptomatic of the rationalization for trade barriers which would lead to a "Fortress Europe." Despite rhetoric intended to calm Europe's trading partners, supporters of Delor's Charter are likely to apply the same logic to obstruct extra-commodity trade.
Robert Heilbroner Concedes
“Mises was Right!”

Robert Heilbroner, proto-socialist economist at the New School, and author of 20 books, has admitted in The New Yorker (Sept. 10, 1990) that Russian socialism was a tragic mistake. “Mises was right,” he says, “that central planners couldn’t plan, he says.

Heilbroner recounts his long association with socialism and the details of the failures of the Russian economy. He concludes: “All we know for certain is that the system deteriorated to a point far beyond the worst economic crisis ever experienced by capitalism, and that the villain in this deterioration was the central planning system itself.”

Heilbroner cites Ludwig von Mises as one of the few economists who had “expressed doubts about the feasibility of centrally planned socialism.” He mentions the information and pricing problems, but stops short of stating the calculation argument in the way Mises did: namely, that absolutely free prices are necessary for a rational economy. Heilbroner sees the problems of socialism as being more related to the practical aspects of planning, plus incentive problems. He gives the distinct impression of remaining mired in the Langian sludge of shadow prices and supercomputers.

He also conveniently leaves out that as late as 1970, he was defending Stalinist collectivization, since “we must bear in mind that industrialization on the grand scale has always been wrenching, always accompanied by economic sacrifice, and always carried out by the more or less authoritarian use of power.” Moreover, he says, from 1929 to 1961, the U.S.S.R. grew “roughly twice as fast as the United States.” In 1980, Heilbroner praised Communism for “the immense material and cultural improvement that these regimes have brought to their peoples.”

What does Heilbroner want now? “Not socialism” as he says in this article. However, he cautiously his readers not to make the same mistake he did: “an embrace of ‘the market,’ which reminds me, in its simplistic fervor, of the embrace of planning in the days of capitalist malfunction fifty years ago.” He wants instead “socialistic capitalism.”

He wants “the level of social welfare which Sweden is famous, the mixture of public and private realms found in Austria, the respect for civil liberties characteristic of the Netherlands, the public culture enjoyed by France, the distribution of income that exists in Norway, the security of employment that prevails in Japan, and the gaiety of life that is palpable in Italy.”

To this, one wag quipped: “with Heilbroner in charge we would end up with a world in which the English did the cooking, the Italians delivered the mail, the Germans provided the entertainment, and the French provided the national defense.”

Editor’s note: The recent issue of the Journal of Economic Literature (vol. 28, September 1990) features a more extensive version of The New Yorker article entitled “Analysis and Vision in the History of Modern Economic Thought.”

2Ibid., p. 176.

Austrians and Stanford Economists Featured in Dofflemeyer Lecture Series

Murray Rothbard, George Selgin, and Yuri Maltsev, all faculty at the 1990 “Mises University,” were among the speakers at the first annual “Visions For a Free Society” lecture series at Stanford University this spring. The lecture series is sponsored jointly by Stanford’s Decisions and Ethics Center and Robert T. Dofflemeyer, a member of the Mises Institute’s Entrepreneurs Council, and the Mises Institute served as consultant for the series, whose goal is to gather experts on a variety of economic and political issues and to provide a forum for discussion and exchange of views.

Murray Rothbard of the University of Nevada,
Las Vegas, debated Nobel Laureate Kenneth Arrow of Stanford, on the topic of “Liberty and Austrian Economics.” George Seligin of the University of Georgia discussed “Government Intervention and Financial Crisis” with Thomas Sargent of the Hoover Institution. Yuri Maltsev, former member of the reform committee that advised Gorbachev and former member of the Soviet Academy of Sciences, lectured on “The Collapse of Socialism.” Other sessions included Doug Bandow on the war on drugs; Joseph Sobran of National Review on civil rights; attorney Stephen Halbrook on gun control; and James Bovard on federal farm policy.

