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A Free-Market Breakthrough

by Jeffrey M. Herbener

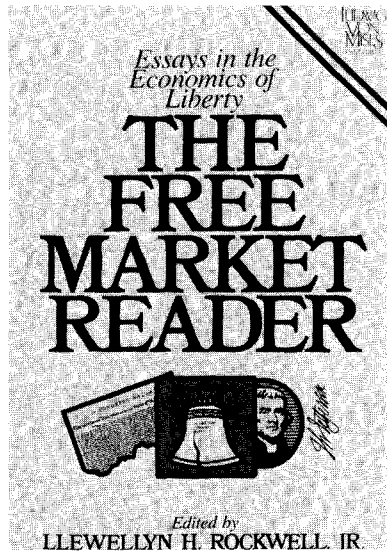
The day before my *Free Market Reader* arrived in the mail, I was discussing economics with a group of businessmen. In response to a request for a book giving an introduction to free-market economics, I recommended Henry Hazlitt's *Economics in One Lesson*. But I had to admit that the shortest and best articles are in newsletters like the *Free Market*. I promised to compile some back issues and send them to him. Much to my delight, the next day, I discovered that the Ludwig von Mises Institute had done the job for me.

The *Free Market Reader* (Ludwig von Mises Institute, 1988) is a 400-page collection of 76 articles, most of which first appeared in the *Free Market* newsletter. Since 1982, the Mises Institute has used this medium to promote economic understanding to the general public (although academics like myself enjoy it too). The purpose is to educate people about the need to rid society of the impoverishment and injustice caused by the government.

The fundamental principle of free markets is that voluntary exchange benefits all participants, while coercion benefits one group at the expense of another group. Thus coercion creates not only inefficiency, but intergroup clashes of interest, or what Mises called "caste conflict." These conclusions form the basis of the Misesian defense of laissez-faire capitalism.

Recognizing that government aggression is harmful to wealth creation and creates conflict, Austrian economists can be unpromising advocates of freedom. "Freedom is indivisible," Mises says. That's why Misesians stand in stark contrast to other so-called free-market economists who support freedom in some

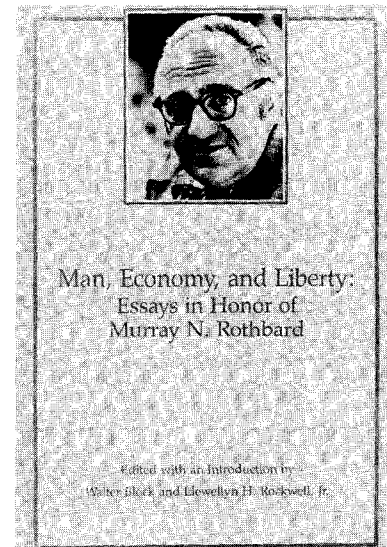
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The quality-paperback *Free Market Reader* is \$13.95, including U.S. postage and handling. Quantity prices: 10-24: \$10.50 ea.; 25-49: \$9.50 ea.; 50 or more: \$8.50 ea.

A Celebration of Murray N. Rothbard

by Sheldon L. Richman



The quality-paperback *Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard* is \$23, including U.S. postage and handling. The hardback is \$45

in Rothbard, Austrian economics, or libertarianism will want to be without this magnificent book. It is 440 pages of thought-provoking writing from such important Austrian economists, historians, and political theorists as Israel Kirzner, Roger Garrison, Ralph Raico, Dominick Armentano, Hans-Hermann Hoppe, Walter Block, Leland Yeager, David Gordon, Arthur Ekirch, Tibor Machan, Douglas Den Uyl, and more. As a special treat, there are personal statements from Rothbard's wife JoAnn and Margit von Mises, widow of his mentor Ludwig von Mises.

The book, which grew out of a conference celebrating Roth-

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Rothbard Celebration...from page 1

bard's 60th birthday in 1986, honors Rothbard as an economist, political philosopher, political scientist, historian, and cultural critic. His contributions in each area have heartened so many people attracted to his commitment to reason, clarity, values, methodological individualism, and, above all, liberty. They are equally attracted to his spirit of intellectual adventure as he takes on the advocates of statism. Roger Arnold, in his chapter on the "Prisoner's Dilemma, Transactions Costs, and Rothbard" refers to Rothbard's "refreshingly clear writing, finely crafted, logically-deduced conclusions, intermittent thought-provoking questions..., ability to find the usually hidden weak point in an opponent's argument and draw it out in the open where it is thoroughly thrashed, and...uncompromising dedication to the cause of liberty that can be felt and is appreciated, at an intellectual level by some and at a subconscious level by others."

