

How to Be a Value Free Advocate of Laissez Faire Ludwig von Mises's Solution

J. Patrick Gunning
Department of Economics
Feng Chia University
100, Wenhwa Road, Seatwen
Taichung, Taiwan 407
R.O.C.
Email: gunning@fcu.edu.tw.
Homepages:

<http://knight.fcu.edu.tw/~gunning/welcome.htm>

<http://www.constitution.org/pd/gunning/welcome.htm>

How to Be a Value Free Advocate of Laissez Faire

Ludwig von Mises's Solution

Abstract

Mises is often regarded as a "champion" of laissez faire. This characterization seems to contradict Mises's clear statements that economics is value free. The aim of this paper is to resolve this apparent contradiction. This is accomplished by distinguishing, as Mises did, between the advocacy of specific laissez faire policies and the advocacy of a laissez faire ideology vis a vis the alternative ideologies of socialism and interventionism. Mises argued that the logic of a value free economics could be used to show that socialist and interventionist policies will not achieve a goal that the socialists and interventionists implicitly or explicitly aim to achieve – progress in terms of material wealth for the members of the society. Thus, Mises resolved the contradiction by shifting the debate from the welfare analysis of particular policies to a logical analysis of the ends of a particular ideology and the means available to achieve those ends.

In a seminal paper in neo-Austrian economics, Murray Rothbard criticized Mises. This paper analyzes Rothbard's argument partly as a means of elucidating Mises's views. It argues that Rothbard misinterpreted Mises and quoted him out of context. Rothbard failed to make the case that Mises held the beliefs that Rothbard attributed to him. Moreover, Rothbard's paper undermined the value-freedom that Mises regarded as a crucial characteristic of economics.

How to Be a Value Free Advocate of Laissez Faire Ludwig von Mises's Solution

Ludwig von Mises maintained that praxeology (the logic of human action) and economics (the logic of action applied to particular circumstances) are value-free. He went on to argue that sound, value-free economic reasoning leads one to favor laissez faire. This paper presents the reasoning that enabled him to reach this apparently paradoxical conclusion. To my knowledge the reasoning is unique to Mises.

One of Mises's staunchest defenders and "champions," Murray Rothbard,¹ criticized Mises on this issue. An examination of Mises's and Rothbard's arguments will show that Rothbard did not understand Mises's approach to the problem, apparently because he failed to consider the key passages on this issue in *Human Action* and because he misinterpreted the passages he did consider.

Mises's argument that an economist could advocate laissez faire and still remain value-free stemmed from his conception of the *goal* of economics. In his view, the goal is to debunk false views about how people in a society can achieve their non-ascetic ends. To do this, economics must elucidate the nature of human cooperation under laissez faire by means of the division of labor under the conditions of private property. Then it must compare this with the means people would use to achieve such ends under the alternatives of socialism and interventionism. The economist could advocate laissez faire because economic reasoning shows that it enables people in a society to achieve their non-ascetic ends to a greater extent than the alternatives. So long as the economist pursues the goal of comparing the systems with respect to their capacity to achieve these ends and so long as his comparison employs the logic of praxeology, he need not worry about making value judgments.

Mises's argument is presented in Part One of this paper. Part Two presents Rothbard's view that value-free economics is a tool of ethics. Part Three describes and evaluates Rothbard's critique of Mises. It shows how Rothbard misunderstood Mises's position and misinterpreted his arguments. Part Four tries to explain Rothbard's misinterpretation by suggesting that his thought was unduly influenced by his acceptance of the welfare economics of his day. Part Five presents a brief conclusion.

¹See Rothbard's scathing critique of a book review of the first English edition of Mises's *Human Action* (Rothbard 1951a; 1951b). Also see his description of Mises as a contemporary economist (Rothbard 1984) and his pamphlet on Mises as a "scholar, creator, and hero" (Rothbard 1988).

2. Mises on Laissez Faire and Value-free Economics

To understand Mises's views on laissez faire, it is sufficient to read the passages referred to in the index of *Human Action* (1966). In most places, he refers to it as an ideology of the old liberal economists. This ideology, in his view, helped to eliminate the restrictions of medieval times, facilitating the emergence of a private property system and free enterprise. He writes that "laissez faire philosophy had opened the way for capitalism by utterly destroying the fallacies of restrictionism" (1966, p. 840). Similarly, "[t]he laissez faire ideology and its offshoot, the 'Industrial Revolution,' blasted the ideological and institutional barriers to progress and welfare" (*ibid.*, p. 620). Note that in this last statement, Mises refers to laissez faire as an "ideology" and that he speaks of "progress." A brief discussion of these ideas will help clarify his argument.

In *Human Action*, Mises defines ideology in relation to what he calls a world view:

A world view is an interpretation of all things, and as a precept for action, an opinion concerning the best means for removing uneasiness as much as possible....Religion, metaphysics, and philosophy aim at providing a world view. They interpret the universe and they advise men how to act.

