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THE METHODOLOGY OF AUSTRIAN ECONOMICS AS A SOPHISTICATED, RATHER THAN NAIVE, PHILOSOPHY OF ECONOMICS

BY
PETER BOETTKE

It is with great pleasure that I provide an introduction and commentary to these papers by Scott Scheall, and Gabriel Zanotti and Nicolas Cachanovsky, dealing with subtle interpretations of the methodological positions of Ludwig von Mises and F. A. Hayek. The methodological, analytical, and political economy ideas of Mises and Hayek represent the launching point for the development of the unique, modern Austrian school of economics. The historical Austrian school of economics, of course, has its roots in Carl Menger, Eugen Bohm-Bawerk, and Friedrich Wieser, and the marginal revolution, early neoclassical economics, and the broader philosophical and cultural phenomena associated with *fin-de-siècle* Vienna. But while there should be little doubt that Mises and Hayek are products of that historical school of economic thought and products of that culture, much had transpired between their roots in Vienna and when they were respectively publishing *Human Action* (1949) and *Individualism and Economic Order* (1948). And it is these two works and the ideas they contain that led to a unique, modern Austrian school of economics in America.

The modern Austrian school in America had as its main caretakers Murray Rothbard and Israel Kirzner. They were joined in their conscious efforts to revitalize interest among young academic economists in the teachings of the Austrian school of economics in the 1970s by Ludwig Lachmann. However, during the decades preceding that time, there were important intellectual allies that simply saw the ideas of Mises and Hayek as part of the common knowledge of all good economists and not necessarily as a unique school of economic thought—most notably these would include Armen Alchian, James Buchanan, Ronald Coase, G. Warren Nutter, and Leland Yeager. But in the 1970s, Rothbard, Kirzner, and Lachmann argued that there

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were still essential points of a methodological and analytical nature that could be captured only by a full revival of the Austrian school of economics.

One of the key sticking points in the spread of appreciation of the writings of Mises and Hayek was that they stood decidedly out of step with the prevailing philosophy of science as understood by economists. In *The Methodology of Economics*, Mark Blaug said about Mises's writings on methodology that they were "so idiosyncratic and dogmatically stated that we can only wonder that they have been taken seriously by anyone" (Blaug 1992, p. 81). And no less an authority in post-WWII economics than Paul Samuelson wrote about the embarrassment he felt when he read the earlier methodological pronouncements of economists. As he put it: "I tremble for the reputation of my subject" after reading the "exaggerated claims that used to be made in economics for the power of deduction and *a priori* reasoning" (1964, p. 736).

Leading economic thinkers of the period from 1950 to 1975, such as Samuelson and Milton Friedman, had staked out scientific claims about economics that stood in stark contrast to the positions developed by Mises and Hayek in their respective writings. The intellectual alliance of formalism and empiricism that was forged in economics was the outgrowth of the scientism that engulfed those practicing the human sciences in the twentieth century. It is also important to stress that both Mises and Hayek were decidedly out of step with the prevailing political economy purpose of economics as understood by practitioners in the period from 1950 to 1975. Being scientifically suspect and ideologically suspect is not a very good position to be in if you want to revitalize interest in a scientific/scholarly tradition among young researchers and teachers.

One of the big mistakes in modern intellectual history of the Austrian school is to jump from the reality of Mises's and Hayek's being on the wrong side of the *zeitgeist* to a claim that they were somehow dismissed relics of a pre-scientific age or martyrs to the causes. The reality is that Mises and Hayek were neither refuted nor martyred; they were simply on the opposite side of history in the second half of the twentieth century. The scientific respect accorded to them as reflected by the awarding of the Distinguished Fellow of the American Economic Association (1969, Mises) and the Nobel Prize (1974, Hayek) indicates their high stature despite their unpopular positions in methodology, analytics, and political economy. Critics overstate the refutation, and followers overplay the martyrdom. But there is no doubt that during the historical context of 1950 to 1975 economics, the ideas that Mises and Hayek laid out in *Human Action* and *Individualism and Economic Order* did not receive the scientific and scholarly attention they would in the period since 1975 and today.