In my observation of Rothbard over the past 20 years, I have constantly marveled at his clear, down-to-earth good sense when it comes to seemingly esoteric questions. Rothbard demolishes an argument by shining the beam of rational inquiry on it. As Arnold pointed out, Rothbard destroys utilitarianism by asking, "Why is it ethically better to follow the wishes of the greater as against the lesser number? What's so good about the greater number?"

I recall a Mises Institute talk Rothbard gave about the history of economic thought, a subject that has claimed much of his attention lately. He remarked that in academia there is a rule of thumb that a researcher need not read old journal articles. Why? Because, so the argument goes, anything of value in those articles has been incorporated into the discipline and carried along to the present. And anything not of value has been happily left behind. Thus, there is no need, aside perhaps from antiquarianism, to look far back. He pointed out that the implications of this rule are important: a noted text on the history of economic thought treats Austrian economics as obviously wrong not because anyone refuted it, but simply because it had its heyday in the 1930s. The fact that it was overthrown in the minds of economists by Keynesianism is all the proof needed for its inferiority.

Behold the Rothbardian mind in action: such a view, he said, contains an implicit historicism, to the effect that truth inevitably prevails in intellectual debate. This in turn posits a mechanistic process in which people without fail accept truth and reject falsehood. But when he makes the implicit explicit, we realize that this mechanistic view clashes with our everyday knowledge of people. There are countless reasons why falsehood could prevail: sheer error, political interest, etc. It just is not true that the schools of thought that "survive" are superior to those that do not. There are other criteria of "fitness" than truth.

In that talk, Rothbard went on to subvert all versions of historicism, especially those that claim that history is on an

implacable march toward collectivism. But with equal rigor, he applied the same criticism to the views of those, such as Herbert Spencer, who thought that history was on an equally implacable march toward individualism and liberty. Aren't we talking about Misesian Man? he asks in effect. And didn't Mises teach that human beings of free will choose ends and apply means toward those ends as they peer into an uncertain future? Then there is no such implacable march by history anywhere.

This general approach—this cutting through the fog and touching the essence—is what Rothbard does in subject after subject. Nowhere is this clearer than his treatment of the monopoly question. For me one of Rothbard's greatest masterpieces is chapter 10 of *Man, Economy and State* on monopoly. Rothbard's refreshing reformulation of monopoly theory is ably described in the *festschrift* by Dominick Armentano. Throughout the literature on monopoly one is bombarded with the terms "competitive price" and "monopoly price." The competitive price is good and the monopoly price, being above the competitive price, is bad. Rothbard in effect says: Whoa! There's no such thing as a competitive price, because it is derived theoretically from the fantastic notion of perfect competition. In a free market there is only the market price, the outcome of the higgling and haggling by real-world buyers and sellers. And if there is no competitive price, there is no such thing as monopoly price, because it is defined in terms of the nonexistent competitive price. But, says Rothbard's opponent, what if a sole producer restricts production and causes the price of his product to rise? Hasn't he achieved a monopoly price? *A contraire*, responds Rothbard: how do you know that he hasn't just caused the price to move from a subcompetitive level to the competitive level? The next thing you'd hear would be silence.

For Rothbard, there can be no monopoly, in any nontrivial sense, in the free market. He advises that this dark label be reserved for state-privileged enterprises, as it was originally in England.

Another area where we can see this distinctive Rothbardian

Writers in This Issue

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method applied is in his examination of the various economic justifications for the state. Roger Arnold discusses the concept of the prisoner's dilemma and transactions costs in depth. Here let me pick out some essential points. Rothbard's concern is with the generally pro-market economists and political scientists who justify government intervention on grounds that in a narrow set of cases, the market fails. For example, it is said that when transactions costs are too high to permit the production that people want, the government should provide it. Rothbard asks very simply what is so special about transactions costs? We don't make an exception for high production costs or other kinds of costs. Why transactions costs? (Of course, this leaves aside what Rothbard never fails to remind us: that all costs are subjective, ephemeral, and hence immeasurable.) If the costs are prohibitive, the market is trying to tell us something. On the other hand, why should we be impressed that academic economists can't think of a way to provide a product in the face of high transactions costs? If entrepreneurship were their comparative advantage, they'd presumably be rich entrepreneurs.

Moreover, what about the costs of government? Economists once treated government actions as costless or at least as net contributors to social well-being; any market failure was to be remedied by a political solution. (I propose that a shorthand for "political solution" henceforth be *pollution*.) Again, Rothbard stops us in our tracks. Any time the government helps someone, it hurts at least one other person. By definition government coerces, and coercion implies that its victim would have acted otherwise if left alone. Moreover, well-being or utility, is, like costs, subjective and immeasurable. Thus no matter how much the government helps someone, we can never say that it has generally improved the well-being of society. The bearers of the government's burdens have not had *their* well-being improved nor their utility maximized.

