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Theory and History

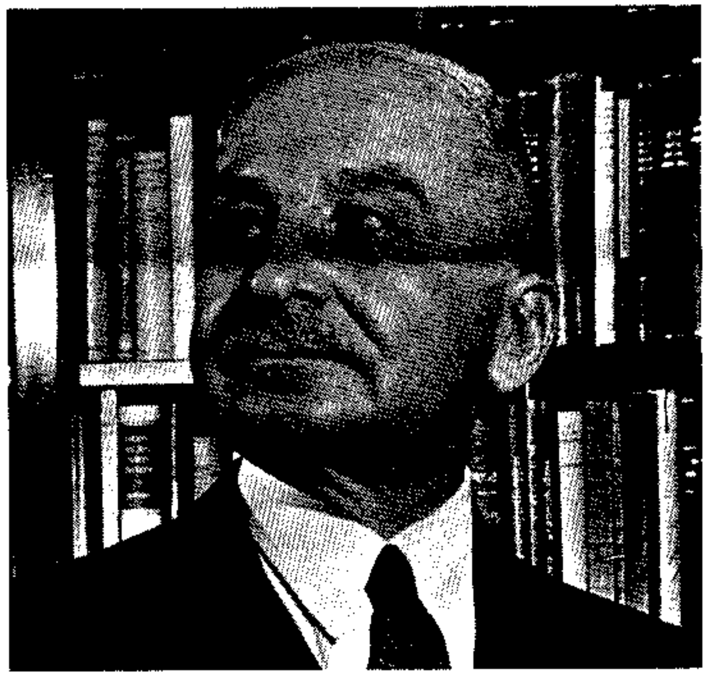
by

Murray N. Rothbard

Ludwig von Mises published many books and articles in his long and productive life, each of them making important contributions to the theory and application of economic science. But there stand out among them four towering masterpieces, immortal monuments to the work of the greatest economist and scientist of human action of our century. The first, which established Mises in the front rank of economists, was *The Theory of Money and Credit* (1912), which for the first time integrated the theory of money and the theory of relative prices, and outlined his later theory of the business cycle. Mises' second great work was *Socialism* (1922), which provided the definitive, comprehensive critique of socialism and demonstrated that a socialist order could not calculate economically. The third was his stupendous treatise *Human Action* (1949), which set forth an entire structure of economics and analysis of acting man. All three of these works have made their mark in economics, and have been featured in the "Austrian" revival that has flowered in the United States over the past decade.

But Mises' fourth and last great work, *Theory and History* (1957), has made remarkably little impact, and has rarely been cited even by the young economists of the recent Austrian revival. It remains by far the most neglected masterwork of Mises. And yet it provides the philosophical backstop and elaboration of the philosophy underlying *Human Action*. It is Mises' great methodological work, explaining the basis of his approach to economics, and providing scintillating critiques of such fallacious alternatives as historicism, scientism, and Marxian dialectical materialism.

It might be thought that, despite its great importance, *Theory and History* has not made its mark because, in this age of blind academic specialization, economists will have nothing to do with anything that smacks of the philosophic. Certainly, hyper-specialization plays a part, but in the last few years, interest in methodology and the basic underpinnings of economics has blossomed, and one would think that at least the specialists in *this* area would find much to discuss and absorb in this book. And economists are surely



Ludwig von Mises, 1881-1973

not so far gone in jargon and muddled writing that they would fail to respond to Mises' lucid and sparkling prose.

It is likely, instead, that the neglect of *Theory and History* has more to do with the content of its philosophical message. For while many people are aware of the long and lone struggle that Ludwig von Mises waged against statism and on behalf of laissez-faire, few realize that there is far greater resistance in the economics profession to Mises' methodology than there is to his politics. Adherence to the free market, after all, is now not uncommon among economists (albeit not with Mises' unerring consistency), but few are ready to adopt the characteristically Austrian method which Mises systematized and named "praxeology."

At the heart of Mises and praxeology is the concept with which he appropriately begins *Theory and History*: methodological dualism, the crucial insight that human beings must be considered and analyzed in a way and with a methodology that differs radically from the analysis of stones, planets, atoms, or molecules. Why? Because, quite simply, it is the essence of human beings that they *act*, that they have goals and purposes, and that they try to achieve those goals. Stones, atoms, planets, have no goals or preferences; hence,

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they do not *choose* among alternative courses of action. Atoms and planets move, or are moved; they cannot choose, select paths of action, or change their minds. Men and women can and do. Therefore, atoms and stones can be investigated, their courses charted, and their paths plotted and predicted, at least in principle, to the minutest quantitative detail. People cannot; every day, people learn, adopt new values and goals, and change their minds; people cannot be slotted and predicted as can objects without minds or without the capacity to learn and choose.