The Rothbard and Seligin lectures revealed valuable insights on the relationship between Austrian economics and standard neoclassical analysis. Kenneth Arrow, who admittedly based his knowledge of the Austrian school on familiarity only with Menger, Schumpeter, and Hayek, responded to Rothbard’s critique of government and claimed that the mainstream had thrown in the towel on socialism by declaring Rothbard view highly questionable and that government was all right provided it was democratic.

One spectator then asked: “But Professor Arrow, doesn’t your Arrow Impossibility Theorem tell us that democracy is unworkable?” To which Professor Arrow replied: that if you really take the Arrow Impossibility Theorem literally, I guess you’d have to exercise caution in using democracy. In a post-lecture interview Rothbard explained: I was surprised to find that there are any Langians left and even more surprised that it would be a Nobel Laureate!

Arrow also claimed that for the most part Austrians are merely stating in words what their neoclassical counterparts are saying in mathematics. That is, to the extent that Austrian economics is true, it is nothing new. Rothbard disagreed that the claim has some validity; both Mises and Hayek have on occasion said as much.

The issue of compatibility of views was also broached in the discussion between Seligin and Sargent who found themselves in substantial agreement on the stability of market-based financial systems and the harmful effects of banking regulation. The agreement is interesting because Sargent’s understanding of the market, by his own account, is firmly rooted in the Arrow-Debreu general equilibrium model, from which say, Robert Lucas emerges as the leading “free market” spokesman. Seligin by contrast is far more influenced by the Austrian entrepreneurial-discovery view of the market.


Conference Reports

Nobel Laureates Commemorate Legacy of Adam Smith in Edinburgh

This July, eight of the twenty living Nobel Laureates in economics gathered in Edinburgh, Scotland, to celebrate “Adam Smith and his Legacy in Economics,” a two-day conference commemorating the 200th anniversary of Smith’s death. Smith was a native of Kirkcaldy, a seaside town just across the Firth of Forth from Edinburgh, and he also lectured at Edinburgh and Glasgow before his semi-retirement as Scottish Commissioner of Customs. The father of classical political economy has of course been celebrated before: most recently in 1976 for the Wealth of Nations bicentennial, the same year in which the Glasgow edition of Smith’s Works and Correspondence appeared. The present conference was sponsored by the Royal Bank of Scotland and an investment group called the Scottish Development Agency. The proceedings will be published next year by Routledge and the Institute of Economic Affairs.

Billed as the largest assemblage of Laureates since the economics prize was instituted in 1969, the event featured Franco Modigliani, Lawrence Klein, Maurice Allais, James Buchanan, Theodore Schultz, James Tobin, Wassily Leontief, and James Meade (Paul Samuelson and Richard Stone were late cancellations due to illness). Each speaker presented a short paper to an audience of about 400 academics and other professionals (nearly all from the U.K.);
groups of Laureates later participated in general question-and-answer sessions.

Topics ranged from modern readings of *The Wealth of Nations* (e.g., Modigliani’s comparison of Smith’s views on consumption with his own and Milton Friedman’s; Klein’s analysis of “Smith’s Use of Data”) to commentaries on the current state of economics (Tobin surveyed recent macro developments and Leontief assailed the slow progress of empirical research). The only truly novel offerings were Allais’s attack on Walrasian equilibrium combined with his allegation that the bulk of Smith’s ideas on economics had been anticipated by Continental writers, especially Condillac—a claim that few historians of thought would today dispute, except for the part about Condillac—and Buchanan’s paper on the division of labor and the extent of the market (what we would now call "network externalities"). The proceedings, in short, were for the most part predictable, despite the eminence of the speakers.