Man, Economy, and Liberty overflows with discussions of Rothbardian insights on money, interest rates, efficiency, rights, class analysis, and more. Take, for example, Roger Garrison's paper on Rothbard's contribution to interest theory. Interest has perplexed students of economics from time immemorial. There probably are more wrong theories about interest than anything else. Even the great Austrian economist Boehm-Bawerk once stumbled in this area. Rothbard once again goes against the mainstream with such clarity that the real puzzle becomes why this is a problem any longer.

As Garrison explains so well, interest for Rothbard (building on Mises and Frank Fetter) is explained by people's preference for goods sooner rather than later. Since they have this preference, they discount the future; that is, they discount the value of the present inputs that will yield future outputs. "The value difference is interest," writes Garrison. This explains why no matter how high the price of capital equipment, it is not as high as the expected value of the future goods that the equipment will produce. This is Rothbard's answer to the various theories that explain interest in terms of the productivity of capital equipment. As Garrison points out, Rothbard's approach puts

an end to the age-old debate over which of the factors of production (land, labor, capital) is *truly* productive. "Professor Rothbard would reject the question," writes Garrison. "The notion of productivity in this sense—and hence the issue of the source of such productivity—vanishes once we take adequate account of the temporal pattern of inputs and outputs and of the effects of time preference on their relative values."

Or consider Rothbard on the issue of efficiency, discussed by E.C. Pasour, Jr. For Rothbard, ever mindful of subjectivism and uncertainty, efficiency is a "chimera." The outside observer cannot judge the efficiency of another's actions because he is not privy to the actor's expectations. Seemingly inefficient behavior may be perfectly rational from the actor's point of view. As Pasour notes, a cattle rancher could overgraze a pasture because he expects the future price of cattle to make this worthwhile. Costs—*opportunity* costs, to be more precise—are inherently subjective. Whatever the rancher believes he is forgoing by adding cattle to the pasture is judged less valuable than the anticipated benefits. "The conclusion is that an outside observer cannot identify another person's inefficient behavior since the expected value of the costs and benefits that determine choice are unique to the economic actor," Pasour writes.

As forbidding as this problem is for making pronouncements about the inefficiency of individual behavior, it is nothing compared to the problems regarding social efficiency, the basis of mainstream welfare economics. The reason is that comparisons of utility among people are simply impossible. Utility is subjective and ordinal, and thus mathematical operations cannot compute net social cost or benefit. This doesn't imply that everything is always efficient. Rothbard the Austrian economist emphasizes the chimerical nature of efficiency by noting that knowledge is always imperfect, that improvement is always possible, and that people's values and tastes are constantly changing. The implications for public policy are far-reaching because there can be no scientific claim to social efficiency. For Rothbard, ethics (justice) and our general understanding of how the market works should control public policy.

The book is filled with other treats as well. Gary North's chapter on "Why Rothbard Will Never Win the Nobel Prize" is a gem. As is usual with *festschriften*, some chapters, rather than exploring the work of the honored person, deal with a topic related to that work. The historian Ralph Raico, for instance, tells the fascinating story of John Prince Smith, founder of the 19th century free-trade movement in Germany. Finally, if I may be indulged, my own contribution to the book explores the thinking of Murray Rothbard between 1952 and 1962 as exhibited in several hundred private book reviews he wrote for the old Volker Fund. The youthful Rothbard expounds on economics, politics, and philosophy—and sounds much like the Rothbard of today.

There of course is no substitute for reading Rothbard himself, but that does not detract from the enjoyment of this celebration in writing for one of the great champions of reason and liberty. ■

Capitalism vs. Socialism

by Jeffrey A. Tucker

Why are statist attracted to the field in economics known as “comparative systems”? Because it gives them a chance to judge the worth of various economic systems around the world—and declare socialism the winner.

Through mathematical maneuvering and trickery, these theorists can show the glories of free health care in Cuba, social welfare in Sweden, planning in the East Bloc, and central banking around the world. What the people who actually have to live under these systems think about killer doctors, maddening bureaucracies, chronic shortages, and inflation is not a concern.

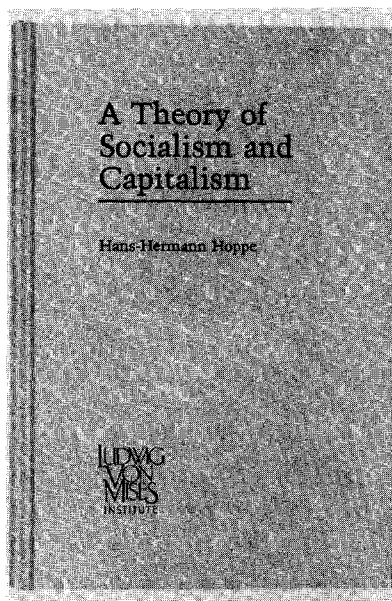
That's why Hans-Hermann Hoppe's new book, *A Theory of Socialism and Capitalism* (Kluwer Academic Publishers and the Ludwig von Mises Institute, 1989) is such a great contribution. It is the first theoretical analysis of economic systems written from a Misesian perspective.

