

more approaching what is called a planned economy, i.e., socialism of the German or Hindenburg pattern. In regard to economic policies, there is nowadays little difference among the various nations and, within each nation, among the various political parties and pressure groups. The historical party names have lost their significance. There are, as far as economic policy is concerned, practically only two factions left: the advocates of the Lenin method of all-round nationalization and the interventionists. The advocates of the free market economy have little influence upon the course of events. What economic freedom still exists is the outcome of the failure of the measures resorted to by the governments, rather than of an intentional policy.

It is difficult to find out how many of the supporters of interventionism are conscious of the fact that the policies they recommend directly lead toward socialism, and how many hold fast to the illusion that what they are aiming at is a middle-of-the-road system that can last as a permanent system—a “third solution” of the problem of society’s economic organization. At any rate, it is certain that all interventionists believe that the government, and the government alone, is called upon to decide in every single case whether one has to let things go as the market determines them or whether an act of intervention is needed. This means that they are prepared to tolerate the supremacy of the consumers only as far as it brings about a result of which they themselves approve. As soon as something happens in the economy that any of the various bureaucratic institutions does not like or that arouses the anger of a pressure group, people clamor for new interventions, controls, and restrictions. But for the inefficiency of the law-givers and the laxity, carelessness, and corruption of many of the functionaries, the last vestiges of the market economy would have long since disappeared.

The unsurpassed efficiency of capitalism never before manifested itself in a more beneficial way than in this age of heinous anticapitalism. While governments, political parties, and labor unions are sabotaging all business operations, the spirit of enterprise still succeeds in increasing the quantity and improving the quality of products and in rendering them more easily accessible to the consumers. In the countries that have not yet entirely abandoned the capitalistic system the common man enjoys today a standard of living for which the princes and nabobs of ages gone by would have envied him. A short time ago the demagogues blamed capitalism for the poverty of the masses. Today they rather blame capitalism for the “affluence” that it bestows upon the common man.

It has been shown that the managerial system, i.e., the assignment of

ancillary tasks in the conduct of business to responsible helpers to whom a certain amount of discretion can be granted, is possible only within the frame of the profit system.<sup>2</sup> What characterizes the manager as such and imparts to him a condition different from that of the mere technician is that, within the sphere of his assignment, he himself determines the methods by which his actions should conform to the profit principle. In a socialist system in which there is neither economic calculation nor capital accounting nor profit computation, there is no room left for managerial activities either. But as long as a socialist commonwealth is still in a position to calculate on the ground of prices determined on foreign markets, it can also utilize a quasi-managerial hierarchy to some extent.

It is a poor makeshift to call any age an age of transition. In the living world there is always change. Every age is an age of transition. We may distinguish between social systems that can last and such as are inevitable transitory because they are self-destructive. It has already been pointed out in what sense interventionism liquidates itself and must lead to socialism of the German pattern. Some European countries have already reached this phase, and nobody knows whether or not the United States will follow suit. But as long as the United States clings to the market economy and does not adopt the system of full government control of business, the socialist economies of Western Europe will still be in a position to calculate. Their conduct of business still lacks the most characteristic feature of socialist conduct; it is still based on economic calculation. It is therefore in every respect very different from what it would become if all the world were to turn toward socialism.

It is often said that one half of the world cannot remain committed to the market economy when the other half is socialist, and vice versa. However, there is no reason to assume that such a partition of the earth and the coexistence of the two systems is impossible. If this is really the case, then the present economic system of the countries that have discarded capitalism may go on for an indefinite period of time. Its operation may result in social disintegration, chaos, and misery for the peoples. But neither a low standard of living nor progressive impoverishment automatically liquidates an economic system. It gives way to a more efficient system only if people themselves are intelligent enough to comprehend the advantages such a change might bring them. Or it may be destroyed by foreign invaders provided with better military equipment by the greater efficiency of their own economic system.

2. Cf. above, pp. 305-308.

Optimists hope that at least those nations which have in the past developed the capitalist market economy and its civilization will cling to this system in the future too. There are certainly as many signs to confirm as to disprove such an expectation. It is vain to speculate about the outcome of the great ideological conflict between the principles of private ownership and public ownership, of individualism and totalitarianism, of freedom and authoritarian regimentation. All that we can know beforehand about the result of this struggle can be condensed in the following three statements:

1. We have no knowledge whatever about the existence and operation of agencies which would bestow final victory in this clash on those ideologies whose application will secure the preservation and further intensification of societal bonds and the improvement of mankind's material well-being. Nothing suggests the belief that progress toward more satisfactory conditions is inevitable or a relapse into very unsatisfactory conditions impossible.
2. Men must choose between the market economy and socialism. They cannot evade deciding between these alternatives by adopting a "middle-of-the-road" position, whatever name they may give to it.
3. In abolishing economic calculation the general adoption of socialism would result in complete chaos and the disintegration of social cooperation under the division of labor.

## Part Seven

### *The Place Of Economics In Society*

#### XXXVII. THE NONDESCRIPT CHARACTER OF ECONOMICS

##### 1. The Singularity of Economics

**W**HAT assigns economics its peculiar and unique position in the orbit both of pure knowledge and of the practical utilization of knowledge is the fact that its particular theorems are not open to any verification or falsification on the ground of experience. Of course, a measure suggested by sound economic reasoning results in producing the effects aimed at, and a measure suggested by faulty economic reasoning fails to produce the ends sought. But such experience is always still historical experience, i.e., the experience of complex phenomena. It can never, as has been pointed out, prove or disprove any particular theorem.<sup>1</sup> The application of spurious economic theorems results in undesired consequences. But these effects never have that undisputable power of conviction which the *experimental facts* in the field of the natural sciences provide. The ultimate yardstick of an economic theorem's correctness or incorrectness is solely reason unaided by experience.

