Austrian Economics

ECONOMIC THOUGHT BEFORE ADAM SMITH: AN AUSTRIAN PERSPECTIVE ON THE HISTORY OF ECONOMIC THOUGHT, Vol. I

CLASSICAL ECONOMICS: AN AUSTRIAN PERSPECTIVE ON THE HISTORY OF ECONOMIC THOUGHT, Vol. II

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To say that Murray Rothbard wrote with a polemical flair is an understatement of astonishing proportions. On hearing of Rothbard's untimely death in January of this year, the first thought that came to my mind was sitting in my dorm room back at Grove City College reading For A New Liberty completely engrossed in Rothbard's system. I had by that time already read Mises and Hazlitt, and some Hayek, but it was Rothbard who really excited me intellectually.

Rothbard was more than an academic writer with an ability to turn a phrase and an uninhibited ability to skewer his opponents. He was, in my opinion, a scholar who possessed many rare abilities.

Rothbard eschewed the academic specialisation fashionable in our times (both in general and even in the specific discipline of economics). He was a polymath. There was something iconoclastic about his work, but that often goes with the territory of a scholar who roams so far from his field of specialisation in order to unearth truth. Rothbard read widely, digested most of what he read, and was able to synthesise it into his own system of analysis—the Rothbardian project of an interdisciplinary science of liberty. His intellectual interests led him to write books in economic theory (Man, Economy and State, 2 vols.), applied economics (Power and Market), economic history (The Panic of 1819 and America's Great Depression), political history (Conceived in Liberty, 4 vols., A New History of Leviathan (edited)), political philosophy (The Ethics of Liberty), and several popular manifestoes (including, What Has Government Done to Our Money?, Left and Right, and For a New Liberty). At the time of his death, he was at work on additional volumes on the history of economic thought project (which was projected to be at least three or four volumes in total). Given his personal note-taking techniques and writing habits, it seems unlikely that these additional volumes will now be published—so much of his outline for the project remained in his head and saw the light of day only when pen was put to paper for the draft chapter. In other words, unlike Schumpeter's tome, it is unlikely that someone will be able to work with the notes to reshape the surviving research material into the planned volume. That is unfortunate because Rothbard had so much to offer. But at least the first two volumes have been published and they certainly do not disappoint. His polemical flair is there, his wide reading is evidenced throughout, his quick judgements along with sober reflections are there as well. The volumes are beautifully produced by Edward Elgar (though at the usual hefty price) and anyone interested in Rothbard's thought, the history of economic liberalism, and the history of economic thought in general, will want these volumes in their personal collection.

An Austrian Perspective on the History of Economic Thought is vintage Rothbard, which means that the volumes are very readable, always unique in interpretation, a bit too polemical at points, and, therefore, cannot always be trusted. Throughout, however, they are as entertaining as scholarly writing can get. Rothbard writes unashamedly from the perspective of an Austrian economist and a libertarian social thinker. He has well-established criteria from which to judge each author and the intellectual movements he discusses. In this regard, Rothbard's project is not unlike Marx's work in the history of economic thought, Theories of Surplus Value. In fact, perhaps the best way to describe the Rothbard volumes is as a combination of Marx's political polemical style with Böhmb-Bawerk's scholarly polemical style (both of whom adopted a take-no-prisoners style of argument) applied to the history of economic thinking in general from the ancient Greeks to the French Laissez Faire School in the 19th century.

Rothbard's criteria are on three levels. First, on a general philosophical level, Rothbard is a pre-Enlightenment Rationalist whose epistemological position is that we have direct access to reality and as such there is no
theory/application split in the social sciences. Good theory is a direct mapping of the real world, not a mere metaphor or model. So throughout his history of economic thought, Rothbard uses this philosophical standard to judge the theoretical projects of others. Realism of assumptions and demands of direct correspondence of theory to reality ground intellectual exercises in economics and politics. Modern arguments of parsimony and prediction do not have much weight in Rothbard’s system as counters to realism. Rothbard is all for parsimony, provided it is constrained by realist philosophy.

At the second level, which deals with economic theory and public policy, Rothbard holds up three standards of critical judgement: (a) free market, (b) hard money (read – 100% gold standard), and (c) natural law. Rothbard’s explicit endorsement of policy as a criterion can be refreshing. For example, one thing that emerges clearly in the volumes is that all major economists in the history of the discipline were political. The monkish cowl of the scholar is a chimera. In a different context, I recently witnessed the political scientist, Russell Hardin, claim that all really great political theory emerged from the pens of writers engaged themselves in a political struggle – such as the authors of The Federalist Papers. Rothbard’s history does convincingly show that many of the great advances in economic thought were the result not of isolated scholarly reflection, but instead emerged as a result of serious thinking about economic problems in the context of a political struggle.