And now we can see why the economics profession has put up such massive resistance to the basic approach of Ludwig von Mises. For economics, like the other social sciences in our century, has embraced the myth of what Mises has properly and scornfully referred to as "scientism" — the idea that the only truly "scientific" approach to the study of man is to ape the approach of the physical sciences, in particular of its most prestigious branch, physics. To become truly "scientific" like physics and the other natural sciences, then, economics must shun such concepts as purposes, goals and learning; it must abandon man's mind and write only of mere events. It must not talk of changing one's mind, because it must claim that events are predictable, since, in the words of the original motto of the Econometric Society, "Science is prediction." And to become a "hard" or "real" science, economics must treat individuals not as unique creatures, each with his or her own goals and choices, but as homogeneous and therefore predictable bits of "data." One reason orthodox economic theory has always had great difficulty with the crucial concept of the entrepreneur is that each entrepreneur is clearly and obviously unique; and neo-classical economics cannot handle individual uniqueness.

Furthermore, "real" science, it is alleged, must operate on some variant of positivism. Thus, in physics, the scientist is confronted with a number of homogeneous, uniform bits of events, which can be investigated for quantitative regularities and constants, e.g., the rate at which objects fall to earth. Then, the scientist frames hypotheses to explain classes of behavior or motions, and then deduces various propositions by which he can "test" the theory by checking with hard, empirical fact, with these observable bits of events. (Thus, the theory of relativity can be tested by checking certain empirically observable features of an eclipse.) In the Old Positivist variant, he "verifies" the theory by this empirical check; in the more nihilistic neo-positivism of Karl Popper, he can only "falsify" or "not falsify" a theory in this manner. In any case, his theories must always be held tentatively, and can never, at least not officially, be embraced as definitively true; for he may always find that other, alternative theories may be able to explain wider classes of facts, that some new facts may run counter to, or falsify, the theory. The scientist must always wear at least the mask of humility and open-mindedness.

But it was part of the genius of Ludwig von Mises to see that sound economics has never proceeded in this way, and to elaborate the good reasons for this curious fact. There has been much unnecessary confusion over Mises' rather idiosyncratic use of the term *a priori*, and the enthusiasts for modern scientific methods have been able to use it to dismiss him as a mere unscientific mystic. Mises saw that students of human action are at once in better and in worse, and certainly in different, shape from students of natural science. The physical scientist looks at homogeneous bits of events, and gropes his way toward finding and testing explanatory or causal theories for those empirical events. But in human history, we, as human beings ourselves, are in a position to *know* the cause of events already; namely, the primordial fact that human beings have goals and purposes and act to attain them. And this fact is known not tentatively and hesitantly, but absolutely and apodictically.

One example that Mises liked to use in his class to demonstrate the difference between two fundamental ways of approaching human behavior was in looking at Grand Central Station behavior during rush hour. The "objective" or "truly scientific" behaviorist, he pointed out, would observe the empirical events: e.g. people rushing back and forth, aimlessly, at certain predictable times of day. And that is *all*

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Theory and History

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he would know. But the true student of human action would start from the fact that all human behavior is purposive, and he would see the purpose is to get from home to the train to work in the morning, the opposite at night, etc. It is obvious which one would discover and know more about human behavior, and therefore which one would be the genuine "scientist."

It is from this axiom, the fact of purposive human action, that all of economic theory is deduced; economics explores the logical implications of the pervasive fact of action. And since we know absolutely that human action is purposive, we know with equal certainty the conclusions at each step of the logical chain. There is no need to "test" this theory, if indeed that concept has much sense in this context.

Is the fact of human purposive action "verifiable?" Is it "empirical?" Yes, but certainly not in the precise, or quantitative way that the imitators of physics are used to. The empiricism is broad and qualitative, stemming from the essence of human experience; it has nothing to do with statistics or historical events. Furthermore, it is dependent on the fact that we are all human beings and can therefore use this knowledge to apply it to others of the same species. Still less is the axiom of purposive action "falsifiable." It is so evident, once mentioned and considered, that it clearly forms the very marrow of our experience in the world.