The lack of controversy and excitement at this event may have been due to the curious absence of professional historians of economic thought—the people, after all, who actually know Adam Smith’s work. (Happily there were exceptions: the audience included Peter Groenewegen, Robert Hebert, and Andrew Skinner.) The composition of the participants no doubt reflects the fact that for the most part, the economics profession simply no longer recognizes the history of thought as an important component of the discipline. None of the papers presented here, for instance, contained references to the journal *History of Political Economy* or any of the recent scholarship on classical economics. While this is fine for a scholar in another specialty who presents, say, “A Rumination on a Theme in *The Wealth of Nations*,” it can become problematic for the "What Smith Really Meant" variety of research.

Here, though, paradoxically, we see the value of such an event: where so many prestigious members of the discipline are gathered in one place, it is easy to see just where the profession is, and where it may be going. For this reason one wishes such occasions could take place more often.

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1990 Ludwig von Mises University at Stanford—The Best Yet!

The 1990 "Mises University" was held July 7-14, 1990, at Stanford University. This year’s enrollment made it the largest Mises University yet, with graduate students, undergraduates, theologians, economists, journalists, and Institute Members attending the week-long session.

There were also more classes and instructors than ever before. Fifty-seven courses and 12 seminars were offered at beginning, intermediate, and advanced levels; 16 professors taught courses on topics from the gold standard to praxeology.

Each student chose 28 courses and two seminars for the eight-day period. There were five class periods a day with four courses conducted simultaneously. Evening sessions included economic seminars, lectures, and a social hour at the end of the long day gave students the chance to discuss the day’s program with faculty one-on-one.

The dean of the Mises University, and of the Austrian school of economics, Professor Murray N. Rothbard of the University of Nevada, Las Vegas, gave the opening lecture on the foundations of Austrian economics and a lecture the second evening on the history of economic thought. This two-hour presentation covered everyone from the Greeks to the neoclassicals. Professor Rothbard also taught courses on the Progressive Era, Hoover and the Great Depression, and the Federal Reserve System, and led a lively seminar on the ethics of liberty, as well as delivering the closing lecture on the future of Austrian economics, which was audiotaped, and will be available through the Institute.
Another evening lecture, on life as a Soviet economist, was given by Dr. Yuri N. Maltsev. Dr. Maltsev, before defecting last fall, was a member of Gorbachev's economic reform team in the USSR. He also taught courses on the history of Soviet economic thought and Soviet bureaucracy.

Professor Robert Higgs of the University of Seattle was another new face. The noted economic historian gave lectures on the New Deal, the Great Society, and the war economy, and he conducted a seminar on techniques of historical analysis.

Another new faculty member was Professor Mark Thornton of Auburn University, who talked about the economics of drug laws, highlighting his recent dissertation on the subject. He also discussed the industrial revolution, economic efficiency, and experimental utopian communities.

Austrian philosophy and methodology divides the school from neoclassical economics, and Dr. David Gordon of the Mises Institute and Professor Hans-Hermann Hoppe of the University of Nevada, Las Vegas, taught courses in methodology and praxeology. Dr. Gordon also lectured on the problems with "constitutonal" economics, while Dr. Hoppe discussed the objections to welfare economics and Pareto optimality.

Professor Jeffrey Herbener of Washington and Jefferson College conducted two graduate level courses on the shortcomings of econometrics and game theory. His seminar on the ISLM model and the Phillips curve illustrated how neoclassical economists assume their way into an aggregated world that conveniently can be fine-tuned with government intervention (by economists, of course).

Government intervention was the topic of an introductory level lecture by Dr. Walter Block of the Fraser Institute. He discussed various government regulations and how they affect the market place. He also taught courses on price controls and environmental economics, and led a spirited seminar on the "hard cases" with Professor Deborah Walker of Loyola University. Dr. Walker also taught courses in industrial organization, antitrust, and gender discrimination. His last class attacked comparable worth and mandated maternity leave, as well as the received view of the "wage gap."

Writing is an important tool for Austrian economists and Sheldon Richman, senior editor at the Institute for Humane Studies, taught two courses to make sure that students can make better use of this tool. He also taught on international trade and the collapse of communism. Students attending his evening seminar on the Old Right were fortunate to hear the additional insights of Joseph Sobran, syndicated columnist and senior editor of National Review.