If a theorist is a Rationalist/Realist and is a free market, hard money, and natural law advocate, then Rothbard will confront him with his third level of assessment. The third level has to do with (a) the soundness of the theorist’s deductive logic, and (b) how well the theorist’s views correspond with the teachings of modern Austrian economics (as reflected in the work of Mises). This is how Rothbard’s work proceeds. Volume I begins with the Greek writers, passes through China, moves to the Middle Ages, focuses on the contributions of the scholastics, the response to mercantilism, and the birth of the Smithian movement. Volume II begins with J.B. Say, discusses the detour of British classical political economy, dissects Marxism (in five very interesting chapters which discuss not only the analytics of Marx’s economics, but also the philosophical, religious, and political background to Marx’s system), and ends with Bastiat and the French liberal tradition. All this material is sifted through the criteria mentioned above.

The three layers of argument make for a very interesting reading of the history of economic thought and quite a number of surprisingly critical interpretations and indictments, especially on Adam Smith and John Stuart Mill. An example of his polemical zeal can be found in the treatment of Mill, where Rothbard states that ‘It is difficult to think of anyone in the history of thought who has been more egregiously and systematically overestimated, as an economist, as a political philosopher, as an overall thinker, or as a man, than John Stuart Mill’. Rothbard concludes a discussion of the literature on Mill by stating that ‘there is only one Mill – multi-faceted, self-contradictory, kaleidic, devious, muddled and filiopietistic’. Whether one agrees with Rothbard’s assessment or not, two things are clear: (1) the boldness of the style is unusual in the modern tome on the history of the dismal science, and (2) you need to have your Oxford English Dictionary close by to look up words like ‘filiopietistic’.

One other aspect of Rothbard’s history which is important to point out is that he places religion once again at the centre of intellectual history. Beliefs about individual and collective salvation, man’s relationship to his saviour, the various eschatological theories, etc., all had major influence on intellectual leaders and scholars in the past. Only a myopically secular age could discount religion even in the study of intellectual history. By once again putting religion back in its central place in the intellectual history of economics, Rothbard’s volumes have made a lasting contribution regardless of whatever technical errors in interpretation one may quibble over.

Besides a refreshingly open perspective from which these volumes are written, they also possess a claim to our attention as classic contra-Whig contributions to ideas. Whereas the Whig can relax comfortably with the idea that all that is good in the ancients is embodied in the moderns, the contra-Whig is disturbed by the knowledge that has been lost. Debates that should have swung one way, for various reasons go another. To a Whig, this loss of knowledge and redirection into an intellectual dead-end are not possible. From the Whig perspective, history of thought is either
an antiquarian hobby or an exercise in rational reconstruction with no potential impact on current theorising. Neither Whig treatment of intellectual history (as hobby or intellectual exercise) provides much of a scholarly justification for time spent in the library reading old books or sifting through diaries and biographical material to understand an earlier thinker. Rothbard will have none of this Whiggish false confidence in the benign evolution of ideas, and the introductory essay to the project (printed as the introduction in both volumes) lays out the case for a contra-Whig perspective in the history of ideas in a forceful manner.

Mistakes are made in the social sciences, and knowledge gained in one period can be lost in the next. For example, one of Rothbard's major theses in Volume I is that knowledge developed by the Scholastics was lost in the British tradition of classical political economy. This is an example where Rothbard's introduction of religious doctrine in describing intellectual developments is important, because he, following Emil Kauffer's thesis, places causal blame for the retreat from subjectivism in value theory to an objective labour theory or cost of production theory on the influence of Calvinism within the English world, as opposed to Catholicism on the Continent. In Volume II, this theme is emphasised again with regard to the knowledge developed by the French in contrast to the British — who once again are unfortunately victorious with John Stuart Mill and then Alfred Marshall and thus diminish the influence of the French on economic thinking. (Rothbard does not really deal with Marshall since that would be in Volume III, which is unfortunate because what he has said about Marshall in the wake of the value theory revolution, for example in footnotes in Man, Economy and State, hints at some very astute observations on Marshall and the Austrians.) In fact, in short summary one could argue that An Austrian Perspective on the History of Economic Thought yields the result that the Spanish Scholastics of the 16th century, the British anti-Ricardians, and the French liberal political economists of the 19th century were the most important thinkers in the development of economic thought as they were proto-Austrians (read - rationalists/realists who tended to favour free markets, hard money, and natural law, and leaned towards understanding subjectivism of value, and the dynamics of market competition, including entrepreneurship).

I agree with many of Rothbard's assessments. Scholars such as Turgot, who developed a theory of entrepreneurship and market competition, have been greatly underappreciated in the history of economic thought and deserve an honoured place — Rothbard certainly does that in his chapter entitled 'The Brilliance of Turgot'. Economic thought and policy applications from the early Middle Ages through the Enlightenment to the early part of this century simply cannot be understood if the religious element is discarded, and scholars who attempt to engage in either intellectual or political economy history will be misled if they do not take time out to study the religious doctrines which burned in men's minds. J.B. Say should be appreciated as a towering intellectual in the history of economic thought and not just as the translator of Smith into French. Say, for example, foreshadowed modern public choice theory, the property rights theory of monopoly, and many insights associated with modern Austrian economics. The British anti-Ricardians, such as Nassau Senior, Mountfich Longfield and Richard Whately, possessed many insights on value theory, exchange behaviour and market competition that were superior to those offered by the Ricardians. Finally, Bastiat was a great economic journalist— as is widely recognised — but, as Rothbard contends, he also should be recognised as an economic thinker of the first rank. We tend to discount people just because they write in common language as opposed to the professional jargon we have grown accustomed to in the professionalisation of the discipline of political economy. In the area of history of thought, for example, it is clear that Rothbard values Alexander Gray's work tremendously both for Gray's witty style and for the substance of the argument offered — style and substance do not conflict in Rothbard's mind the way they do in many 'academic' obfuscants.