It is just as well that economic theory does not need "testing," for it is impossible to test it in any way by checking its propositions against homogeneous bits of uniform events. For there are no such events. The use of statistics and quantitative data may try to mask this fact, but their seeming precision is only grounded on historical events that are not homogeneous in any sense. Each historical event is a complex, unique resultant of many causal factors. Since it is unique, it cannot be used for a positivistic test, and since it is unique it cannot be combined with other events in the form of statistical correlations and achieve any meaningful result. In analyzing the business cycle, for example, it is not legitimate to treat each cycle as strictly homogeneous to every other, and therefore to add, multiply, manipulate, and correlate data. To average two time series, for example, and to proudly proclaim that Series X has an average four-month lead compared to Series Y at some phase of the cycle, means next to nothing. For (a) no particular time series may even have the four-month lead-lag, and the lags may and will range widely; and (b) the average of any past series has no relevance to the data of the future, which will have its own ultimately unpredictable differences from the previous cycles.

By demolishing the attempted use of statistics to frame or test theory, Ludwig von Mises has been accused of being a pure theorist with no interest in or respect for history. On the contrary, and this is the central theme of *Theory and History*, it is the positivists and behaviorists who lack respect for the unique historical fact by trying to compress these complex historical events into the Procrustean mold of movements of atoms or planets. In human affairs, the complex historical event itself needs to be explained by various theories as far as possible; but it can never be completely or precisely determined by any theory. The embarrassing fact that the forecasts of would-be economic soothsayers have always faced an abysmal record, especially the ones that pretend to quantitative precision, is met in mainstream economics by the determination to fine-tune the model once more and try again. It is above all Ludwig von Mises who recognizes the freedom, of mind and of choice, at the irreducible heart of the human condition, and who realizes therefore that the scientific urge to determinism and complete predictability is a search for the impossible — and is therefore profoundly *un*scientific.

Austrian economics will never enjoy a genuine renaissance until economists read and absorb the vital lessons of this unfortunately neglected work. Without praxeology no economics can be truly Austrian or truly sound.

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This article is excerpted from Professor Rothbard's introduction to the new Mises Institute edition of Ludwig von Mises' *Theory and History*.

AEN editors and Institute graduate students Mark Thornton and Don Boudreaux.

Books

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Hutchison interjects his political concerns (their presence is frankly indicated by the book's title) even more directly into Chapter 7, "Austrians on Philosophy and Method (since Menger)," an essay which was previously unpublished. The bulk of this chapter is a survey of the methodological views of Böhm-Bawerk, Wieser, Mises, "Hayek I" (pre-1937), and "Hayek II" (post-1937). In the final section on "Dilemmas of Modern Austrians" Hutchison offers a baldly political-strategic argument for rejecting apriorism: "For claims to establish *a priori* judgements of 'apodictic certainty' or 'beyond the possibility of dispute,' together with comprehensive denunciation as 'Positivist' and 'Empiricist' of the criteria of testability and falsifiability, may serve to support infallibilist, authoritarian and anti-libertarian attitudes and to play into the hands of the enemies of freedom. It is very dangerous for *any* individual or group to claim access to significant *a priori* and infallible politicoeconomic judgements, beyond the possibility of dispute and testing. Obviously anyone who *did* dispute them would be a kind of psychiatric case."

Now this is a very peculiar argument, particularly from a methodologist who so rightly insists on the scientific merit of distinguishing clearly between positive and normative statements. It is rather an unfair rhetorical trick, first of all, to link apriorism with "infallibilism." The "infallibility" claimed by praxeologists for deductive theorems, such as diminishing marginal utility and the negative slope of demand schedules, is a far cry from the infallibility claimed by authoritarian despots for themselves. Would Hutchison denounce claims by mathematicians to the infallibility of the Pythagorean theorem? He might demur on the ground that mathematicians as such do not pronounce on politicoeconomic matters. But *neither do praxeologists* as such make politicoeconomic judgments, let alone claim infallibility for them. Their apriorism is limited to the realm of pure theory, and does not extend to history or politics. Neither Mises nor Hayek, so far as I know, has ever accused his intellectual opponents of lunacy.

As for "playing into the hands of the enemies of freedom," one is entitled to doubt whether the Misesian approach is riskier on that score than the Popperian fallibilist approach that regards the prediction of shortages as a result of newly proposed price controls, say, as a tentative hypothesis.