The concept of an ideology is narrower than that of a world view. In speaking of ideology we have in view only human action and social cooperation and disregard the problems of metaphysics, religious dogma, the natural sciences, and the technologies derived from them. Ideology is the totality of our doctrines concerning individual conduct and social relations (p. 178).

Other ideologies besides laissez faire are socialism and interventionism:

In the field of society's economic organization there are the liberals advocating private ownership of the means of production, the socialists advocating public ownership of the means of production, and the interventionists advocating a third system which, they contend, is as far from socialism as it is from capitalism (p. 183).²

It is worth noting that he uses the term "socialism" here to refer to both an ideology and a system. He contrasts socialism as an ideology with the ideologies of laissez faire and liberalism; and he contrasts the socialist system with the system of capitalism.

Now consider what he wrote about progress:

The term progress is nonsensical when applied to cosmic events or to a comprehensive world view. We have no information about the plans of the prime mover. But it is different with its use in the frame of an ideological doctrine. The immense majority strives after a greater and better supply of food, clothes, homes, and other material amenities. In calling a rise in the masses' standard of living progress and improvement, economists do not espouse a mean materialism. They simply establish the fact that people are motivated by the urge to improve the material conditions of their existence. They judge policies from the point of view of the aims men want to attain. He who disdains the fall in infant mortality and the

²Mises wrote separate essays on all three ideologies. See Mises 1981 [1922], 1978 [1927], and 1988 [1940].

gradual disappearance of famines and plagues may cast the first stone upon the materialism of the economists (p. 193).

In this passage, progress means the satisfaction of the "immense majority's" material aims from their own point of view. As Mises sees it, careful study of the systems that correspond to the various ideologies confirms that laissez faire ideology and the capitalist, or free market, system provides the best opportunities for individuals to realize their aims:

It is true that economists have drawn from their investigations the conclusion that the goals which most people, practically even all people, are intent on attaining by toiling and working and by economic policy can best be realized where the free market system is not impeded by government decrees. But this is not a preconceived judgment stemming from an insufficient occupation with the operation of government interference with business. It is, on the contrary, the result of a careful unbiased scrutiny of all aspects of intervention (p. 238).

It is important to realize that Mises's goal of comparing ideologies and systems was not a side issue. It was, in his view, the main goal – indeed the reason for being – of economics. This is evident from the conclusions in both his first and last chapters of *Human Action*. In chapter one, he writes:

What is wrong with our age is precisely the widespread ignorance of the role which these policies of economic freedom played in the technological evolution of the last two hundred years. People fell prey to the fallacy that the improvement of the methods of production was contemporaneous with the policy of laissez faire only by accident....Modern civilization as developed by the white peoples in the last two hundred years....will and must perish if the nations continue to pursue the course which they entered upon under the spell of doctrines rejecting economic thinking.

It is true that economics is a theoretical science and as such abstains from any judgment of value. It is not its task to tell people what ends they should aim at....[I]t merely shows how a man must act if he wants to attain definite ends.

It seems to many people that this is very little indeed and that a science limited to the investigation of the is and unable to express a judgment value about the highest and ultimate ends is of no importance for life and action. This too is a mistake. However, the exposure of this mistake is not a task of these introductory remarks. It is one of the ends of the treatise itself (p. 9-10).

In his final chapter, he writes:

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....

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 (p. 883-885).

In other discussions in *Human Action* of laissez faire, Mises points out that it has promoted peace. He writes that "capitalism is essentially a scheme for peaceful nations....In the philosophy of the Manchester School free trade and peace were seen as mutually conditioning one another" (p. 828). And:

While laissez faire eliminates the causes of international conflict, government interference with business and socialism creates conflicts for which no peaceful solution can be found....What has transformed the limited war between royal armies into total war, the clash between peoples, is not the technicalities of military art, but the substitution of the welfare state for the laissez-faire state (p. 823-824).

Toward the end of World War II, he writes that "[t]he only way to substitute peace and cooperation for the existing disunion in Eastern Europe, or in any other part of the world, is the establishment of a unitary government – unless the nations will return to laissez faire" (1969 [1944], p.).

I conclude that Mises's support for laissez faire is based on twin pillars. The first is a conclusion based on value-free economic reasoning that, in relation to socialism and interventionism, laissez faire would lead to progress as he defined it. The second is a belief that it would reduce the incentive to go to war.

3. Rothbard on Value-freedom

In one of the papers that helped to launch the revival of Austrian economics, Rothbard (1976) maintained, among other things, that Mises had failed to support his claim to have divorced economics from ethics. Rothbard agreed with Mises that praxeology and economics are value-free. However, he framed this proposition in a very different way. "Praxeology," he writes, "is the value-free handmaiden of values and ethics" (Rothbard 1976: 91). This creates a problem for economists, as he saw it.