In comparing economic systems, which produce the most wealth? Which lead to poverty? Which allocate resources efficiently and which wastefully? Which encourage peaceful human cooperation and which reward lawlessness, deceit, intrigue, power-grabbing, and bribery? These are the essential questions Hoppe seeks to answer.

His book is so useful because the effects he deduces apply for all times and in all places where each economic system is implemented. Variables like population density, natural resources, geographic conditions, and climates are important, but they are not all-encompassing. In fact they are incidental to more important institutional considerations: whether property rights are respected; whether government intervention takes place through taxation, regulation, or inflation; whether the fruits of labor are privately or socially owned; whether and by how much government violence has been legalized; and whether the rules of social conduct apply to all parties.

Yet he also incorporates sociology and ethics into his economic analysis, and he does so through logical deduction. This is the most original contribution of Hoppe's book.

What Hoppe calls the “natural theory of property” governs



The hardbound A Theory of Socialism and Capitalism is \$45, including U.S. postage and handling.

the first social order he discusses: every person has exclusive right to his person and whatever property he homesteads (uses first), produces, or contracts for. If anyone acquires new property or wealth, it must be through additional first-use, production, or contracting (exchanging of property titles). In this natural system of property, neither the person nor the property he owns can be invaded.

This first system can also be called “pure capitalism.” Any forced transfer of property titles away from users, producers, and contractors toward non-users, non-producers, and non-contractors is a deviation from this pure system. All other four systems he identifies are types of socialism, which he defines as “an institutionalized policy of redistribution of property titles.”

The Marxist system attempts to do away with private property. This is all-out socialism, or “Russian-style Socialism.” Under ideal Russian socialism, all the means of production are socially owned and “no persons, or no group of persons, or all taken together is allowed to either acquire them or sell them and keep the receipts from their sale privately.” No one actually owns the means of production; they are owned by “the community of caretakers.”

To implement this system, property will have to be redistributed. This itself is a wealth-reducing act because property is taken from users, producers, and contractors and partially given to people who are not in those roles.

Private property grants both ownership and control. Making everybody the owner of everything addresses only the question of ownership. But who will have the power to control the commonly-owned property? Someone's or some group's opinion must win out by force over others.

This type of socialism, as Hoppe shows, is destructive, wasteful, chaotic, and impoverishing. It also creates, Hoppe points out, a New Socialist Man; but not the one Leftists envisioned. This New Socialist Man is driven to despair, cynicism, and laziness since he is forbidden from engaging in production or contracting. Or if he wants to improve his income and well-being, he must cultivate political talents: “persuasion, demagoguery and intrigue, through promises, bribes and threats.”

A less severe form is what Hoppe calls “Social-Democratic Socialism.” It is “one of the most widespread ideologies of our age” and has a large following in the West. It originated as the fall-back position of the Marxists, who became disillusioned with the results of Russian socialism, yet wanted to maintain the goal of egalitarianism. This system allows for some private property in the means of production, while relying on heavily redistributive measures to equalize income, like steeply progressive income taxes, sales taxes, and inheritance taxes. Therefore, while property is privately owned, the income derived from that property “rightfully belongs to society.”

The difference between social-democratic socialism and all-out socialism is “one of degree,” contrary to what its proponents lead the public to believe. There are market prices for the

means of production, so some of the problems of calculation inherent in Russian socialism are avoided. But this system raises the costs of producing and contracting so there will be less of them. It lowers the costs of leisure and consumption, which encourage these behaviors, causing output to fall.

The political consequences are an endless striving for "equality of opportunity." As Hoppe points out, "What constitutes an opportunity, what makes an opportunity different or the same, worse or better, how much and what kind of compensation is needed to equalize opportunities, what is undeserved bad luck," etc., "are all completely subjective matters." Objectifying them leads to social conflict and drives people into "spending more and more time in the role of raising, destroying, and countering distributional demands." In short, it leads to the politicization of society.