This is important to acknowledge because it explains the context within which are some of the interpretative puzzles that Scheall and Zanotti and Cachanosky tackle in their respective papers. During the period from 1950 to 1975, Rothbard emerged as the main interpreter of the ideas of Mises for American economists. Hayek was perceived to have left economics proper to work in political theory and legal philosophy with such works as *The Road to Serfdom* (1944), *The Constitution of Liberty* (1960), and *Law, Legislation and Liberty*, Volume 1 (1973). Mises continued to write, but, with advancing age, obviously his best scientific work was completed by 1960. It is important to stress the out-of-step nature of their politics with the prevailing thought because this also compelled both opponents and friends to stress the extremes and state the positions as brute-force instruments of logic (for the defenders) and of

dogmatism (for the detractor). Due to the sheer historical timing of the decade of the 1950s, the defense of Mises's methodology and Mises's strong *laissez-faire* position rested on the shoulders of the young economist Murray Rothbard. Mises clearly could defend himself, but he was aging and restricted his publication activities either to books or to popular magazine pieces, rather than hashing out arguments with his critics in the professional journals, as he had done earlier in his career in the German-language scientific journals. And Hayek was preoccupied with his broader "Abuse of Reason" project as well as pursuing the implications of that project in the field of political theory and legal philosophy. Mises's other students from Vienna—Fritz Machlup, Oskar Morgenstern, Gottfried Haberler—were otherwise occupied; and Mises's more methodological and philosophical students Alfred Schutz (deceased 1959) and Felix Kaufmann (deceased 1949) both died relatively young. Finally, it is important to stress that Lachmann was, at this time, in South Africa and drawn into university administration and away from scholarship during the period following the publication of his *Capital and Its Structure* (1956) until the publication of *The Legacy of Max Weber* (1971). Kirzner received his PhD only in 1957 and started publishing in 1960. Once Kirzner was active, he joined Rothbard as the main interpreter of Mises to the American audience of professional economists—though Kirzner's concerns after he published his doctoral dissertation written under Mises, *The Economic Point of View* (1960), are primarily analytical in nature as opposed to methodological, with his work on capital theory, market theory, and the price system, and the role of the entrepreneur in the competitive market process. So again, during the critical decade of the 1950s, only Rothbard was the English-speaking interpreter and defender of what was dubbed "Misesian economics."

As Zanotti and Cachanovsky argue, Machlup did try to clarify the Misesian position in the exchange with T. W. Hutchinson, who was perhaps the leading philosopher of economics of his generation, and a long-time critic of pure theory in economics (dating to his critique of Lionel Robbins's *An Essay on the Nature and Significance of Economic Science* [1932]), but the subtlety of Machlup's position was lost in the "translation" of the times. They don't argue this, but I would suggest that the Rothbardian interpretation of Mises served a vital sociological function for both the critics—providing an easier target—and for the faithful—providing a rallying point. It is also extremely important to see the connection between the methodology and philosophy of economics, on the one hand, and the political philosophy and ideology, on the other hand, during this time. Hutchinson was actually quite explicit that for him the philosophy of science is a weapon against ideological extremism, and he considered doctrinaire *laissez-faire* to be just as extreme as either communism or fascism. Thus, Mises was to be avoided as much as Marx if we were to have a science capable of empirical progress rather than merely spinning our philosophical wheels. A true science of economics would be immune, in Hutchinson's rendering, from such extremes on the right and the left, and should be capable of making continual empirical progress.

I hope I have provided an adequate historical and philosophical context from which to examine the contributions made in these papers. Scheall's is more a paper in philosophy with some contextualization in economics, while Zanotti and Cachanovsky's is more a paper in the intellectual history of economics with some contextualization in philosophy of science. Read together, I think they challenge

the prevailing wisdom concerning the respective ideas of Mises and Hayek. In the context of my comments, these two papers mutually reinforce the position that there is indeed a shared research program by Mises and Hayek, rather than a radical departure of views methodologically, analytically, and in political economy between the two leading lights of the modern Austrian school of economics. No doubt there are subtle differences of emphasis between the two economists, but their shared commitments must be stressed, appreciated, and built upon.

