

asset value revisions envisaged would result in the inclusion of all rents in the average cost curves and hence under pure competition price would always equal average costs.

On the other hand, all incomes are viewed as streams in an extremely elongated time dimension and all anticipated streams of income are expressed as capital values. The concepts are difficult to express by easily managed apparatus. It raises the question of how the appropriate period for revision of anticipations is determined. The measurement and identification problems become even more baffling.

J. FRED WESTON*

*The author is associate professor of finance at the University of California, Los Angeles.

Mises' "Human Action": Comment

In the June, 1950, issue of this *Review*, Mr. G. J. Schuller, in his review of Ludwig von Mises' *Human Action*,¹ makes various criticisms of the book which deserve reply.

1. Schuller claims that Mises asserts a "law of social development whereby the majority in the long run . . . chooses the system which provides the higher standards of living." Mises makes no such absurd claim. What he does say is that the majority of a people choose that form of government which *they believe* will provide them with highest standards of living. This is simply saying that all exercise of power rests on the consent to obey by most of the inhabitants.

2. Schuller maintains that Mises "provides no clear test of incorrect versus 'correct praxeological reasoning.'" The tests are, on the contrary, clear enough. Praxeology consists of two main elements: (1) the fundamental axioms, and (2) the propositions successively deduced from these axioms. Neither the axioms nor the deduced propositions can be "tested" or verified by appeal to historical fact. However, although the axioms are *a priori* to history, they are *a posteriori* to the universal observations of the logical structure of the human mind and human action. The axioms are therefore open to the test of observation in the sense that, once postulated, they are universally recognized as true. Such recognition may be accused of being "introspective," but it is nonetheless scientific, since it is an introspection that can command the agreement of all. The deductive propositions are tested according to the universally accepted laws of logic. (Laws, incidentally, which are also *a priori* to historical fact.) The fact that a proposition comes at the end of a "long chain of deduction" makes it no less valid than a proposition at the end of a short chain.

3. It is curious that an economist who is convinced of the truth of economics should be accused of "uncompromising dogmatism." An attitude of frank conviction is a refreshing change from the timidity and apologetics that are all too frequent among economists. Schuller wonders how Mises can unabash-

¹ *American Economic Review*, Vol. XL, No. 3 (June, 1950), pp. 418-22.

edly criticize the logic of such eminent predecessors as Ricardo and Menger. He forgets, as Mises does not, that Mises is building on a great structure of economic thought to a large extent developed by these men. Coming later, he is in a position to refine the structure as well as to add new developments of his own.

4. There is no conflict between an historical and a praxeological statement when Mises says that the gold standard is an historical fact and that this standard was responsible for increasing welfare, liberty, etc. "Money" is a praxeological category, arising when the market chooses a commodity to serve as a general medium of exchange. Such choice of a money leads to enormous economic benefits, as is demonstrated by praxeology. Furthermore, governmental interference with the functioning of this money leads to consequences, according to Mises, universally recognized as undesirable. This, too, is a praxeological statement. But that the commodity *gold* happened to be chosen by the market is in the category of an historical fact.

5. Schuller's next criticism is a dual one, with one part contradicting the other. He asserts (1) that Mises fails "to bridge" the dualism between *a priori* praxeology and *a posteriori* history, and (2) that Mises succeeds in so doing for the free market but not for other types of markets. Schuller maintains that in order to forge this bridge, Mises would have to furnish "positive theorems covering all types of historical situations" and "instructions for determining when the conditions of a particular situation coincide with those assumed by a particular theorem." Such stipulations are absurd, and can never be fulfilled by any theorist. It is precisely the task of the historian to attempt to explain historical situations by the use of praxeological theorems, to uncover their complex interactions in the actual historical situation. But even at best, such historical work is tentative and inexact, relying to a large extent on judgments of relevance and emphasis by the historian. It is vain to search for magic formulas to provide simple explanations for all historical events, and the knowledge that such attempts are vain accounts for Mises' "failure" to provide the "bridge."