Another type of socialism is the "socialism of conservatism," which tries to maintain the existing distributions of property rather than allowing the market to change them according to consumer tastes. Conservatism allows private property, scorns egalitarian ends, and relies less on taxation. Instead it uses occupational licensing, regulation, behavior controls, price restrictions, and business cartels. It supports monopolies in areas like education, traffic and communication, the arts, central banking, and security production. It favors an institu-

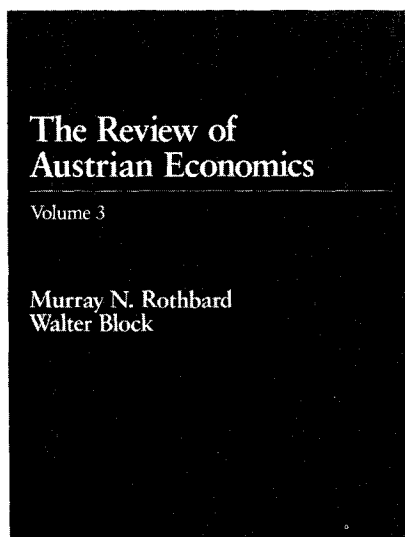
tional hierarchy and social feudalism over freedom for the masses.

Hoppe's classification of conservatism is more purely European than American. It wouldn't apply to, say, Robert Taft, Frank S. Meyer, John T. Flynn, Garet Garrett, M. Stanton Evans, or their followers. But it *would* apply to American neo-conservatives like Irving Kristol and Norman Podhoretz, and to American Tories like George Will.

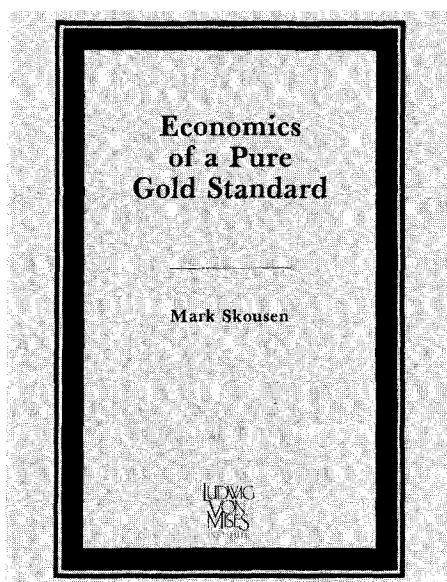
Mises once observed that even the smallest intervention leads to problems which appear to call for more intervention, leading finally to full government control. Hoppe extends this analysis to the problems inherent in conservatism. As long as there is a market, it will reflect changes in consumer preferences, which will cause individuals to shift positions within the social hierarchy. An undiluted conservatism will have to resort to price controls over goods and services, outlawing innovation, full cartelization, and economic fascism. This section may be the most challenging of the book.

Hoppe's fifth social system, popular in elite circles, is the "socialism of social engineering." To refute this system, Hoppe destroys the methodology of empiricism which lies at its foundation. It is an impressive achievement to see how Hoppe shows the internal contradictions of the empiricist method and lays

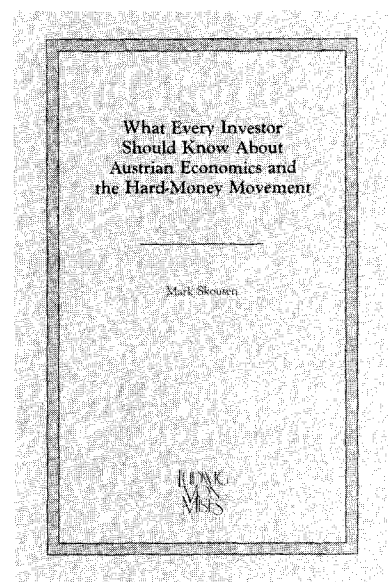
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The Review of Austrian Economics is a unique scholarly journal. Edited by Murray N. Rothbard and Walter Block, sponsored by the Ludwig von Mises Institute, and published by Lexington Books, it stands out among economic scholarship as unusually literate and consistently interesting. Its content is of lasting value because it is rooted in reason, and not in the latest academic fad. The hardbound RAE III is available for \$35, including U.S. postage and handling.



Investment superstar and Austrian economist Mark Skousen's *Economics of a Pure Gold Standard* (Ludwig von Mises Institute, 1988) defends a monetary system in which the dollar is a weight of gold and all paper currency and bank deposits are backed by 100% gold reserves, as the only one consistent with property rights. Such a gold standard would also smooth economic cycles by ridding us of central bank manipulation, inflationary fractional reserve banking, currency debasement, interest rate distortion, and international monetary crises. This quality paperback—and Dr. Skousen's useful, advice-filled monograph *What Every Investor Should Know About Austrian Economics*—are available at a special price of \$15 for both, including U.S. postage and handling.



Free Market Breakthrough...from page 1

areas and government intervention in others.

In the pages of the *Free Market Reader*, freedom is right, coercion is wrong, and let the special-interest chips fall where they may. And truly, only a consistent adoption of true principles deserves activist followers. It is the unwavering adherence to the Misesian approach to social change that makes this book unique and enduring.

