Lange, Mises and Praxeology: The Retreat from Marxism

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Most economists are familiar with the controversy on the possibility of economic calculation under socialism, and with the fact that Ludwig von Mises and Oscar Lange were the two major protagonists of that debate.1 Many are also familiar with Lange's ironic gibe that, for having posed the problem which Lange believed that socialism could readily solve, "a statue of Professor Mises ought to occupy an honorable place in the great hall of the Ministry of Socialization or of the Central Planning Board of the socialist state."2 In the light of the rapid retreat from socialist central planning and toward a free market in the Eastern Europe of recent years, it seems that Lange's irony might well have boomeranged.

Far less known, however, is a parallel retreat from Marxist economic theory in Oskar Lange's last years, a retreat, furthermore, made in long strides toward the economic theory and the methodology of none other than his old opponent. Mises' most distinctive contribution to economics was his concept and elaboration of economic theory as praxeology (or praxiology), the formal, general logic of human action, of human purposive activity using scarce means to achieve the most preferred ends.3 As a leading Polish economist, Lange was very familiar with the praxeological theories of the distinguished contemporary Polish philosopher, Tadeusz Kotarbinski. While Kotarbinski's specific conception of praxeology differs considerably from Mises, stressing analysis of efficient as well as hostile action, they unite in emphasizing the essence of praxeology as a general theory of rational action.45 In his final, posthumous work, designed as the first of a multi-volume treatise on economics, Oskar Lange devoted a great deal of time to the painful acknowledgement that economics must encompass praxeology as well as Marxism. The particular irony is that Lange devoted a great amount of attention to an economic theory of his old antisocialist rival which still remains almost unknown in conventional Western economic thought.

Lange entitled Chapter 5 of his posthumous Political Economy, "The Principle of Economic Rationality. Political Economy and Praxiology." He begins the chapter with the decidedly un-Marxist but praxeological statement that "Human economic activity is conscious and purposive activity", that "consists in the realization of given ends by the use of certain means."6 He proceeds to point out that the capitalist market economy had not only developed gainful activity, but that this gainful activity was a rational one, quantifying ends and means through a calculation in terms of money. Here Lange is implicitly harking back to the old calculation controversy. The economic calculation made possible by money and the invention of double-entry bookkeeping in the capitalist market, enabled action toward the maximizing of money profit and income, and thereby toward the most efficient realization of man's ends. In this way, maximization of profit under capitalism is accomplished by following the economic principle or principle of economic rationality, a principle enabling the maximum degree of realization of one's ends per given outlay, as well as the minimal outlay of means for a given degree of realization of one's ends. The former variant is the "principle of greatest efficiency"; the latter, the "principle of minimum outlay, or economy, of means", or mimimum cost.7 The rational use of means, according to these criteria, is their optimum use; any other use of means Lange agrees to consider a waste. In support of these economic principles, Lange cites Kotarbinski's general praxeological concept: "The more valuable the product of a given experience the more productive is behavior; on the other hand, the less the outlay in the achievement of a given aim, the more economical is behavior."

Lange proceeds to pay tribute to the great achievement of the capitalist market economy in arriving at this rational economic principle. Despite the prevailing private rather than "social" rationality, and despite such problems as the business cycle, Lange declares that "the rationalization of economic activity within the capitalist enterprise, the practice of proceeding according to the principle of economic rationality, and especially the consciousness of this principle in human thought, all constitute an achievement of historic significance ... on a par with the imposing advance

in material technique made within the capitalist mode of production ... itself closely connected with the application of the principle of economic rationality in enterprise."[8]

After rather perfunctorily asserting that socialism will proceed to expand this rationality to social planning, and to such areas of action as input-output analysis, technology, and military strategy and tactics,[9] Lange goes on to identify this study of the rational principles of action as praxeology, the logic of rational activity, and details the history of this concept. From Mises, Lange had discovered that the term "praxeology" was first used by the French historian Alfred Espinas in 1890.[10][11]

Proceeding to the more developed praxeological work of Kotarbinski, Lange criticizes the Polish philosopher's narrow and technological treatment of the concept as the science of effective or efficient activity; instead, notes Lange, praxeology is really a broader "methodological rationality", a doing of one's best according to one's knowledge, so that it is better to define praxeology as the science of rational activity. In opting for this broader, more formal, and more general concept, Lange goes a long way from the Kotarbinskian and toward the Misesian formulation of the theory. Praxeology, adds Lange, encompasses under this rubric of rational activity such categories as: ends and means, method, action, plan, efficiency, and economy. Praxeological principles of behavior comprise the relations between the praxeological categories, and the principle of economic rationality (or the "economic principle") is one of these praxeological principles of behavior. In this way, Lange agrees with Mises that the economic principle is itself embedded in the wider praxeological principles of general human action. Furthermore, he agrees that the praxeological principles had until now been elaborated only in the field of economics, as Mises affirms, and in ethics as well.