The ominous import of this state of affairs is that it prevents the naive mind from recognizing the reality of the things economics deals with. "Real" is, in the eyes of man, all that he cannot alter and to whose existence he must adjust his actions if he wants to attain his ends. The cognizance of reality is a sad experience. It teaches the limits on the satisfaction of one's wishes. Only reluctantly does man resign himself to the insight that there are things, viz., the whole complex of all causal relations between events, which wishful thinking cannot alter. Yet sense experience speaks an easily perceptible language. There is no use arguing about experiments. The reality of experimentally established facts cannot be contested.

But in the field of praxeological knowledge neither success nor failure speaks a distinct language audible to everybody. The experience derived exclusively from complex phenomena does not bar escape into interpretations based on wishful thinking. The naive man's propensity to ascribe

1. Cf. above, pp. 31-32.

omnipotence to his thoughts, however confused and contradictory, is never manifestly and unambiguously falsified by experience. The economist can never refute the economic cranks and quacks in the way in which the doctor refutes the medicine man and the charlatan. History speaks only to those people who know how to interpret it on the ground of correct theories.

## 2. Economics and Public Opinion

The significance of this fundamental epistemological difference becomes clear if we realize that the practical utilization of the teachings of economics presupposes their endorsement by public opinion. In the market economy the realization of technological innovations does not require anything more than the cognizance of their reasonableness by one or a few enlightened spirits. No dullness and clumsiness on the part of the masses can stop the pioneers of improvement. There is no need for them to win the approval of inert people beforehand. They are free to embark upon their projects even if everyone else laughs at them. Later, when the new, better and cheaper products appear on the market, these scoffers will scramble for them. However dull a man may be, he knows how to tell the difference between a cheaper shoe and a more expensive one, and to appreciate the usefulness of new products.

But it is different in the field of social organization and economic policies. Here the best theories are useless if not supported by public opinion. They cannot work if not accepted by a majority of the people. Whatever the system of government may be, there cannot be any question of ruling a nation lastingly on the ground of doctrines at variance with public opinion. In the end the philosophy of the majority prevails. In the long run there cannot be any such thing as an unpopular system of government. The difference between democracy and despotism does not affect the final outcome. It refers only to the method by which by which the adjustment of the system of government to the ideology held by public opinion is brought about. Unpopular autocrats can only be dethroned by revolutionary upheavals, while unpopular democratic rulers are peacefully ousted in the next election.

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history.

The customary discussions concerning the role the individual plays in history miss the point. Everything that is thought, done and accomplished is a performance of individuals. New ideas and innovations are always an achievement of uncommon men. But these great men cannot succeed in

adjusting social conditions to their plans if they do not convince public opinion.

The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority.

### 3. The Illusion of the Old Liberals

The masses, the hosts of common men, do not conceive any ideas, sound or unsound. They only choose between the ideologies developed by the intellectual leaders of mankind. But their choice is final and determines the course of events. If they prefer bad doctrines, nothing can prevent disaster.

The social philosophy of the Enlightenment failed to see the dangers that the prevalence of unsound ideas could engender. The objections customarily raised against the rationalism of the classical economists and the utilitarian thinkers are vain. But there was one deficiency in their doctrines. They blithely assumed that what is reasonable will carry on merely on account of its reasonableness. They never gave a thought to the possibility that public opinion could favor spurious ideologies whose realization would harm welfare and well-being and disintegrate social cooperation.

It is fashionable today to disparage those thinkers who criticized the liberal philosophers' faith in the common man. Yet, Burke and Haller, Bonald and de Maistre paid attention to an essential problem which the liberals had neglected. They were more realistic in the appraisal of the masses than their adversaries.

Of course, the conservative thinkers labored under the illusion that the traditional system of paternal government and the rigidity of economic institutions could be preserved. They were full of praise for the ancient regime which had made people prosperous and had even humanized war. But they did not see that it was precisely these achievements that had increased population figures and thus created an excess population for which there was no room left in the old system of economic restrictionism. They shut their eyes to the growth of a class of people which stood outside the pale of the social order they wanted to perpetuate. They failed to suggest any solution to the most burning problem with which mankind had to cope on the eve of the "Industrial Revolution."

Capitalism gave the world what it needed, a higher standard of living for a steadily increasing number of people. But the liberals, the pioneers and supporters of capitalism, overlooked one essential point. A social system,

however beneficial, cannot work if it is not supported by public opinion. They did not anticipate the success of the anticapitalistic propaganda. After having nullified the fable of the divine mission of anointed kings, the liberals fell prey to no less illusory doctrines, to the irresistible power of reason, to the infallibility of the *volonté générale* and to the divine inspiration of majorities. In the long run, they thought, nothing can stop the progressive improvement of social conditions. In unmasking age-old superstitions the philosophy of the Enlightenment has once and for all established the supremacy of reason. The accomplishments of the policies of freedom will provide such an overwhelming demonstration of the blessings of the new ideology that no intelligent man will venture to question it. And, implied the philosophers, the immense majority of people are intelligent and able to think correctly.

It never occurred to the old liberals that the majority could interpret historical experience on the ground of other philosophies. They did not anticipate the popularity which ideas that they would have called reactionary, superstitious, and unreasonable acquired in the nineteenth and twentieth centuries. They were so fully imbued with the assumption that all men are endowed with the faculty of correct reasoning that they entirely misconstrued the meaning of the portents. As they saw it, all these unpleasant events were temporary relapses, accidental episodes to which no importance could be attached by the philosopher looking upon mankind's history sub specie aeternitatis. Whatever the reactionaries might say, there was one fact which they would not be able to deny; namely, that capitalism provided for a rapidly increasing population a steadily improving standard of living.