This approach is exemplified in the section entitled "Great Economists." In these tributes to the champions of freedom, we see the heart and soul of the Mises Institute. The lead article is a transcript of a moving speech given by Margit von Mises at a dinner held in her honor in 1984. It is worth the price of the book to read it. Llewellyn Rockwell, William Peterson, and Bradley Miller add their tributes to the ideas and courage of Mises. Other essays describe the work and character of Henry Hazlitt, W.H. Hutt, and Murray N. Rothbard. It is especially gratifying to read the deserved acclaim for Rothbard, an economist of extraordinary creativity and intellectual capacity, who authored many of the articles in the book.

In the section on the material and moral superiority of the free market, Murray N. Rothbard debunks economic myths, illustrates the competitive process, explains the determination of interest rates and the consequences of credit expansion, and discusses how to spot both semantic and statistical lies perpetrated by government officials. Rockwell picks up this latter theme when explaining special interest group activity. Of particular interest is David Gordon's essay about Mises's demolition of Karl Marx.

The uniqueness of Austrian monetary theory lies in its insight that money originated in exchange as a valuable commodity. Being part of the pattern of voluntary exchange, free-market money is necessarily efficient. But when government creates and supports fiat money and a cartelized fractional-reserve banking system, the result will be inefficiency and injustice. Rothbard discusses these two characteristics of the U.S. monetary system as well as international monetary affairs; Mark Skousen explains how the government creates the business cycle via Federal Reserve credit expansion; and Tucker Alford recounts government nationalization of free-market money and its consequent debasement and depreciation. In his most important monetary essay, Rothbard explains why the free-market gold standard is superior to schemes for competitive or "denationalized" money; these forget how money must originate, as explained by Mises's regression theorem.

On issues of free trade and protectionism, the authors observe that voluntary exchange internationally increases wealth whereas coercion diminishes it. Rothbard debunks the protectionist fallacies of "fair competition," "dumping," "infant industries," "aging industries," and "balance of payments deficits." Robert Higgs examines the protectionism of economic warfare and the resulting increase of government power. Other essays

apply Austrian analysis to cases such as interstate trade, Lee Iacocca, apartheid, and Japanese competition.

Another section is devoted to the Misesian critique of socialism and its consequences. Hans-Hermann Hoppe shows its impoverishing effects and why it results in less saving and investment, inefficient production, shortages of consumption goods, over-utilization of capital goods, reductions in the quality of goods, and the politicization of society. Other essays explain historical cases of famine and other failures of socialism.

Privatization and government ownership is also considered. Since socialism is government ownership of all property, leading to complete economic chaos, any movement toward socialism via government ownership of property creates islands of chaos in society. The articles in this section chronicle the harmful effects of government control of airports, land, rivers, oceans, roads, the postal service, social security, used body parts, and child care. In each case, the cure requires government surrender of property to private owners. Anything less will only change the form of the misallocation. As Rothbard puts it, true privatization is de-socialization of the economy. Along a different line, Rockwell writes an article exposing the behavior of conservatives who railed against government regulation under Carter but gleefully took the reins of control in the Reagan administration.

Also considered are budget deficits, taxes, bureaucracy, and interventionism. Reed discusses the economic plagues caused by government credit expansion during the 19th century while Rothbard and Ron Paul examine the stock market crash of 1987. Rothbard and Rockwell explain how government officials use various crises they create, such as budget deficits and business cycles, to enhance their own power by enserfing the rest of us. Other articles discuss how and why bureaus are established to serve special interest groups—including bureaucrats—at the expense of the public.

The book concludes with a critique of the legacy of Reaganomics: ironically, an enormous bias toward state control and influence in the economy. Here is where the theme of the book is represented, par excellence. And when Reaganite rhetoric meets the winnowing rod of Misesian analysis, the talk is blown away as chaff. In contrast, the *Free Market Reader* remains as the meat of the grain.

The articles are written with a passion too often missing from economic discussion. As Mrs. Mises writes about the Mises Institute, "we have the intellectual leadership, the managerial expertise, and the burning desire to succeed. And, happily for us, we have the truth on our side. If anyone doubts that, let him or her look at all the calamities, the miseries, the cruelties, and the stupidities of every form of collectivism and interventionism. With truth on our side we cannot, we must not, we will not fail!"

The *Free Market Reader* provides a convenient and durable format for the economics of liberty to be transmitted to the general public. I liked it so much that I gave my copy away. I wonder if the Mises Institute has special bulk-order prices? ■

Capitalism vs. Socialism...from page 4

out his own rationalist foundations of economic analysis. In this, Hoppe builds on the "logic of action" developed by Ludwig von Mises.