Lange, however, now found himself at the brink of a precarious position: the Mises thesis that praxeology had so far been elaborated only in economic theory, and that therefore economics and praxeology, while conceivably of different scope in the future, are now virtually identical. To take such a position would mean, for Lange, being close to becoming a Misesian and an Austrian School economist. Drawing back from this precipice, Lange hastens to add that praxeology includes, not only Mises-type economic theory, but also the general theory of statistical decisions, operations research, programming, input-output analysis, and cybernetics. Lange did not seem to realize that by rushing to include these disciplines, along with economic theory, in the rubric of praxeology, he was returning to the very different technological concept—the technological manipulation of means to reach a given end—that Lange had already rejected in Kotarbinski.[12] Remembering suddenly to pay his respects to Marxism, Lange adds as an afterthought that dialectical materialism partly bases its cognition on the "praxeological principle" of proceeding according to the "criterion of practice."[13]

From the praxeological principles of behavior, and especially the economic principle, adds Lange, a considerable edifice of economic laws can be deduced: such as a general attempt to maximize profit and investing capital at the highest rate of profit, thereby leading to a tendency toward a uniform rate of profit throughout the economy. In this way, Lange accepts the essential deductive Misesian methodology for economic theory: beginning with broadly general praxeological principles as axioms, and from these elaborating necessary laws by logical deduction. While Lange attempts to qualify this agreement by stating that empirical testing is needed to see whether various economic actions are "rational" or "customary-traditional", his basic alignment with Misesian methodology still remains.

Later in the book, Lange returns to grapple with praxeology through a critique of subjective utility theory, itself a topic that usually rates little or no space in Marxian works.[14] He begins with a history of value theory, and of the basis of economics in the nineteenth century, that is perfectly acceptable to any modern economist: from the classical "economic man" to Benthamite utilitarianism and hedonism to Bastiat's exchange of services and on to the subjective, marginal utility school. The latter began with Jevonian hedonism and then developed into the Austrian, praxeological interpretation of utility not as "pleasure", but as the realization one's aim of economic activity, regardless of the nature of that aim. The aim may be pleasure, money, power, health, or

whatever; the Austrian view simply states that economic activity has some aim, or preference, that forms the goal of action. As Lange correctly concludes: “In this praxiological interpretation, the subjectivist trend leaves aside all psychological considerations and transforms itself into a logic of ‘rational choice’ aimed at the maximization of preference.”15

Lange then proceeds to a history of the development of this general, formal theory of utility as ordinal preference. He sees that the Austrian School (Menger, Wieser, Böhm-Bawerk) was far more thoroughgoing in its application of subjective marginal utility theory than the currently far more influential Lausanne School (Walras, Pareto) or than Alfred Marshall. For the Austrians applied marginal utility theory to all gainful activity, whereas the latter applied it only to consumers. In the Austrian and praxeological view, both the consumers’ aim of maximizing utility and the producers’ aim of maximizing money income or profit fall under the single rubric of maximizing preferences and of marginal utility. Lange’s history here is deficient in identifying Pareto partially with the Austrian approach while totally neglecting the praxeological role of Pareto’s Italian opponent Benedetto Croce. Moreover, he also neglects the adoption of a general and purely ordinal concept of marginal utility by the Czech Austrian School economist Franz ?uhel, and following ?uhel by Ludwig von Mises in 1912, long before the famous Hicks and Allen article of 1934.16 Lange is correct, however, in citing a praxeological interpretation of utility by Max Weber as early as 1908, in which Weber stated that marginal utility should be formulated, not in such psychological terms as pleasure, but in such “pragmatic” categories as ends and means.17

Thus far our Marxian was willing to go with praxeological economics. But here Lange confronted a precipice even steeper than before: for just as it was important for him to deny that praxeology might be confined to economics, so it was still more important for him to deny that all of economic theory is a subset of praxeology. For if that were really the case, where would that leave Marxism? And so Lange separates himself from the final step in the development of praxeological economics: the transformation of economics into a branch of praxeology. Separated now from concrete objects, economic analysis became a formal science of rational behavior, of the maximization of magnitudes. Conversely, the formal aspects of all rational behavior became analyzable by the economic principle.18