It was precisely this fact that the immense majority did contest. The essential point in the teachings of all socialist authors, and especially in the teachings of Marx, is the doctrine that capitalism results in a progressive pauperization of the working masses. With regard to the capitalistic countries the fallacy of this theorem can hardly be ignored. With regard to the backward countries, which were only superficially affected by capitalism, the unprecedented increase in population figures does not suggest the interpretation that the masses sink deeper and deeper. These countries are poor when compared with the more advanced countries. Their poverty is the outcome of the rapid growth of population. These peoples have preferred to rear more progeny instead of raising the standard of living to a higher level. That is their own affair. But the fact remains that they had the wealth to prolong the average length of life. It would have been

impossible for them to bring up more children if the means of sustenance had not been increased.

Nonetheless not only the Marxians but many allegedly "bourgeois" authors assert that Marx's anticipation of capitalist evolution has been by and large verified by the history of the last hundred years.

## XXXVIII. THE PLACE OF ECONOMICS IN LEARNING

### 1. The Study of Economics

THE natural sciences are ultimately based on facts as established by laboratory experiment. Physical and biological theories are confronted with these facts, and are rejected when in conflict with them. The perfection of these theories no less than the improvement of technological and therapeutical procedures requires more and better laboratory research. These experimental ventures absorb time, painstaking effort of specialists, and costly expenditure of material. Research can no longer be conducted by isolated and penniless scientists, however ingenious. The seat of experimentation today is in the huge laboratories supported by governments, universities, endowments, and big business. Work in these institutions has developed into professional routine. The majority of those employed in it are technicians recording those facts which the pioneers, of whom some are themselves experimenters, will one day use as building stones for their theories. As far as the progress of scientific theories is concerned, the achievements of the rank-and-file researcher are only ancillary. But very often his discoveries have immediate practical results in improving the methods of therapeutics and of business.

Ignoring the radical epistemological difference between the natural sciences and the sciences of human action, people believe that what is needed to further economic knowledge is to organize economic research according to the well-tried methods of the institutes for medical, physical, and chemical research. Considerable sums of money have been spent for what is labeled economic research. In fact the subject matter of the work of all these institutes is recent economic history.

It is certainly a laudable thing to encourage the study of economic history. However instructive the result of such studies may be, one must not confuse them with the study of economics. They do not produce facts in the sense in which this term is applied with regard to the events tested in laboratory experiments. They do not deliver bricks for the construction of a posteriori hypotheses and theorems. On the contrary, they are without meaning if not

interpreted in the light of theories developed without reference to them. There is no need to add anything to what has been said in this respect in the preceding chapters. No controversy concerning the causes of a historical event can be solved on the ground of an examination of the facts which is not guided by definite praxeological theories.<sup>1</sup>

The foundation of institutes for cancer research can possibly contribute to the discovery of methods for fighting and preventing this pernicious disease. But a business cycle research institute is of no help in endeavors to avoid the recurrence of depressions. The most exact and reliable assemblage of all the data concerning economic depressions of the past is of little use for our knowledge in this field. Scholars do not disagree with regard to these data; they disagree with regard to the theorems to be resorted to in their interpretation.

Still more important is the fact that it is impossible to collect the data concerning a concrete event without reference to the theories held by the historian at the very outset of his work. The historian does not report all facts, but only those which he considers as relevant on the ground of his theories; he omits data considered irrelevant for the interpretation of the events. If he is misled by faulty theories, his report becomes clumsy and may be almost worthless.

Even the most faithful examination of a chapter of economic history, though it be the history of the most recent period of the past, is no substitute for economic thinking. Economics, like logic and mathematics, is a display of abstract reasoning. Economics can never be experimental and empirical. The economist does not need an expensive apparatus for the conduct of his studies. What he needs is the power to think clearly and to discern in the wilderness of events what is essential from what is merely accidental.

There is no conflict between economic history and economics. Every branch of knowledge has its own merits and its own rights. Economists have never tried to belittle or deny the significance of economic history. Neither do real historians object to the study of economics. The antagonism was intentionally called into being by the socialists and interventionists who could not refute the objections raised against their doctrines by the economists. The Historical School and the Institutionalists tried to displace economics and to substitute "empirical" studies for it precisely because they wanted to silence the economists. Economic history, as they planned it, was

1. Cf. about the essential epistemological problems involved, pp. 31-41, about the problem of "quantitative" economics, pp. 55-57 and 350-352, and about the antagonistic interpretation of labor conditions under capitalism, pp. 617-623.

a means of destroying the prestige of economics and of propagandizing for interventionism.

## 2. Economics as a Profession

The early economists devoted themselves to the study of the problems of economics. In lecturing and writing books they were eager to communicate to their fellow citizens the results of their thinking. They tried to influence public opinion in order to make sound policies prevail in the conduct of civic affairs. They never conceived of economics as a profession.

The development of a profession of economists is an offshoot of interventionism. The professional economist is the specialist who is instrumental in designing various measures of government interference with business. He is an expert in the field of economic legislation, which today invariably aims at hindering the operation of the market economy.

There are thousands and thousands of such professional experts busy in the bureaus of the governments and of the various political parties and pressure groups and in the editorial offices of party newspapers and pressure-group periodicals. Others are employed as advisers by business or run independent agencies. Some of them have nation-wide or even world-wide reputations; many are among the most influential men of their country. It often happens that such experts are called to direct the affairs of big banks and corporations, are elected into the legislature, and are appointed as cabinet ministers. They rival the legal profession in the supreme conduct of political affairs. The eminent role they play is one of the most characteristic features of our age of interventionism.