Scheall's paper does justice to Hayek, but, from the perspective I have been suggesting, he relies for the most part on a more Rothbardian reading of Mises than would be suggested after reading Zanotti and Cachanovsky. On the other hand, Zanotti and Cachanovsky challenge the Rothbardian reading, but could do more with Hayek's writings if they took into account the paper by Scheall; thus, the logic of publishing them jointly in this issue of *JHET*. If I may be allowed to move beyond the intellectual historian's task of historical contextualization and accuracy in interpretation, and instead shift back to my role as a practicing economist and political economist seeking to forge a progressive research program in the social and policy sciences, these two papers also mutually reinforce the position that the most productive reading of Mises is a Hayekian one and the most productive reading of Hayek is a Misesian one.¹ My claim is that it is in the merged agenda of Mises/Hayek with respect to methodology, analytics, and political economy that a theoretical framework for contemporary analysis in economics and political economy is to be found.

Both papers—and, of course, Bruce Caldwell's (1992a, 1992b, 2004) seminal work in this field—recognize Hayek's own statement to Hutchinson about his position with respect to Mises. In correspondence with Hutchinson, dated 26 November 1981, Hayek stated: "But the main intention of my lecture was to explain gently to Mises why I could not accept his apriorism. *Curiously enough, Mises, who did not readily accept criticism from juniors, accepted my argument but insisted that it was not incompatible with his view which, by implications, he restricted to what I called the Logic of Choice or the Economic Calculus*" (emphasis added).

Historically, among commentators, the first sentence has attracted all the attention, but it is, of course, the second sentence that is the key to the questions raised in the Zanotti and Cachanovsky paper, and working through the implications of that reaction by Mises is key to a slightly different take on the Scheall paper. Zanotti and Cachanovsky state their position rather modestly, content to simply argue that Machlup's interpretation is at least as plausible as that of Rothbard's interpretation of Mises on methodology. In the context of the papers in this symposium, that means that the sort of 'loose' apriorism Machlup attributes to Mises, as opposed to the 'extreme' apriorism attributed to him by Rothbard, aligns with the Hayekian apriorism that Scheall articulates.

As a matter of historical record, it is important to stress that the position articulated by Machlup is not some exotic twist on Mises; it actually is simply a restatement of the general position articulated by the founders of the Austrian school of

¹To put it another way, read in Mises the emphasis on evolution and spontaneous order, and read in Hayek the emphasis on the pure logic of choice and the centrality of monetary calculation in the economic process. Blended together, the Mises-Hayek research program in economics and political economy is more productive than either would be in isolation of one another.

economics: Menger and Bohm-Bawerk. In their development of economic theory, they distinguished between pure theory, or exact theory, and applied theory. *Pure theory* is the realm of the pure logic of choice, or what Hayek refers to in the letter quoted above as the “Economic Calculus.” *Applied theory* is the realm in which the pure theory is joined with auxiliary empirical assumptions concerning institutions. As Hayek, in “Economics and Knowledge” (1937), would later come to emphasize, it is in the institutional environment that the properties of economic learning resides. To the Austrian school economist, the theoretical framework that is developed by joining pure theory and applied theory can then be utilized to engage in empirical analysis—whether that is narrative history, statistical analysis, or simulation. The critical methodological point is that empirical analysis does not bear directly on the validity of the theory.

From Menger onward, the Austrian economists were not content to build logically valid theories, but to build logically sound theories. Theories are not falsified by the data, but challenged based on their logic and their relevance to the questions considered vital, and the empirical analysis is a form of illustration rather than an effort at falsification of predictions. As Machlup subtly points out, the criterion is *intelligibility*, not predictability.

Translating Mises’s continental philosophical language into the basic language of critical reasoning also tends to dampen the critical reaction. But the burden of assessing “good” and “bad” arguments is often difficult in the complex world of economics and the social sciences in general. Paul Samuelson famously argued that the greatest source of ambiguity in economics is when we use the same words to mean different things, and different words to mean the same thing. This was the fate, he argued, of literary economics—vagueness and confusion, and thus failure to make scientific progress at as rapid a rate as would be the case if we could eliminate the ambiguities of natural language. Mathematics as a language, Samuelson argued, did precisely that.