For this transformation of economics into a branch of praxeology, Lange cites Lionel Robbins and his well-known depiction of economics as a certain aspect of all activity, namely the relation between scarce means and alternative ends, and the choice among those ends.19 He also devotes attention to the Austrian economist Hans Mayer, and to Max Weber, who had originated the Robbinsian distinction between economics as choice of means between ends and technology as the choice of means to realize a given end.20 While this distinction is rather simplistic - neglecting, for example, the point that economic as well as technological considerations enter even into the choice of means toward a single end - Lange is incorrect in charging that the distinction is meaningless because the hierarcy of alternative ends are all aimed toward one principal end: the maximization of utility. Lange does not realize that “utility”, for the praxeological school, is not a thing or an entity in itself, but is simply the label placed upon the preference rankings which everyone makees among his vrious ends. “Maximizing utility” simply means the formal principle that a man attempts to attain his highest ranking, his most preferred, rather than his less preferred end.21

Lange than points out that this transformation of economics into a branch of the universal science of praxeology culminated in Ludwig von Mises’ Human Action in 1949. Classical political economy was now fully transformed into a general theory of human action, of the acts of choice. Economics becomes no longer an empirical science with “real” phenomena, but a formal logic of choice, where the only criterion of truth is agreement with the original axioms. The economic theory becomes empirically true insofar as any concrete action is governed by the economic principle. Lange is particularly critical because all of the laws of praxeological, subjective economics are considered by Mises and the preceding Austrians to be applicable to Crusoe economics as well as to the exchange economy. Lange’s hostility to this “unrealism” stems precisely from the fact, as he points out, that application to Crusoe economics implies that the laws of economics are universal and apodictic for

every time and place, regardless of the concrete content of social relations or economic activity. By means of praxeology, economics, like the natural sciences, has transcended the concrete and changing data of history and has assumed the character of a universal and apodictic science. As Lange characterizes this position: "Historically conditioned social relations may influence the concrete form in which these laws manifest themselves but they cannot change their basic character."22 While Lange is willing to concede this universal and trans-historical character to praxeology, he is not willing to concede economics to be only a subset of praxeology and therefore to take on the same timeless character. For if he were, Marxism, with its proclaimed laws of historical determinism, would have to be completely abandoned.

The characteristic method of the praxeological economists in developing their analysis, Lange points out, is to begin with the economics of an isolated Robinson Crusoe, an analysis which elucidates the basic laws of men in relation to things. Then, other people are brought in, and exchanges between these individuals explained as each person choosing to give up something he wants less in order to obtain something he wants more. Exchanges thus become the resultants of the subjective attitudes and preferences of the participating individuals. Lange complains that this process of beginning with man vis à vis nature is the opposite of the Marxian conception, which concentrates on "economic relations among men - relations of production and relations of distribution." He further quotes from the Marxist Rudolf Hilferding, in his charge that the Austrian School economics of Böhm-Bawerk "takes as the starting point of its system the individual relation of man to things. It conceives relations from a psychological point of view, as subject to natural invariable laws; it excludes socially determined relations of production, and ... development of the economic process according to definite laws is quite foreign to it."23 This, to be sure, is the liquidation of the classical "political economy."

But while Lange accuses subjectivist economics of ignoring real economic relations between men, he also correctly asserts that this school of thought treats the economic categories of capitalism "as general praxeological categories, categories of rational human activity ..."24 Wages, capital, profit become universal categories independent of the historical shaping of society, and therefore capitalism becomes a universal requirement of rational economic activity. Lange sees that this leads to the heart of the Mises-Lange calculation controversy on whether rational economic activity requires the private ownership of the means of production.25 But then Lange can hardly be correct in charging that praxeological economics ignores concrete social and economic relations; on the contrary, his real complaint is that from these abstract, universal economic laws may be deduced the very real necessity for market capitalism in order to sustain a rational economy.