There can be no doubt that a class of men who are so preponderant includes extremely talented individuals, even the most eminent men of our age. But the philosophy that guides their activities narrows their horizon. By virtue of their connection with definite parties and pressure groups, eager to acquire special privileges, they become one-sided. They shut their eyes to the remoter consequences of the policies they are advocating. With them nothing counts but the shortrun concern of the group they are serving. The ultimate aim of their efforts is to make their clients prosper at the expense of other people. They are intent upon convincing themselves that the fate of mankind coincides with the short-run interests of their group. They try to sell this idea to the public. In fighting for a higher price of silver, of wheat, or of sugar, for higher wages for the members of their union, or for a tariff

on cheaper foreign products, they claim to be fighting for the supreme good, for liberty and justice, for their nation's flowering, and for civilization.

The public looks askance upon the lobbyists and blames them for the dismal features of interventionist legislation. However, the seat of the evil is much deeper. The philosophy of the various pressure groups has penetrated the legislative bodies. There are in the present-day parliaments representatives of wheat growers, of cattle breeders, of farmers' cooperatives, of silver, of the various labor unions, of industries which cannot stand foreign competition without tariffs, and of many other pressure groups. There are few for whom the nation counts more than their pressure group. The same holds true for the departments of the administration. The cabinet minister of agriculture considers himself the champion of the interests of farming; his main objective is to make food prices soar. The minister of labor considers himself the advocate of labor unions; his foremost aim is to make the unions as formidable as possible. Each department follows its own course and works against the endeavors of the other departments.

Many people complain today about the lack of creative statesmanship. However, under the predominance of interventionist ideas, a political career is open only to men who identify themselves with the interests of a pressure group. The mentality of a union leader or of a secretary of farmers; associations is not what is required for a far-sighted statesman. Service to the short-run interests of a pressure group is not conducive to the development of those qualities which make a great statesman. Statesmanship is invariably long-run policy; but pressure groups do not bother about the long run. The lamentable failure of the German Weimar system and of the Third Republic in France was primarily due to the fact that their politicians were merely experts in pressure group interests.

### 3. Forecasting as a Profession

When the businessmen finally learned that the boom created by credit expansion cannot last and must necessarily lead to a slump, they realized that it was important for them to know in time the date of the break. They turned to economists for advice.

The economist knows that such a boom must result in a depression. But he does not and cannot know when the crisis will appear. This depends on the special conditions of each case. Many political events can influence the outcome. There are no rules according to which the duration of the boom or

of the following depression can be computed. And even if such rules were available, they would be of no use to businessmen. What the individual businessman needs in order to avoid losses is knowledge about the date of the turning point at a time when other businessmen still believe that the crash is farther away than is really the case. Then his superior knowledge will give him the opportunity to arrange his own operations in such a way as to come out unharmed. But if the end of the boom could be calculated according to a formula, all businessmen would learn the date at the same time. Their endeavors to adjust their conduct of affairs to this information would immediately result in the appearance of all the phenomena of the depression. It would be too late for any of them to avoid being victimized.

If it were possible to calculate the future state of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit. What people expect from the economists is beyond the power of any mortal man.

The very idea that the future is predictable, that some formulas could be substituted for the specific understanding which is the essence of entrepreneurial activity, and that familiarity with these formulas could make it possible for anybody to take over the conduct of business is, of course, an outgrowth of the whole complex of fallacies and misconceptions which are at the bottom of present-day anticapitalistic policies. There is in the whole body of what is called the Marxian philosophy not the slightest reference to the fact that the main task of action is to provide for the events of an *uncertain* future. The fact that the term speculator is today used only with an opprobrious connotation clearly shows that our contemporaries do not even suspect in what the fundamental problem of action consists.

Entrepreneurial judgment cannot be bought on the market. The entrepreneurial idea that carries on and brings profit is precisely that idea which did not occur to the majority. It is not correct foresight as such that yields profits, but foresight better than that of the rest. The prize goes only to the dissenters, who do not let themselves be misled by the errors accepted by the multitude. What makes profits emerge is the provision for future needs for which others have neglected to make adequate provision.

Entrepreneurs and capitalists expose their own material well-being if they are fully convinced of the soundness of their plans. They would never venture to take their economic life into their hands because an expert advised them to do so. Those ignorant people who operate on the stock and commodity exchanges according to tips are destined to lose their money, from

whatever source they may have got their inspiration and “inside” information.

In fact reasonable businessmen are fully aware of the uncertainty of the future. They realize that the economists do not dispense any reliable information about things to come and that all that they provide is interpretation of statistical data referring to the past. For the capitalists and entrepreneurs the economists’ opinions about the future count only as questionable conjectures. They are skeptical and not easily fooled. But as they quite correctly believe that it is useful to know all the data which could possibly have any relevance for their affairs, they subscribe to the newspapers and periodicals publishing the forecasts. Anxious not to neglect any source of information available, big business employs staffs of economists and statisticians.

Business forecasting fails in the vain attempts to make the uncertainty of the future disappear and to deprive entrepreneurship of its inherent speculative character. But it renders some services in assembling and interpreting the available data about economic trends and developments of the recent past.

#### 4. Economics and the Universities

Tax-supported universities are under the sway of the party in power. The authorities try to appoint only professors who are ready to advance ideas of which they themselves approve. As all nonsocialist governments are today firmly committed to interventionism, they appoint only interventionists. In their opinion, the first duty of the university is to sell the official social philosophy to the rising generation.<sup>2</sup> They have no use for economists.