Professor Joseph Salerno of Pace University delivered lectures on monetary and banking theory, exchange-rate management, and the Misesian theory of economic calculation, which demonstrated that true socialism is impossible. Professor Salerno also led a seminar on international economics and the gold standard.

The gold standard was also the topic of an introductory level lecture by Professor Mark Skousen of Rollins College. Dr. Skousen's other lectures included the abuses of economic forecasting and the structure of production, which is also the title of his new book.

Professor George Selgin of the University of Georgia taught courses on inflation, unemployment, entrepreneurship, and a graduate level class on Say's Law. He also led a seminar on free banking.

Students were given exposure to financial and futures markets in classes taught by Professor Robert Bateman of Marymount College. He also lectured on macroeconomics, economic statistics, and empirical evidence for the Austrian business cycle.
Professor Roger Garrison of Auburn University discussed the Austrian business cycle and capital and interest theory. His graduate level courses examined criticisms of Austrian cycle theory and recent macroeconomic controversies. His advanced-level seminar looked at how empirical economics is used to try to justify modern macroeconomic theories and vice versa.

Although the days were very long, students relished the chance to learn so much about Austrian economics. University of Texas student Erich Schwarz spoke for many when he said that the program “bolstered my ability to think about economics in a way that is not presented in my program. Were it not for the Institute, I wouldn’t have this chance. All the rest of the year, I’m in the abyss of neoclassicism and my mind gets rusty. The Mises University revitalized me.”

Book Bites

Rational Expectations in Macroeconomics: An Introduction to Theory and Evidence
C.L.F. Attfield, D. Demery, and N.W. Duck
Basil Blackwell, 1987

In the past 15 years, theoretical work in macroeconomics has centered upon rational expectations. Unfortunately explanations of the RE hypothesis and its implications have often been too simple (mistakes are never made; markets always clear; policy never works) or too complex (Lucas, Barro, Sargent and Wallace advance highly mathematical economic models). In either case the intelligent economist or student is left with little guidance. This volume is a welcome exception.

It emphasizes that RE is a theory about expectations; it is not tied to any model of the economy nor to any area in economics. If you need a universal theory of expectations, they argue, RE is the best offered to date. Expectations under RE will (a) be correct on average, (b) have uncorrelated forecast errors, and (c) be the most accurate form of expectation possible. The authors use a classical model, a slightly simplified Barro/Lucas “island” economy. After carefully working through the mathematics, it is possible to understand and read the original Barro and Lucas articles.

The book addresses criticisms of RE as a general hypothesis and in the context of various models. For example, they point out that it is not true that RE must imply that policy doesn’t matter; it depends upon the type of model used. But the “Lucas critique” should interest Austrians. Lucas argues that the policy optimization procedure of macroeconomists is flawed. The standard procedure estimates a reduced form equation which establishes the basic structure of an economy. The economist then asks “what if?” But if people change their behavior when their expectations change, and if their expectations change when policy changes, then the ”structure” changes too. Reduced form equations are not policy invariant. The result is that the predicted benefits of the new policy, which was “optimized” to fit the old structure, will fail to materialize. The RE theorists, it seems, have rediscovered an old Misesian insight: “There are no constants in human action.”

The criticisms they raise are, however, those of the mainstream. But only given the correctness of building a model of the economy with known coefficients and parameters does RE make sense. It is true that any other form of expectation is ad hoc and/or necessarily a disequilibrium expectation. But they never raise the question of whether we have enough knowledge to write down a model of the economy.

RE has been used to explain business cycles, of course, but also exchange rates, consumption expenditures, and the term structure of interest rates are all addressed. The authors have provided excellent and serious introduction to the RE hypothesis in macroeconomics.