With this completed, Hoppe has written the Austrian book on comparative systems; it is an utterly persuasive case for property rights and free markets over all types of state control. Yet he reinforces his "natural theory of property" by refuting three common objections to the market: ethics, monopoly, and so-called public goods. The chapter on ethics develops a deductive theory of self-ownership, a feat never before attempted.

The monopoly chapter defends Rothbard's demonstration that in the market, monopolies are meaningless or irrelevant; but he goes further, and says the theory of monopoly in business, as told by the Marxists, applies rather to the government itself. It is the government, not business, which tends toward growth and cartelization, with increased exploitation and oppression as a result.

Finally, Hoppe offers an Austrian challenge to "public goods," that is, certain goods and services that have supposed unique qualities that prevent the market from producing them. There is a growing literature on this subject, but Hoppe works outside restrictive neo-classical assumptions, and addresses such controversial areas as the production of justice and security.

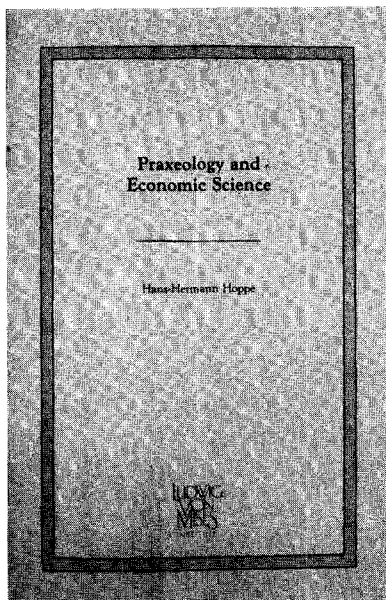
This powerful book is driven by independent thinking, relentless logic, and masterful scholarship. It lends credibility to the observation that Hans-Hermann Hoppe is among the most impressive Austrian scholars of his generation. ■

A New Look at Austrian Methodology

by Peter G. Klein

Pick up a current mainstream economic journal, perhaps the *American Economic Review* or the *Journal of Political Economy*, and you will have to double check to be sure you are reading English. What you will find is a bewildering array of equations, matrices, lemmas, and maybe a phase diagram or two. This is the way "modern" economics is done.

Yet most economists cannot justify or even explain why they do economics this way. They have plenty to say about the deficit or unemployment. But methodology,



The monograph *Praxeology and Economic Science* is \$4, including U.S. postage and handling.

they tell us, is something for the philosophers to worry about. Lately, however, given the inability of modern "scientific" economics to achieve its stated goal—the "management" of the economy—people are beginning to take a second look.

Within the Austrian tradition, by contrast, methodology has always played a leading role. In fact, the school is most clearly distinguished by its method, which is very different from that of other schools, including Keynesian, Monetarist, New Classical, Marxist, and Institutional. The Austrian method is what Ludwig von Mises called "praxeology," the pure logic of action.

In a pathbreaking new monograph, *Praxeology and Economic Science* (Ludwig von Mises Institute, 1988), Professor Hans-Hermann Hoppe defends Mises's methodology against its modern detractors, and offers a new, insightful explanation of its philosophical origins.

Professor Hoppe, a senior fellow of the Mises Institute, has been writing and reflecting on the philosophy and methodology of the social sciences for many years. While economics has become increasingly narrow and specialized over the last half century, Hoppe is one of those rare scholars with an eye for interdisciplinary problems. After receiving advanced degrees in philosophy, sociology, and economics from the Goethe University in Frankfurt, West Germany, he taught in Germany and Italy before going to the University of Nevada, Las Vegas, where he is associate professor of economics and part of an "Austrian triumvirate" with Professors Murray N. Rothbard and Roger Arnold.

Austrians maintain that orthodox economists, who long to be "real" scientists like physicists (who, of course, get large National Science Foundation grants), are doomed to failure because their central premise is wrong. This premise is that we should use the same tools to analyze human beings, with their varied and changing purposes and free wills, that we use to analyze molecules. Mises's praxeology, as Hoppe explains, begins with the recognition that economics is not social physics or applied mathematics; economics is the logical analysis of human action.

Hoppe shows how all the basic categories of economics—such as values, ends, means, choice, preference, cost, profit and loss, time and causality—are all logically implied in what Austrians call the "axiom of action": that people act to achieve goals. This method is based on the work of the German philosopher Immanuel Kant. But Mises actually went beyond Kant by applying Kant's analysis to human action.

"Mises's great insight," Hoppe says, "was that economic reasoning has its foundation in just this understanding of action." Laws of economics can all be derived from the action axiom, as Hoppe shows. They do not require empirical testing for their validation as the propositions of the natural sciences do.