However, interventionism prevails also at many of the independent universities.

According to an age-old tradition the objective of the universities is not only teaching, but also the promotion of knowledge and science. The duty of the university teacher is not merely to hand down to the students the complex of knowledge developed by other men. He is supposed to contribute to the enlargement of this treasure by his own work. It is assumed that he is a full-fledged member of the world-embracing republic of scholarship, an innovator and a pioneer on the road toward more and better knowledge. No university

2. G. Santayana, in speaking of a professor of philosophy of the—then Royal Prussian—University of Berlin, observed that it seemed to this man “that a professor’s business was to trudge along the governmental towpath with a legal cargo.” (*Persons and Places* [New York, 1945], II, 7.)

would admit that the members of its faculty are inferior to anybody in their respective fields. Every university professor considers himself equal to all other masters of his science. Like the greatest of them, he too contributes his share to the advancement of learning.

This idea of the equality of all professors is, of course, fictitious. There is an enormous difference between the creative work of the genius and the nomograph of a specialist. Yet in the field of empirical research it is possible to cling to this fiction. The great innovator and the simple routinist resort in their investigations to the same technical methods of research. They arrange laboratory experiments or collect historical documents. The outward appearance of their work is the same. Their publications refer to the same subjects and problems. They are commensurable.

It is quite otherwise in theoretical sciences like philosophy and economics. Here there is nothing that the routinist can achieve according to a more or less stereotyped pattern. There are no tasks which require the conscientious and painstaking effort of sedulous monographers. There is no empirical research; all must be achieved by the power to reflect, to meditate, and to reason. There is no specialization, as all problems are linked with one another. In dealing with any part of the body of knowledge one deals actually with the whole. An eminent historian once described the psychological and educational significance of the doctoral thesis by declaring that it gives the author the proud assurance that there is a little corner, although small, in the field of learning in the knowledge of which he is second to none. It is obvious that this effect cannot be realized by a thesis on a subject of economic analysis. There are no such isolated corners in the complex of economic thought.

There never lived at the same time more than a score of men whose work contributed anything essential to economics. The number of creative men is as small in economics as it is in other fields of learning. Besides, many of the creative economists do not belong to the teaching profession. But there is a demand for thousands of university and college teachers of economics. Scholastic tradition requires that each of them should attest his worth by the publication of original contributions, not merely by compiling textbooks and manuals. An academic teacher's reputation and salary depend more on his literary work than on his didactic abilities. A professor cannot help publishing books. If he does not feel the vocation to write on economics, he turns to economic history or descriptive economics. But then, in order not to lose face, he must insist on the claim that the problems he treats are economics proper,

not economic history. He must even pretend that his writings cover the only legitimate field of economic studies, that they alone are empirical, inductive, and scientific, while the merely deductive outpourings of the “armchair” theorists are idle speculations. If he were to neglect this, he would admit that there are among the teachers of economics two classes—those who themselves have contributed to the advancement of economic thought and those who have not, although they may have done a fine job in other disciplines such as recent economic history. Thus the academic atmosphere becomes unpropitious for the teaching of economics. Many professors—happily not all of them—are intent upon disparaging “mere theory.” They try to substitute an unsystematically assembled collection of historical and statistical information for economic analysis. They dissolve economics into a number of integrated branches. They specialize in agriculture, in labor, in Latin American conditions, and in many other similar subdivisions.

It is certainly one of the tasks of university training to make students familiar with economic history in general and no less with recent economic developments. But all such endeavors are doomed to failure if not firmly grounded upon a thorough acquaintance with economics. Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. The catallactic problems cannot become visible if one deals with each branch of production separately. It is impossible to study labor and wages without studying implicitly commodity prices, interest rates, profit and loss, money and credit, and all the other major problems. The real problems of the determination of wage rates cannot even be touched in a course on labor. There are no such things as “economics of labor” or “economics of agriculture.” There is only one coherent body of economics.

What these specialists deal with in their lectures and publications is not economics, but the doctrines of the various pressure groups. Ignoring economics, they cannot help falling prey to the ideologies of those aiming at special privileges for their group. Even those specialists who do not openly side with a definite pressure group and who claim to maintain a lofty neutrality unwittingly endorse the essential creeds of the interventionist doctrine. Dealing exclusively with the innumerable varieties of government interference with business, they do not want to cling to what they call mere negativism. If they criticize the measures resorted to, they do it only in order to recommend their own brand of interventionism as a substitute for other people’s interventionism. Without a qualm they endorse the fundamental thesis of both interventionism and socialism that the unhampered market

economy unfairly harms the vital interests of the immense majority for the sole benefit of callous exploiters. As they see it, an economist who demonstrates the futility of interventionism is a bribed champion of the unjust claims of big business. It is imperative to bar such scoundrels from access to the universities and their articles from being printed in the periodicals of the associations of university teachers.

The students are bewildered. In the courses of the mathematical economists they are fed formulas describing hypothetical states of equilibrium in which there is no longer any action. They easily conclude that these equations are of no use whatever for the comprehension of economic activities. In the lectures of the specialists they hear a mass of detail concerning interventionist measures. They must infer that conditions are paradoxical indeed, because there is never equilibrium, and wage rates and prices of farm products are not so high as the unions or the farmers want them to be. It is obvious, they conclude that a radical reform is indispensable. But what kind of reform?