Thus, while Lange is willing to concede the universality of the economic principle, and the achievement of subjectivist economics in discovering a praxeology that can be applied to political economy and to other fields, he is of course not willing to concede that economics is exclusively praxeological. The remainder of Lange's discussion is an unsatisfactory attempt to outline what Marxism or any other economic theory might add to praxeology in the formation of economics. He mentions institutional discussions of the social organization of production, of the State, labor, national income, etc., but the unanswered question is the role of these categories in economic theory as compared to an accumulation of institutional data to which that theory can be applied. Lange also approvingly cites the attack on the subjectivist Austrian School by the Polish economist Stanislaw Brzozowski, who charged that the Austrians merely analyzed the relations between man and given things, and comprised a theory of consumption rather than a "complete theory of society." In the first place, this contradicts Lange's previous insight that the Austrians, in contrast to Marshall and the Lausanne School, had extended their subjectivist analysis from consumption to production and the productive factors; the "given things" constituted only the first step in their complete analysis. Secondly, why should it be a defect of praxeological economics that it does not offer a "complete theory of society?" Is physics to be condemned because it is not chemistry? Has a complete and correct theory of society been offered by any sphere of economics or social science?

Lange proceeds to unworthy and rather absurd attempts to subject the Austrian School economists to a Marxian "sociology of knowledge." The Austrian School, he asserts, is the economics of pensioners and tax officials, because it discusses only consumption and not production; and Nikolai Bukharin is cited in asserting that the Austrian School, with its concentration on consumption, is the "rentier's political economy."[26] Not only does this contradict Lange's own previous concession to the Austrian integration of production and consumption, but it also leaves us with the puzzle of how to "explain" such consumption-oriented economics as that of John A. Hobson or J.M.Keynes? Are they too to be dismissed as "rentiers", even the Keynes who called for the "euthanasia" of that very class? Lange's second attempt is to "explain" the abstract and unrealistic Austrian methodology as the product of the professionalization of economics in the universities in the late nineteenth century, which thereupon developed in "isolation from the productive process."[27] But while the earlier classical economists may not have been as professionalized, they were also - apart from Ricardo - not businessmen, and thus were equally "cut off" from the productive process. Neither the university professor Adam Smith nor the civil servant Mill were any closer to the productive process than Menger or Böhm-Bawerk. Furthermore, a bit later in the book Lange turns around and salutes the professionalization of all scientific research in the past century as leading to an autonomy of science, a critical attitude toward the social system, and a science that "becomes independent of the social milieu which produces" it.[28]

Lange declares that since the bourgeoisie had to know what was actually happening in the economy, they couldn't pursue completely the Austrian path of liquidating political economy. Therefore, the more "realistic" Anglo-American neo-classicists continued to study such important economic problems as money, business cycles, growth, and international trade. What Lange ignores here is that the Austrian subjectivists have studied and come to a position on all of these important questions, so that what he sees as their abstract "isolation" applies only to the fundamental laws and not to the more developed and applied branches of the theory. One need only mention the Mises-Hayek "monetary malinvestment" theory of the business cycle to see how praxeological economics has been applied to vital and realistic economic problems. The problem, however, is that Lange cannot be very happy with the policy conclusions of the Austrians in these areas: ultra hard money, the gold standard, laissez-faire capitalism. Again, the problem is not so much the relevance of the method as the kind of conclusions that are obtained.

Lange's remarkable adoption of Misesian praxeology as the major base for economics, onto which Marxian and other approaches were then hastily grafted, met predictably mixed reaction in Marxian circles. Most striking was the laudatory critique of Lange by Ronald Meek, the distinguished English historian of economic thought.[29] Professor Meek, summarizing Lange's lengthy chapter on the Principle of Economic Rationality, notes that "significantly, the references to Marx's work become purely incidental."[30] Meek considers it "interesting and paradoxical" that praxeology, which "has now become an indispensable adjunct to Marxian economics", was the culmination of a violently anti-Marxist subjectivist trend in "bourgeois" economics.[31] The paradox might well be put the other way round: that of a leading Marxian economist adopting the economics of his own and Marxism's major opponents, and then rather desperately trying to insist that there is still room for Marxian and institutional approaches in the wider rubric of political economy.

To Marxian "fundamentalists", on the other hand, the Lange-Meek movement is seen for what it genuinely is: a massive "revisionist" retreat from Marxism. In his review of Meek, Ben Brewster despairingly writes: "... for if the relations of production is a general principle governing society the latter becomes merely the totality of human social interaction; there is no specificity of the economic level at all and the distinction between base and superstructure breaks down. The result is that in the last essay in the book (the title essay), Meek apparently falls for the most general principle of society and the most bourgeois ideology of them all, von Mises' "Praxiology" (the principle of all rational action) in Lange's purely ideological attempt to graft Marxist and Neoclassical economics."[32]

And so, as Marxian economic thought joins the actual economies of Eastern Europe in a headlong flight from Marxism and socialist central planning to Western and capitalistic modes of thought and economic systems, Oskar Lange's original irony is truly beginning to boomerang: Perhaps the freemarket, capitalist economy of a future Poland will erect a statue of Lange alongside the monument to his old antagonist?