Hoppe goes on to extend the methodological analysis with a
Continued on back page

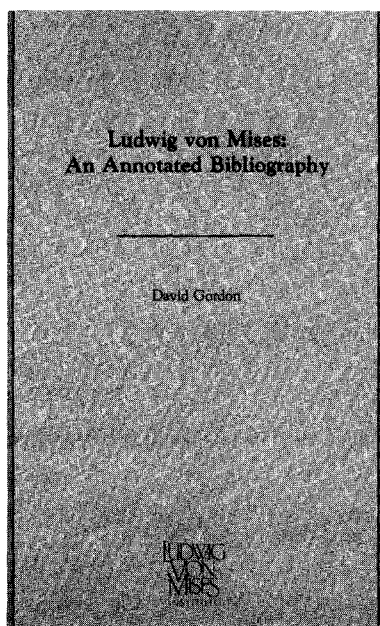
An Essential Guide to Mises

by Graeme B. Littler

Mises Institute scholar David Gordon has done an excellent job of compiling the first annotated bibliography of the works of Ludwig von Mises (Ludwig von Mises Institute, 1988). This 64-page monograph includes lengthy comments on each of Mises's great economic works, like *Socialism* and *Human Action*, brief notes on many of Mises's little known articles published in German, and an alphabetical listing of "articles, essays, lectures, and reviews" by Mises.

As a research tool, it is immensely helpful. It tracks Mises's writings from his earliest work in Austria, the first being a 1902 seminar essay "dealing with the decline of serfdom in Galacia." He was 21 years old. The last entry is his recently published remarks on economic liberty from 1962. Essays are sourced by publication, date, and page number. Books are sourced by publisher, location, and date (including later editions).

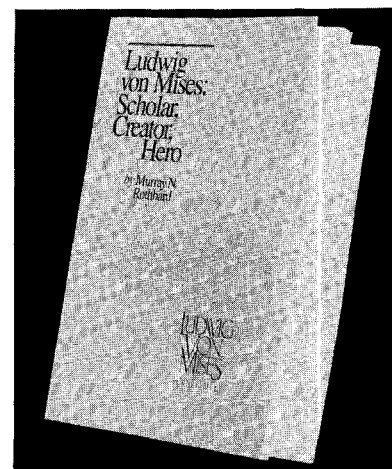
Gordon's annotations give clear and unbiased presentations of the thesis, organization, and highlights of the books, articles, and reviews. For example, Gordon summarizes an article Mises wrote on expectations, appearing in *Economica* (1943) in the following way: "Mises does not consider it a good objection to the Austrian theory of the business cycle that businessmen perhaps will not lengthen the structure of production if bank



The monograph *Ludwig von Mises: An Annotated Bibliography* is \$5, including U.S. postage and handling.

credit expands. If they do not, the business cycles will not start—but the aim of economics is merely to explain those cycles that do occur."

This volume is a perfect complement to Professor Murray N. Rothbard's wonderful biography of Mises, *Ludwig von Mises: Scholar, Creator, Hero* (Ludwig von Mises Institute, 1988), also published by the Mises Institute in 1988. It is the second valuable bibliographical booklet on great Austrian economists published by the Mises Institute. The first, *Murray N. Rothbard: A Scholar In Defense of Freedom* (1986), also benefitted from Dr. Gordon's scholarship. (Look forward as well to Jeffrey A. Tucker's massive bibliography on Henry Hazlitt, which will be ready later this year.)



No scholar or student interested in Austrian economics can afford to be without *Ludwig von Mises: An Annotated Bibliography*. And for the non-economist, it is an excellent guide to the works of this giant of liberty. ■

Ludwig von Mises: Scholar, Creator, Hero is the most detailed accounting and assessment of Mises's life and work to date. No one interested in Austrian economics or the fight for liberty can afford to be without it. This quality paperback is \$8, including U.S. postage and handling.

Austrian Methodology...from page 7

critique of conventional economic forecasting. Building on Mises's much-neglected work *Theory and History*, he shows that trend lines, statistical regression coefficients, and the like can never provide a sure-fire guide to knowing the future.

If you want to know what economic science is really all about, don't miss this exposition by a leading Austrian economist. For both the serious and the casual student of economics, Hoppe's work is an excellent source of Misesian insights. And those who desire further information will be pleased to find a full set of references and a list of recommended readings.

When Austrian methodology someday gets the recognition it deserves, Professor Hoppe's work will surely deserve much of the credit. ■

Special Offer

New Books: Buy a copy of the *Free Market Reader*, *Man, Economy, and Liberty*, *Praxeology and Economic Science*, and *A Theory of Socialism and Capitalism*—for \$79—and receive a free copy of *Ludwig von Mises: An Annotated Bibliography*.

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