The majority of the students espouse without any inhibitions the interventionist panaceas recommended by their professors. Social conditions will be perfectly satisfactory when the government enforces minimum wage rates and provides everybody with adequate food and housing, or when the sale of margarine and the importation of foreign sugar are prohibited. They do not see the contradictions in the words of their teachers, who one day lament the madness of competition and the next day the evils of monopoly, who one day complain about falling prices and the next day about rising living costs. They take their degrees and try as soon as possible to get a job with the government or a powerful pressure group.

But there are many young men who are keen enough to see through the fallacies of interventionism. They accept their teachers' rejection of the unhampered market economy. But they do not believe that the isolated measures of interventionism could succeed in attaining the ends sought. They consistently carry their preceptors' thoughts to their ultimate logical consequence. They turn toward socialism. They hail the Soviet system as the dawn of a new and better civilization.

However, what has made many of the present-day universities by and large nurseries of socialism is not so much the conditions prevailing in the departments of economics as the teachings handed down in other departments. In the departments of economics there can still be found some economists, and even the other teachers may be familiar with some of the objections raised against the practicability of socialism. The case is different

with many of the teachers of philosophy, history, literature, sociology, and political science. They interpret history on the ground of a garbled vulgarization of dialectical materialism. Even many of those who passionately attack Marxism on account of its materialism and atheism are under the sway of the ideas developed in the *Communist Manifesto* and in the program of the Communist International. They explain depressions, mass unemployment, inflation, war and poverty as evils necessarily inherent in capitalism and intimate that these phenomena can disappear only with the passing of capitalism.

## 5. General Education and Economics

In countries which are not harassed by struggles between various linguistic groups public education can work if it is limited to reading, writing, and arithmetic. With bright children it is even possible to add elementary notions of geometry, the natural sciences, and the valid laws of the country. But as soon as one wants to go farther, serious difficulties appear. Teaching at the elementary level necessarily turns into indoctrination. It is not feasible to represent to adolescents all the aspects of a problem and to let them choose between dissenting views. It is no less impossible to find teachers who could hand down opinions of which they themselves disapprove in such a way as to satisfy those who hold these opinions. The party that operates the schools is in a position to propagandize its tenets and to disparage those of other parties.

In the field of religious education the nineteenth-century liberals solved this problem by the separation of state and church. In liberal countries religion is no longer taught in public schools. But the parents are free to send their children into denominational schools supported by religious communities.

However, the problem does not refer only to the teaching of religion and of certain theories of the natural sciences at variance with the Bible. It concerns even more the teaching of history and economics.

The public is aware of the matter only with regard to the international aspects of the teaching of history. There is some talk today about the necessity of freeing the teaching of history from the impact of nationalism and chauvinism. But few people realize that the problem of impartiality and objectivity is no less present in dealing with the domestic aspects of history. The teacher's or the textbook author's own social philosophy colors the narrative. The more the treatment must be simplified and condensed in order

to be comprehensible to the immature minds of children and adolescents, the worse are the effects.

As the Marxians and the interventionists see it, the teaching of history in the schools is tainted by the endorsement of the ideas of classical liberalism. They want to substitute their own interpretation of history for the "bourgeois" interpretation. In Marxian opinion the English Revolution of 1688, the American Revolution, the great French Revolution, and the nineteenth-century revolutionary movements in continental Europe were bourgeois movements. They resulted in the defeat of feudalism and in the establishment of bourgeois supremacy. The proletarian masses were not emancipated; they merely passed from the class rule of the aristocracy to the class rule of the capitalist exploiters. To free the working man, the abolition of the capitalist mode of production is required. This, contend the interventionists, should be brought about by *Sozialpolitik* or the New Deal. The orthodox Marxians, on the other hand, assert that only the violent overthrow of the bourgeois system of government could effectively emancipate the proletarians.

It is impossible to deal with any chapter of history without taking a definite stand on these controversial issues and the implied economic doctrines. The textbooks and the teachers cannot adopt a lofty neutrality with regard to the postulate that the "unfinished revolution" needs to be completed by the communist revolution. Every statement concerning events of the last three hundred years involves a definite judgment on these controversies. One cannot avoid choosing between the philosophy of the Declaration of Independence and the Gettysburg Address and that of the *Communist Manifesto*. The challenge is there, and it is useless to bury one's head in the sand.

On the high school level and even on the college level the handing down of historical and economic knowledge is virtually indoctrination. The greater part of the students are certainly not mature enough to form their own opinion on the ground of a critical examination of their teachers' representation of the subject.

If public education were more efficient than it really is, the political parties would urgently aim at the domination of the school system in order to determine the mode in which these subjects are to be taught. However, general education plays only a minor role in the formation of the political, social, and economic ideas of the rising generation. The impact of the press, the radio, and environmental conditions is much more powerful than that of teachers and textbooks. The propaganda of the churches, the political parties, and the pressure groups outstrips the influence of the schools, whatever they

may teach. What is learned in school is often very soon forgotten and cannot carry on against the continuous hammering of the social milieu in which a man moves.

## 6. Economics and the Citizen

Economics must not be relegated to classrooms and statistical offices and must not be left to esoteric circles. It is the philosophy of human life and action and concerns everybody and everything. It is the pith of civilization and of man's human existence.

To mention this fact is not to indulge in the often derided weakness of specialists who overrate the importance of their own branch of knowledge. Not the economists, but all the people today assign this eminent place to economics.

All present-day political issues concern problems commonly called economic. All arguments advanced in contemporary discussion of social and public affairs deal with fundamental matters of praxeology and economics. Everybody's mind is preoccupied with economic doctrines. Philosophers and theologians seem to be more interested in economic problems than in those problems which earlier generations considered the subject matter of philosophy and theology. Novels and plays today treat all things human—including sex relations—from the angle of economic doctrines. Everybody thinks of economics whether he is aware of it or not. In joining a political party and in casting his ballot, the citizen implicitly takes a stand upon essential economic theories.