The sections of this chapter that deal with Böhm-Bawerk and Wieser are relatively unobjectionable, though Wieser's support for introspection is rather unfairly criticized. Hutchison notes in passing that Frank H. Knight once upheld Wieser's doctrine as "essentially sound." This statement by Knight came in a scathing essay-review of Hutchison's 1938 book. Entitled "'What is Truth' in Economics?," and reprinted in *On the History and Method of Economics*, Knight's witty piece is well worth reading today.

Mises, predictably enough, comes under heavy criticism, though the charges against him are sometimes puzzling. His methodological views are characterized both as "very forthright" and as "unclear" in certain respects. Mises certainly can be faulted, as can most authors, for certain internal gaps in the explication of his views. But Hutchison can hardly be credited with having read Mises diligently enough to discover such gaps. He labels as "dogma" Mises' statement (which he misquotes) that "Action is, by definition, always rational," without showing any evident appreciation for what Mises meant by "rational." Hutchison does grab hold of an interesting and vital issue when he questions (p. 209) how far praxeology can develop its theorems without specifying the extent of knowledge that agents are assumed to have. But he takes no note of two passages in which Mises indicates that particular auxiliary assumptions concerning knowledge are indeed part of such praxeological theories as Gresham's law (*Epistemological Problems of Economics*, pp. 87-88) and the Austrian theory of the trade cycle ("'Elastic Expectations' and the Austrian Theory of the Trade Cycle," *Economica*, August 1943, p. 251). Hutchison instead flubs the matter by asking whether Mises assumes "rational expectations," and then quoting a statement irrelevant to the question. The passage he quotes states only that market economics or catallactics applies to all exchange regardless of how foolish one may think the ends pursued by exchangers.

Hutchison next professes to be puzzled regarding the status of equilibrium concepts and equilibrating processes in Mises' thought. But rather than look into Mises' writings on these topics, the author simply takes Mises to task for alleged opaqueness. This seems a rather irresponsible procedure. What is most disappointing about this section is the complete absence of any reference to Mises' sharp distinction between theory and history. One must appreciate this distinction to have any hope of understanding the limited distance Mises took apriorism, and, conversely, the important role he saw for historical work.

Undoubtedly the most novel contribution Hutchison offers to the history of economic thought is the division of F. A. Hayek into a "Hayek I" and "Hayek II." The dividing point is located at the publication date of "Economics and Knowledge," which is said to represent Hayek II's rejection of the Misesian ideas on method that had dominated Hayek I's thought. There are indeed differences between Hayek and Mises, but there is probably as great a danger of overstating as of understating them. Hayek has continued since 1937 to

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Books

T. W. Hutchison, *The Politics and Philosophy of Economics: Marxians, Keynesians, and Austrians*

(New York: New York University Press, 1981).

Reviewed by Lawrence H. White

It should be obvious from the sub-title of this book that it holds potential interest for Austrian economists, if for no other reason than it represents an evaluation of the Austrian school by an "outside" critic. T.W. Hutchison is, of course, not just any critic. He is a well known and well respected historian of economic thought and economic methodologist. Those familiar with his earlier works, from *The Significance and Basic Postulates of Economic Theory* (1938) to *Knowledge and Ignorance in Economics* (1977), will know him as an emphatic advocate of Popperian falsificationism for economics. They will therefore not be surprised that the bottom line of Hutchison's methodological advice to Austrians is: drop the apriorism of Wieser, Mises, and early Hayek, and embrace the "Popperian insights" of the later Hayek. Even Misesian Austrians will nonetheless find some material here to engage their interest and assent as well as much seemingly calculated to annoy them.

The book is a collection of nine largely unrelated essays, six of which have been published before. Two deal with Marxian political economy, one with the Cambridge School, one with "Keynes *versus* the Keynesians," one with "Walter Eucken and the German Social-Market Economy," two with the philosophy and method of the Austrian economists, and the last two with general methodological issues in economic and macroeconomic theorizing. This review, given its audience, will naturally focus on the two "Austrian" chapters.

An earlier version of chapter 6, "Carl Menger on Philosophy and Method," was previously published in 1973 in a volume edited by J.R. Hicks and W. Weber, *Carl Menger and the Austrian School of Economics*. The chapter consequently calls for only a brief mention here. Hutchison ably conducts the reader on a tour of Menger's treatise on methodology, *Problems of Economics and Sociology*. (The original title of Hutchison's essay was "Some Themes from *Investigations into Method*," where *Investigations into Method* represents a more literal translation of the title of Menger's work.) Students who have not read Menger's book may profit from this aspect of the chapter, though it is naturally a poor substitute for reading the original.