Rothbard's framework does produce some quirky positions. Rothbard has a penchant to cheer very hard for underdogs who were ignored during their lives and to discount the contributions of those who obtained wide recognition during their day. (For example, whoever would have expected to find proto-Austrian writings on subjective utility theory in the Kentucky newspaper editorials of the American Amos Kendall?) This is interesting, but it is also grounds to be a bit careful with regard to the judgements offered. Smith, we are told, was neither original nor insightful. John Stuart Mill, as opposed to his father James Mill, was overrated and was a horrible influence on both political and economic thought. Rothbard does not just throw these conjectures out, but develops very reasonable arguments for each of his positions — and the strength of the contra-Whig position lends credibility to his overall project. But one can
sense that he is more like a lawyer developing an argument to make a predetermined case rather than someone who explored the issue. Let me be clear: I am not against this type of lawyerly intellectual argument nor do I think it is illegitimate for a scholar to make the best case he can for a position he has developed over years of critical reflection. Rothbard’s case is fine, but to my mind there is something of a one-sidedness to his interpretation that must be checked against other considered opinions. I feel an ambivalence in bringing this up because it is precisely the one-sidedness of Rothbard that makes the volumes so compelling. But at the same time it demands that we consistently check Rothbard’s interpretation against the original text and the community of scholarly opinion. Yet, this is how it always is in original works in the history of thought, whether we are talking about Schumpeter or Blaug or Rothbard.

Each of the volumes ends with a bibliographic essay which covers the material discussed in the text and some side issues of related interest. These are quite interesting and provide an informative glimpse into Rothbard’s thought processes in organizing the project. I must say that I do not share Rothbard’s taste in modern Austrian economics, and I (and others) have disputed elsewhere his interpretive claims about contemporary developments in Austrian economics. Since the two completed volumes do not get to the Austrian school these interpretive differences are not crucial, though a few of the latter show up in the bibliographic essays, such as Rothbard’s critical assessment of the work of Lawrence H. White on free-banking theory and history. Again, however, it is precisely because Rothbard was always willing to offer a bold statement of his position, and defend it (sometimes bombastically) with arguments, that make him such an interesting intellectual figure in contemporary Austrian and libertarian thought.

Rothbard’s accomplishment with these volumes is vast and should be celebrated in the Austrian/classical liberal community. There can be little doubt that Rothbard will be remembered as one of the intellectual leaders of both Austrian economics and liberal political economy. All of his considerable scholarly skills are on display in the volumes of *An Austrian Perspective on the History of Economic Thought*. It is a work like Schumpeter’s *History of Economic Analysis*—very opinionated, bold (at times incredible), yet scholarly. Like Mark Blaug’s *Economic Theory in Retrospect*, Rothbard’s volumes unashamedly criticise historical contributions in the light of modern theory (in Rothbard’s case, however, it is not neo-classical theory but modern Austrian economics as represented in Mises). Like Viner, Rothbard understood the importance of religion in both the development of actual economics and the theories that emerged to understand these economies.

In short, Rothbard’s *An Austrian Perspective on the History of Economic Thought* is a major contribution to the history of economic thought in general, and to Austrian economics in particular, and it deserves a wide circulation. It ranks with the best contributions to intellectual history—not as a textbook of the wrong opinions of dead men, but as an original theoretical work whose intellectual story, if listened to, would surely overturn the received wisdom of our day and lead to a major recasting of the disciplines of economics and of political economy.

*Peter J. Boettke*

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**AUSTRIAN ECONOMICS IN AMERICA: THE MIGRATION OF A TRADITION**

Karen I. Vaughn

Karen Vaughn has produced a lucid and compelling story of 25 years of Austrian economics in America. She accomplishes this by presenting and analysing the central ideas of Austrian economists, with particular emphasis given to Menger, Mises, Hayek, Kirzner, and Lachmann. But the book is also an invaluable case study (by a major insider) chronicling the inner dynamics of a research community struggling to affirm and to discover, especially recently, its own identity.

All Austrian economists, Vaughn holds, accept methodological individualism, 'radical' subjectivism, and the importance of irreversible time and limited knowledge for the study of human action and market processes. Yet 'sharply different views' (p.5) about the construction of economic theories based on these propositions divide Austrians. According to Vaughn, two competing analytical frameworks have co-existed within Austrian economics from Menger to the present. Vaughn characterizes the first, which she associates with a Kirznerian approach, as supplementing neo-classical economics with its analysis of the process of equilibration and the role of entrepreneurial activity. The second framework, associated with the work of Lachmann, claims those same insights require 'abandoning conventional concepts of equilibrium and developing a whole new paradigm for Austrian economics' based on