In the sixteenth and seventeenth centuries religion was the main issue in European political controversies. In the eighteenth and nineteenth centuries in Europe as well as in America the paramount question was representative government versus royal absolutism. Today it is the market economy versus socialism. This is, of course, a problem the solution of which depends entirely on economic analysis. Recourse to empty slogans or to the mysticism of dialectical materialism is of no avail.

There is no means by which anyone can evade his personal responsibility. Whoever neglects to examine to the best of his abilities all the problems involved voluntarily surrenders his birthright to a self-appointed elite of supermen. In such vital matters blind reliance upon "experts" and uncritical acceptance of popular catchwords and prejudices is tantamount to the abandonment of self-determination and to yielding to other people's domination. As conditions are today, nothing can be more important to every intelligent man than economics. His own fate and that of his progeny is at stake.

Very few are capable of contributing any consequential idea to the body of economic thought. But all reasonable men are called upon to familiarize themselves with the teachings of economics. This is, in our age, the primary civic duty.

Whether we like it or not, it is a fact that economics cannot remain an esoteric branch of knowledge accessible only to small groups of scholars and specialists. Economics deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen.

### 7. Economics and Freedom

The paramount role that economic ideas play in the determination of civic affairs explains why governments, political parties, and pressure groups are intent upon restricting the freedom of economic thought. They are anxious to propagandize the "good" doctrine and to silence the voice of the "bad" doctrines. As they see it, truth has no inherent power which could make it ultimately prevail solely by virtue of its being true. In order to carry on, truth needs to be backed by violent action on the part of the police or other armed troops. In this view, the criterion of a doctrine's truth is the fact that its supporters succeeded in defeating by force of arms the champions of dissenting views. It is implied that God or some mythical agency directing the course of human affairs always bestows victory upon those fighting for the good cause. Government is from God and has the sacred duty of exterminating the heretic.

It is useless to dwell upon the contradictions and inconsistencies of this doctrine of intolerance and persecution of dissenters. Never before has the world known such a cleverly contrived system of propaganda and oppression as that instituted by contemporary governments, parties, and pressure groups. However, all these edifices will crumble like houses of cards as soon as a great ideology attacks them.

Not only in the countries ruled by barbarian and neobarbarian despots, but no less in the so-called Western democracies, the study of economics is practically outlawed today. The public discussion of economic problems ignores almost entirely all that has been said by economists in the last two hundred years. Prices, wage rates, interest rates, and profits are dealt with as if their determination were not subject to any law. Governments try to decree and to enforce maximum commodity prices and minimum wage rates. Statesmen exhort businessmen to cut down profits, to lower prices, and to raise wage rates as if these matters were dependent on the laudable intentions of

individuals. In the treatment of international economic relations people blithely resort to the most naive fallacies of Mercantilism. Few are aware of the shortcomings of all these popular doctrines, or realize why the policies based upon them invariably spread disaster.

These are sad facts. However, there is only one way in which a man can respond to them: by never relaxing in the search for truth.

## XXXIX. ECONOMICS AND THE ESSENTIAL PROBLEMS OF HUMAN EXISTENCE

### 1. Science and Life

IT is customary to find fault with modern science because it abstains from expressing judgments of value. Living and acting man, we are told, has no use for *Wertfreiheit*; he needs to know what he should aim at. If science does not answer this question, it is sterile. However, the objection is unfounded. Science does not value, but it provides acting man with all the information he may need with regard to his valuations. It keeps silence only when the question is raised whether life itself is worth living.

This question, of course, has been raised too and will always be raised. What is the meaning of all these human endeavors and activities if in the end nobody can escape death and decomposition? Man lives in the shadow of death. Whatever he may have achieved in the course of his pilgrimage, he must one day pass away and abandon all that he has built. Each instant can become his last. There is only one thing that is certain about the individual's future—death. Seen from the point of view of this ultimate and inescapable outcome, all human striving appears vain and futile.

Moreover, human action must be called inane even when judged merely with regard to its immediate goals. It can never bring full satisfaction; it merely gives for an evanescent instant a partial removal of uneasiness. As soon as one want is satisfied, new wants spring up and ask for satisfaction. Civilization, it is said, makes people poorer, because it multiplies their wishes and does not soothe, but kindles, desires. All the busy doings and dealings of hard-working men, their hurrying, pushing, and bustling are nonsensical, for they provide neither happiness nor quiet. Peace of mind and serenity cannot be won by action and secular ambition, but only by renunciation and resignation. The only kind of conduct proper to the sage is escape into the inactivity of a purely contemplative existence.

Yet all such qualms, doubts, and scruples are subdued by the irresistible force of man's vital energy. True, man cannot escape death. But for the present he is alive; and life, not death, takes hold of him. Whatever the future

may have in store for him, he cannot withdraw from the necessities of the actual hour. As long as a man lives, he cannot help obeying the cardinal impulse, the *elan vital*. It is man's innate nature that he seeks to preserve and to strengthen his life, that he is discontented and aims at removing uneasiness, that he is in search of what may be called happiness. In every living being there works an inexplicable and nonanalyzable *Id*. This *Id* is the impulsion of all impulses, the force that drives man into life and action, the original and ineradicable craving for a fuller and happier existence. It works as long as man lives and stops only with the extinction of life.

Human reason serves this vital impulse. Reason's biological function is to preserve and to promote life and to postpone its extinction as long as possible. Thinking and acting are not contrary to nature; they are, rather, the foremost features of man's nature. The most appropriate description of man as differentiated from nonhuman beings is: a being *purposively* struggling against the forces adverse to his life.