Schuller's contention that Mises confines his praxeological theories to the free market alone is clearly erroneous. Mises first develops the praxeological laws of the free, or unhampered, market. He then analyzes the effects of each different type of government intervention in the market. Part Six is wholly devoted to this analysis. In Part Five he analyzes the consequences of a totally socialist economy, where the free market in factors of production is abolished. So Mises, far from giving us a "single standard . . . the color white alone," analyzes all the different types of situations, white, black and all shades of gray.

When Mises, on page 854, implies, in Schuller's terminology, an unilinear relationship between departures from the free market and departures in consequences, he is not simply making an offhand assumption. He is summarizing the results of the analysis of Parts Five and Six, an analysis which Schuller seems to ignore completely. His standard does not become normative. As an economist, Mises is value-free. But, if the demonstrated results of intervention and socialism are such as to lead to consequences which everyone will con-

sider undesirable, then Mises as a citizen certainly has a right to agree that they are undesirable.

6. Schuller then cites various instances of what he calls arbitrary applications of catallactic principles to historical reality. In most of the cases, however, he cites not applications, but the principles themselves.

a. Mises is not being arbitrary in stressing monopoly and competitive prices rather than a special type of "monopolistic competitive" price. This is a result of trenchant criticisms of the monopolistic competition analysis. Mises also discusses cases of incomplete monopoly, duopoly, oligopoly, cartels, price discrimination, and monopsony, and furnishes new insights on all of these problems.

b. Schuller contends that Mises' theory of business cycles assumes full employment at the beginning of the interventionary credit expansion, and "is not concerned with the effectiveness of the same policy under large-scale unemployment." This charge is completely false; Mises specifically deals with this problem on pages 576-78. He there demonstrates that his business cycle theory is fully applicable to conditions of large-scale unemployment of factors of production.

c. Mises does not have to explain how systems other than the pure market have managed to survive historically. Merely to survive, regardless of the level of existence, does not require more than the rudiments of the free market, more than a little white in the gray picture. Whatever economic success other systems have had was due to those elements of the market that were permitted to exist.

d. It is difficult to understand what Schuller means here. Mises does not offer any "stagnation" thesis. If Schuller means empirical illustration of the unfortunate consequences of government intervention, such evidences abound. One has only to point to the condition of present-day England, or observe the various "dollar gaps" to mention just some of the countless possible illustrations.

e. Here is a point which especially seems to worry Schuller—the contrast between man's economic rationality on the market, and his irrationality in the political sphere. Mises is not contradicting himself here, but asserting an important truth about human behavior. It is a truth that is not difficult to explain. When an individual chooses purchases on the market, either as consumer or as entrepreneur, he has certain definite guides for selection. The consumer knows the prices of the various goods, and he can test the quality by selection. If he buys what is labelled "breakfast cereal" and it turns out to be a package of hay, he knows it soon enough, and that firm soon finds itself out of business. The consumer is in a position to arrange a set of preferences according to his tastes, to evaluate the products open to him. But, in the political sphere, the reverse is true. The consequences of different sets of political measures can only be understood by the ability to grasp complex chains of abstract praxeological reasoning. The vast majority of the voting public do not have this ability. There is no empirical test that will demonstrate one type of governmental measure valid as opposed to another type. Consequently, the voter turns to whichever political leaders state their case

with the greatest propaganda ability, *i.e.*, to demagogues. Thus, suppose that the government inflates the money and credit supply and prices rise. One party can point out the cause and call for a cessation of the governmental inflation. The other party can assert that the inflation is caused by wicked speculators and profiteers and that inflation of the currency has no effect on prices. The voting public has no rational way to choose except by exerting powers of reasoning which they do not possess.²

Governors appointed by popular vote are Führers, while corporation directors are mandatories of the stockholders. This is no contradiction either. The corporation director is completely at the mercy of the stockholders. The head of the state, however, exercises, to a greater or lesser degree, coercive powers over the people. To the extent he exercises coercive power he is a dictator rather than a mandatory. The "electoral mandate" is rather a choice between two sets of aspirants to such a dictatorship.