In addition to giving a survey Hutchison criticizes Menger's essentialist outlook on economic theory, though not very cogently. For example, Hutchison asserts (p. 181) that "a genuine law of demand, unlike Menger's 'exact' law, must be testable or falsifiable." He does not explain how what he calls the "law of demand," the proposition that a rise in demand results in a rise in price, might operationally be shown as "false." Neither does he explain why formulating it in a non-falsifiable way would render it not a genuine law. Of course what is usually meant by "the law of demand" is the proposition that the lower the price faced, the greater the quantity demanded, i.e. that demand curves slope downward. Here the same questions arise: Could this be falsified, particularly when formulated carefully as a *ceteris paribus* proposition? If not, why does that disqualify it from being a "genuine law"? The issue here is not simply verbal, as Hutchison rightly insists. The issue is: What is illegitimate or unscientific about a proposition being non-falsifiable, particularly when it is deducible from non-falsifiable (or definitional or axiomatic or "hard-core") statements concerning preferences or utility?

Hutchison certainly cannot be faulted for criticizing Menger where their views diverge. But he can be faulted for evidently failing to understand Menger on a crucial point, the concept of economic institutions as *unintended* consequences of individual actions. Hutchison confuses the agents' lack of intention to produce an overall pattern with unawareness of the way in which the pattern is formed. In fact a Mengerian explanation of the way in which prices are formed, without any agent intending to produce uniform and market-clearing prices, loses none of its relevance in a world *(mirabile dictu!)* populated entirely by economically literate citizens. It is therefore difficult to agree with Hutchison's statement (p. 185) that "there is certainly less and less scope for this kind of 'organic,' unselfconscious behavior and institutions, as social and economic knowledge, and its communication, grows and spreads." While it may be true that governments find intervention more tempting the more statistics they gather, this does not mean that the spread of information makes obsolete the distinction between institutions 'organically' evolved and institutions deliberately designed. Hutchison seems determined to obliterate the conceptual distinctions between designed and undesigned order, and between intervention and non-intervention, when he states (p. 186) that "a free-market economy must today be just as consciously and deliberately constructed or 'planned' as some socialist experiments."

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Books

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uphold subjectivism, methodological dualism, and methodological individualism, particularly in "The Facts of the Social Sciences" (1943) and part one of the *The Counter-Revolution of Science* (1942-1944).

Hutchison embraces "Hayek II" for embracing a Popperian falsificationism which "sweeps out of court" the position of Wieser and Mises. Perhaps the peak of rhetorical excess is reached when (p. 218) Hutchison declares: "But it would be disastrous to collapse into the kind of obscurantism which refuses to recognize, or to try to uphold, *any* common epistemological criteria as standards which should be shared by natural and social scientists alike (as Popper has always insisted). That way lies the permissive chaos in which the principle that 'anything goes' will ripen into the dogmas of mob rule, and so usher in the dictatorship of some genocidal popular or 'proletarian' boss, such as "'the great scientist,' Stalin." This can hardly be regarded as a scholarly argument against the position that the social sciences can have strict standards which are not the standards of natural science.

Hutchison is prone to blur Austrian apriorists together with Paul Feyerabend, the advocate of "methodological anarchism," and with Martin Hollis and Edward J. Nell, the aprioristic-Marxian critics of neoclassical economics, when a careful scholarship would keep the distinctness of their several positions in focus. The tendency to tar them all with the same brush is especially pronounced in the book's final chapter. (Hutchison does of course recognize the incompatibility of Marxism with Austrianism, and indeed seems to think it clever to suggest that intellectual conflicts between apriorists of the two camps could be settled only by violence. In fact a reasonable dialogue is possible, as shown by Don C. Lavoie's essay-review of Hollis and Nell in the *Journal of Libertarian Studies* of Fall 1977). The greatest distortion created by blurring all three groups together as "anti-positivists" is the suggestion (p. 279) that Misesians fail to observe the normative/positive distinction and the definitional/empirical distinction. The first distinction is clearly insisted on by Mises. A version of the second (not, to be sure, the analytic/synthetic version) is present in Mises' distinction between theory and history which, as we have already noted, Hutchison fails to notice.

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