Hence all talk about the primacy of irrational elements is vain. Within the universe the existence of which our reason cannot explain, analyze, or conceive, there is a narrow field left within which man is capable of removing uneasiness to some extent. This is the realm of reason and rationality, of science and purposive action. Neither its narrowness nor the scantiness of the results man can obtain within it suggest the idea of radical resignation and lethargy. No philosophical subtleties can ever restrain a healthy individual from resorting to actions which—as he thinks—can satisfy his needs. It may be true that in the deepest recesses of man's soul there is a longing for the undisturbed peace and inactivity of a merely vegetative existence. But in lining man these desires, whatever they may be, are outweighed by the urge to act and to improve his own condition. Once the forces of resignation get the upper hand, man dies; he does not turn into a plant.

It is true, praxeology and economics do not tell a man whether he should preserve or abandon life. Life itself and all the unknown forces that originate it and keep it burning are an ultimate given, and as such beyond the pale of human science. The subject matter of praxeology is merely the essential manifestation of *human* life, viz., action.

## 2. Economics and Judgements of Value

While many people blame economics for its neutrality with regard to value judgments, other people blame it for its alleged indulgence in them.

Some contend that economics must necessarily express judgments of value and is therefore not really scientific, as the criterion of science is its valuational indifference. Others maintain that good economics should be and could be impartial, and that only bad economists sin against this postulate.

The semantic confusion in the discussion of the problems concerned is due to an inaccurate use of terms on the part of many economists. An economist investigates whether a measure *a* can bring about the result *p* for the attainment of which it is recommended, and finds that *a* does not result in *p* but in *g*, an effect which even the supporters of the measure *a* consider undesirable. If this economist states the outcome of his investigation by saying that *a* is a bad measure, he does not pronounce a judgment of value. He merely says that from the point of view of those aiming at the goal *p*, the measure *a* is inappropriate. In this sense the free-trade economists attacked protection. They demonstrated that protection does not, as its champions believe, increase but, on the contrary, decreases the total amount of products, and is therefore bad from the point of view of those who prefer an ampler supply of products to a smaller. It is in this sense that economists criticize policies from the point of view of the ends aimed at. If an economist calls minimum wage rates a bad policy, what he means is that its effects are contrary to the purpose of those who recommend their application.

From the same point of view praxeology and economics look upon the fundamental principle of human existence and social evolution, viz., that cooperation under the social division of labor is a more efficient way of acting than is the autarkic isolation of individuals. Praxeology and economics do not say that men should peacefully cooperate within the frame of societal bonds; they merely say that men must act this way *if* they want to make their actions more successful than otherwise. Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns.

It is against this substitution of an autonomous, rationalistic and voluntaristic ethics for the heteronomous doctrines both of intuitionism and of revealed commandments that the united forces of all antiliberal schools and dogmatisms direct the most furious attacks. They all blame the utilitarian philosophy for the pitiless austerity of its description and analysis of human nature and of the ultimate springs of human action. It is not necessary to add anything more to

the refutation of these criticisms which every page of this book provides. Only one point should be mentioned again, because on the one hand it is the acme of the doctrine of all contemporary pied pipers and on the other hand it offers to the average intellectual a welcome excuse to shun the painstaking discipline of economic studies.

Economics, it is said, in its rationalistic prepossessions assumes that men aim only or first of all at material well-being. But in reality men prefer irrational objectives to rational ones. They are guided more by the urge to realize myths and ideals than by the urge to enjoy a higher standard of living.

What economics has to answer is this:

1. Economics does not assume or postulate that men aim only or first of all at what is called material well-being. Economics, as a branch of the more general theory of human action, deals with all human action, i.e., with man's purposive aiming at the attainment of ends chosen, whatever these ends may be. To apply the concept *rational* or *irrational* to the ultimate ends chosen is nonsensical. We may call irrational the ultimate given, viz., those things that our thinking can neither analyze nor reduce to other ultimately given things. Then every ultimate end chosen by any man is irrational. It is neither more nor less rational to aim at riches like Croesus than to aim at poverty like a Buddhist monk.

2. What these critics have in mind when employing the term *rational ends* is the desire for material well-being and a higher standard of living. It is a question of fact whether or not their statement is true that men in general and our contemporaries especially are driven more by the wish to realize myths and dreams than by the wish to improve their material well-being. Although no intelligent being could fail to give the correct answer, we may disregard the issue. For economics does not say anything either in favor of or against myths. It is perfectly neutral with regard to the labor-union doctrine, the credit-expansion doctrine and all such doctrines as far as these may present themselves as myths and are supported as myths by their partisans. It deals with these doctrines only as far as they are considered doctrines about the means fit for the attainment of definite ends. Economics does not say labor unionism is a bad myth. It merely says it is an inappropriate means of raising wage rates for all those eager to earn wages. It leaves it to every man to decide whether the realization of the labor-union myth is more important than the avoidance of the inevitable consequences of labor-union policies.

In this sense we may say that economics is apolitical or nonpolitical,

although it is the foundation of politics and of every kind of political action. We may furthermore say that it is perfectly neutral with regard to all judgments of value, as it refers always to means and never to the choice of ultimate ends.

### 3. Economic Cognition and Human Action

Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors; we know that they influence both the choice of the ends and that of the means, although our cognizance of the mode of their operation is rather vague. There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and from the physiological law.

The elucidation and the categorial and formal examination of this third class of laws of the universe is the subject matter of praxeology and its hitherto best-developed branch, economics. The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.



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