Footnotes

[[1]]See Ludwig von Mises, Socialism (New Haven: Yale University Press, 1951); F.A.von Hayek, ed., Collectivist Economic Planning (London: George Routledge and Sons, 1935); and Oskar Lange and Fred M. Taylor, On the Economic Theory of Socialism (New York: McGraw-Hill, 1964). For a summary and critique of the controversy, see Trygve J.B. Hoff, Economic Calculation in the Socialist Society (London: William Hodge and Co., 1949).

[[2]]Lange and Taylor, pp. 57-58

[[3]]See particularly Ludwig von Mises, Human Action (New Haven: Yale University Press, 1949). For a discussion of Mises' praxeology and its relation to previous economic methodologies, see Israel M. Kirzner, The Economic Point of View (Princeton, N.J.: D. Van Nostrand, 1960).

[[4]]For Mises on Kotarbinski, see Ludwig von Mises, The Ultimate Foundation of Economic Science (Princeton, N.J.: D. Van Nostrand, 1962), pp. 42, 135. Most accessible of Kotarbinski's writings is his "Idée de la methodologie générale praxeologic," Travaux du IXe Congres International de Philosophie (Paris, 1937), IV, 190-94.

[[5]]Oskar Lange, Political Economy (New York: Macmillan, 1963).

[[6]]Lange, p.148.

[[7]]Lange here explicitly accepts the modern concept that the ultimate end is not cardinal or quantifiable, but rather an ordered, ordinal set of preferences. Lange, pp. 167-68.

[[8]]Lange, p.176.

[[9]]Kotarbinski's early work was on praxeology as applied to the theory of hostile action. See Mises, Ultimate Foundation, pp.42, 135.

[[10]]In Espinas' article, "Les Origines de la technologie," Revue Philosophique, XVth year (July-December, 1890), pp. 114-15, and in his book with the same title, published in Paris in 1897. See Mises, Human Action, p. 3n.

[[11]]Eugen Slutsky, "Ein Betrag zür formalpraxeologischen Grundlegung der Oekonomik," in Annales de la classe des sciences sociales-economiques, Academie Oukranienne des Sciences, Vol. 4 (Kiev, 1926).

[[12]]On the economic vs. the technological principles, see Lionel Robbins, The Nature and Significance of Economic Science (London: Macmillan, 1935), a work heavily under the influence of Mises, Richard Strigl and others of the Austrian School; and Kirzner, pp. 108-45. Also see Rutledge Vining, Economics in the United States of America (Paris: UNESCO, 1956), pp. 1-37.

[[13]]Lange, p. 190n.

[[14]]Lange, pp. 229ff.

[[15]]Lange, p. 236.

[[16]]Croce's decidedly praxeological contributtion to economics may be found in his fascinating debate with the positivist Pareto on economic methodology, written in 1900 and 1901. See Benedetto Croce, "On the Economic Principle," in International Economic Papers, No. 3 (1953), pp. 172-79, 197-202. For an appreciation of Croce's work, see Giorgio Tagliacozzo, "Croce and the Nature of Economic Science," Quarterly Journal of Economics (May, 1945), and Kirzner, pp. 155ff.

?uhel's great contribution was his Zür Lehre von der Bedurfnissen (Innsbruck, 1907). On Cuhel, see Eugen von Böhm-Bawerk, Capital and Interest (South Holland, Ill.: Libertarian Press, 1959), II, 191, 193-94, 423, 431-32; III, 124-36, 232-33. Mises' development of Cuhel is in his Theory of Money and Credit (New Haven: Yale University Press, 1953), pp. 38ff.

[[17]]In Max Weber, "Die Grenznutzlehre und das 'psychophysische Grundgesetz', "Gesammelte Aufsatze zür Wissenschaftslehre (2nd ed., Tubingen, 1951), pp. 364ff. On the Weber article, see

Emil Kauder, A History of Marginal Utility Theory (Princeton, N.J.: Princeton University Press, 1965), pp. 116-17 136-37.