But critical to understanding the rise of both formalism and empiricism in economics during the critical decades after WWII and the subsequent frustration with this approach by its critics is the recognition that mathematics can provide us only with syntactic clarity and not semantic clarity. Restating that with respect to the strictures of critical reasoning, formal models could be valid, but their soundness was another matter. However, in post-WWII economics, this didn’t appear to cause much concern among economic thinkers because improved techniques of statistical testing were being developed. By the time Mises and Hayek were publishing *Human Action* and *Individualism and Economic Order*, the younger generation of economists was being taught that the scientific way forward for the economics discipline was to build mathematical models and to test those models with modern techniques of statistical analysis. In short, among the array of logically valid mathematical models, the statistical tests would determine which ones were relevant from those that were not; thus, the critical importance of *falsification*.

Both Mises and Hayek in their respective works argued that unambiguous testing was perhaps appropriate in the natural sciences, but was fundamentally wrong with respect to the complex phenomena of the sciences of man. Their arguments at different points come quite close to the philosophical arguments that had been raised by Pierre Duhem and Willard Quine concerning the problems that empirical testing even physics confronts. The force of falsification was not as strong as originally

thought, and philosophies of science built on the supposed strength of hypothesis testing turned out to be somewhat naive. So, on the point about empirical “testing,” I’d like to suggest that the Misesian position, rather than being a source of embarrassment for modern economists, was actually a more philosophically sophisticated stance than the one put forth by Samuelson and also Milton Friedman, even though Samuelson and Friedman would shape the economic discourse in their respective ways from the late 1940s to this day. Without the ability of the statistical analysis to do the heavy lifting of sorting out among the array of logically valid models, economic theory is prone to flights of fancy as the construction of clever-toy economies will take precedent over making sound arguments. The model-and-measure agenda of modern economics is predicated on avoiding such pure flights of theoretical imagination.

Ironically, the second John Bates Clark Medal winner after Samuelson, the great Kenneth Boulding (1948), actually anticipated this outcome in his review of Samuelson’s *Foundations*, where he suggests that perhaps the slovenly and imprecise literary economics may in the long run prove more fruitful in exploring the messy world of man, whereas the flawless precision of formal theory may be too perfect to be of much assistance in this endeavor. Though Boulding was obviously judged by his peers as being in the same professional stratosphere as Samuelson early in their careers, their fates within the professional elites would diverge considerably in the coming decades. Samuelson was squarely in the center of the *zeitgeist* of the era (1950 to 1975)—scientifically, ideologically, and culturally.

In that environment, it was almost impossible to understand the subtle and sophisticated positions that Mises and Hayek had put forth. Machlup’s rendering of Mises would make his position too plausible for an age that sought to dismiss his *economic* arguments for classical liberalism. And Hayek’s arguments concerning evolutionary epistemology and cognitive science were simply a generation ahead of his contemporaries in the social sciences. In some ways, to the English-language intellectual community, Mises was a sophisticated nineteenth-century thinker and Hayek was a sophisticated twenty-first-century thinker, but in both instances the twentieth century didn’t know how to deal with their arguments about methodology, analytic methods, and the political economy import of their analysis of socialism, interventionism, and radical liberalism.

It is my sincere hope that these papers by Scott Scheall and Gabriel Zanotti and Nicolas Cachanovsky will stimulate readers to explore these matters again in a new light, and to see the Austrian position as developed by Mises and Hayek as philosophically sophisticated rather than naive. For historians of economic thought, the Austrian school is a fascinating focal point, not only because of the amazing cultural milieu in which it was born, *fin-de-siècle* Vienna, but also because of (a) the accomplishments of its various members from Menger, Bohm-Bawerk, and Wieser, to Schumpeter, Mises, Hayek, Morgenstern, Machlup, and Haberler; and (b) the question of what was lost and what was gained in the respective “translations” of a scientific tradition as it migrated to different cultural contexts from Vienna to London and finally to the US. It is also the case that the Austrian school, especially in the post-1950 version, stood on the opposite side methodologically, analytically, and ideologically of the dominate position in economics, so that should make the works of these individuals of interest to those who locate themselves on either side of the divide, as well as those squarely in the middle, of the respective scientific and philosophical positions.

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