7. Schuller reads into Mises the truly absurd statement that *all* intelligent choice of means requires calculability. He then asks how Mises can intelligently choose between market economy and socialism. Mises never, explicitly or implicitly, claims that *all* intelligent choice requires calculability. Obviously, the consumer does not have to calculate in order to decide whether he prefers to read *Hamlet* or a detective story the next evening. Calculability is only a requisite in the choice of *means of production* in a complex economy. It is not required for any other judgments of value or for Crusoe-type choice of means in a simple economy. Certainly, Mises offers no basis for Schuller's charge. Indeed, in his essay, "Economic Calculation in the Socialist Commonwealth," Mises explicitly states the conditions under which calculation is required for intelligent choice.³

8. When Mises presents us with the choice between the free market and socialism, he is saying that in-between systems of a hampered market are not coherent, consistent systems. He demonstrates that any measure of government intervention in the market creates problems and consequences which present the people with a further choice: repeal this measure, or effect another measure of governmental intervention. Thus, if we may use the term in this sphere, we may say that an interventionist society is always unstable and in "disequilibrium," while the only societies in "equilibrium" are the free market or socialism, since interventionist measures logically lead to one or the other. Since a socialist system cannot exist, the only intelligent choice is the purely free market.

9. Since Mises demonstrates that every form of government intervention in the market creates consequences that lead to an economy worse than that of the free market, Schuller cannot distinguish between rational and irrational forms of government intervention, or designate market intervention as a "technology." For Mises, all government intervention in the market is irrational and therefore contrary to economic law.

² Cf. the excellent discussion by the late Professor Schumpeter in *Capitalism, Socialism and Democracy*, pp. 256-64.

³ Cf. Mises, in *Collectivist Economic Planning*, ed. by Hayek, pp. 95-110.

Mises, incidentally, does not advocate "inaction," as Schuller maintains. He advocates the confining of the action of government—which is merely the social apparatus of coercion—to the sphere of its competence: the defense of the citizen against violent invasion of his person and property.

10. The book is not too long and repetitious; if anything, it is too short and condensed, and could well have been expanded to the size of a two-volume work. Nine hundred pages are certainly not too long for a book which Schuller admits is one of the first general treatises on economics to appear in a very long time.

11. The term "uneasiness," contrary to Schuller, is the traditional term, rather than "dissatisfaction." "Uneasiness" goes back to John Locke.

12. Schuller's assertion that the index to *Human Action* is too short is absolutely unexceptionable.

MURRAY N. ROTHBARD*

*The author is a graduate student in the department of economics, Faculty of Political Science, Columbia University.

Rejoinder

In the interest of efficiency in this discussion, I hope Mr. Rothbard's thorough analysis meets with Professor Mises' approval, particularly in matters of interpretation.

1. Both the voluntarist and meliorist positions may be found in Mises. On the former: "Only if men are such that they will finally espouse policies reasonable and likely to attain the ultimate ends aimed at, will civilization improve. . . . Whether or not this condition is given, only the unknown future can reveal" (p. 193). On the latter: "Human society. . . is the outcome of a purposeful utilization of a universal law determining cosmic becoming, *viz.*, the higher productivity of the division of labor" (p. 145). "The chiliastic empires of dictators are doomed to failure; they have never lasted longer than a few years. We have just witnessed the breakdown of several of such 'millennial' orders. Those remaining will hardly fare better" (p. 153). The two strains are rooted in Mises' praxeological axioms. After postulating a common human striving for abundance (p. 19), he tells us that "reason [is] man's most characteristic feature" (p. 176) but that "man very often errs in selecting and applying means" (p. 20).

The ancient problem in the social disciplines of uniting science and policy is not solved by Mises' question whether "characteristically reasonable men" (p. 176) "will finally espouse reasonable policies" (p. 193). In my review I asked whether Mises would try to reconcile this dilemma by regarding his law of development as a praxeological law, effective only so long as its assumption of rational action obtains, while regarding the specific future outcome as dependent also on historical accidents (perhaps including knowledge) which may abort the inner tendencies and therefore make apodictic prediction impossible. Rothbard would reconcile the dilemma by his profound observation that men will choose whatever system they believe will accomplish their objectives.