Political Business Cycles: The Political Economy of Money, Inflation, and Unemployment
Edited by Thomas D. Willett
Duke University Press, 1988

The essayists in this volume work primarily from the public choice and constitutionalist framework, but their critiques of Keynesians and state monetary practices are invaluable.
In the foreword, Axel Leijonhufvud reflects on the dismal performance of financial stability in the U.S. economy over the past 20 years. He places much of the blame for this stagflationary period on the policies spun out by the economics profession. He argues that monetary reform (monetary base ceilings) and governmental fiscal constraints will bring back financial stability and economic well-being.

Willett and King Banaian set the theme by arguing that politicians with short time horizons, using the policies recommended by Keynesian economists and bolstered by the semi-autonomous Federal Reserve, have brought about the inflationary period of the last three decades.

The first section on stagflation also contains essays by William Mitchell, Thomas Mayer, Gottfried Haberler, Harold McClure, Jr., and others. Austrian economists may find "Decline of Gold as a Source of Monetary Discipline," by John Briggs, D.B. Christenson, Pamela Martin, and Willett to be interesting reading. The second section on the political business cycle contains econometric papers by Friederich Schneider and Bruno Frey; and Stephen Haynes and Joe Stone, purporting to test the political business cycle. The contribution by Peter Lewin uses the public choice approach to analyze the disruptive effects of political decisions on the capital structure. The third section focuses on monetary policy, with articles by Lawrence H. White, Thomas Havrilesky, Raymond E. Lombra, and Nathaniel Beck. Especially notable is Beck's discussion on the political motives behind Federal Reserve activities. The fourth section advances proposals for reform, including White's advocacy of free banking; Mayer and Willett's call for monetary growth constraints, and Greg Christensen's argument that the U.S. Constitution forbids government issue of fiat currency.

These are all original essays, and although not Austrian, having them collected in one place makes this the most definitive volume on political business cycles ever produced. RH

Memoirs of an Unregulated Economist
George Stigler
Basic Books, 1988

George Stigler is one of those rare economists with a genuine sense of humor—sort of the Chicago version of Bob Solow. In his wide-ranging Memoirs, Stigler shares his background, education, his academic and professional careers, and his thoughts on the place of the university in society, all in his characteristically irreverent yet understated style.

What gives Stigler's musings their substance is his insider's view of so many of the important people, institutions, and events in modern economics: the Chicago School, the NBER, the famous Coase Theorem group discussion in 1960, even the first Mont Pelerin Society meeting. Anyone interested in the history of thought, for example, will enjoy Stigler's descriptions and stories about his teachers and colleagues Jacob Viner, Henry Simons, Arthur F. Burns, and especially Frank Knight ("I clearly remember the occasion on which we were told to withdraw forthwith from economics if we did not understand the analysis of Ricardian rent theory about to be presented, and how, 15 minutes later, Knight explained that he himself had not understood it until two years before"); his wry observations here nicely complement Melvin Reder's 1982 Journal of Economic Literature piece on Chicago economics. Also

Correction

There was a misprint in the article "Short-Changed in Chile: The Truth about the Free-Banking Episode," by George Selgin that appeared in the Winter 1990 Austrian Economics Newsletter. On page 5, column 1, Frank A. Fetter is incorrectly cited; it should be Frank W. Fetter. Frank W. Fetter is the son of Frank A. Fetter and the author of Monetary Inflation in Chile.
refreshingly candid is the chapter on "The Economist as Expert," which reminds us of the public's oddly benevolent view of the university: "[the favored position of the academic world] has survived the obvious self-serving eagerness of the physical scientists to spend half of the nation's income if given a chance. The social scientists would settle for what the physical scientists are already getting, thus displaying proportionate greed."

The book's only drawback is that although it is clearly intended for a lay audience as well as for professional economists, no newcomer is likely to learn any economics from reading it. And few readers of the AEN could be happy with occasional remarks like one to the effect that Böhm-Bawerk's refusal to accept the validity of simultaneous equations models exemplifies an economist defending an obvious error to the death. In general, though, Memoirs of an Unregulated Economist is thoughtfully written, frequently insightful, and always entertaining. And in the economics literature, that itself is quite a feat. FR

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