The trouble is that most economists burn to make ethical pronouncements and to advocate political policies – to say, in effect, that policy X is "good" and policy Y "bad." Properly, an economist may only make such pronouncements in one of two ways: either (1) to insert his own arbitrary, ad hoc personal value judgments and advocate policy on that basis; or (2) to develop and defend a coherent ethical system and make his pronouncement, not as an economist, but as an ethicist, who also uses the data of economic science (*ibid.*, p. 92).

He goes on to write that many economists try to evade the implications of this view of propriety. They try to "square a circle" by inserting their own personal value judgments while, at the same time, declaring that without such judgments, no conclusion about the goodness or badness of a policy can be drawn.

Next, he describes a rule that he believed should be part of every economist's creed:

I contend further that it is the responsibility of any scientist, indeed any intellectual, to refrain from any value judgment whatever *unless* he can support it on the basis of a coherent defensible ethical system (*ibid.*, p. 93).

He applies this rule to judgments about policy:

This means, of course, that those economists who, on whatever grounds, are not prepared to think about and advance an ethical system should strictly refrain from any value pronouncements or policy conclusions at all (*ibid.*, p. 93).

The difference between Mises and Rothbard appears sharp. Whereas Mises argues that value-free economics can provide the basis for advocating laissez faire, Rothbard argues that no judgments about policy should be made unless one develops a coherent defensible ethical system.³ When Mises promoted laissez faire policies, he did so as an economist, not as an ethicist. Yet Rothbard believed that to do this violated Mises's own rule for remaining value-free. From Rothbard's point of view, Mises's treatment of the relationship between theory and values was flawed.

4. Rothbard's Critique of Mises

The problem, as posed by Rothbard, was how Mises could be both a "most uncompromising and passionate adherent of laissez faire and at the same time the most rigorous and uncompromising advocate of value-free economics and opponent of any sort of objective ethics" (Rothbard 1976, p. 100-101) Rothbard characterizes Mises as proposing three solutions: (1) using a variant of the unanimity principle (*ibid.*, p. 101), (2) taking the position not of the economist but of an ordinary citizen (*ibid.*, p. 105), and (3) asserting that "he who disagrees with the teachings of economics ought to refute them by discursive reasoning...." (*ibid.*: p. 108; Mises 1961: p. 133). In this section we evaluate Rothbard's characterization. We argue that, in each case, Rothbard misconstrued the problem with which Mises was concerned. This led him to misinterpret the meaning of various passages.

The Variant of the Unanimity Principle

According to Rothbard, Mises's first solution to the problem of advocating laissez faire while maintaining value-freedom was to employ a variation of the unanimity principle. As Rothbard puts it, "an economist per se cannot say that a given government policy is 'good' or

³Rothbard, of course, had already constructed such a system. See Rothbard 1978 [1973].

'bad.' However, if a given policy will lead to consequences, as explained by praxeology, that *every one* of the supporters of the policy will agree is bad, then the value-free economist is justified in calling the policy a 'bad' one." (Rothbard 1976, p. 101) He quotes the following two Misesian passages:

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 the 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 (Mises 1966, p. 883).

Economics does not say that...government interference with the prices of only one commodity...is unfair, bad, or unfeasible. It says, that it makes conditions worse, not better, *from the point of view of the government and those backing the interference* (*ibid.*, p. 764, emphasis in original).

The first point to recognize about these statements is that they do not confirm Rothbard's belief about Mises's solution to the problem. Consider each passage in turn. In the first one, Mises says or implies nothing about unanimity. Instead, he simply points out that if *anyone* describes (1) the policy he favors and (2) the goal he expects it to achieve, the economist can investigate whether the policy will actually achieve the goal. It is true that Mises uses the plural terms "supporters" and "those aiming at a goal." However, the pluralization does not imply unanimity in any reasonable interpretation. Nor does the context in which this passage occurs. The paragraph in which these sentences appear ends with the following: "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*" (*ibid.*, p. 883, emphasis added). In addition, nothing in the context within which this paragraph appears suggests that Mises is writing about some variant of the unanimity principle.

The second passage is similar. To demonstrate this conclusively, we add the last three sentences of the paragraph from which the quote is taken. They are:

The government interfered because it considered these commodities especially vital, necessary, indispensable. But its action curtailed the supply available. It is therefore, from the point of view of the government, absurd and nonsensical (*ibid.*, p.764).

We must conclude that Rothbard's claim that Mises used a "variant of the unanimity principle" is not supported by the text he quotes. Be that as it may, it is not essential to Rothbard's criticism anyway! His criticism is basically that Mises could not know the goals of policy advocates. He asks: "[H]ow could Mises *know* what advocates of the particular policy consider desirable?" (Rothbard 1976, p. 101) The answer seems simple enough. Mises did not presume to know the advocates' goals. Instead, he assumed that the ends were evident from the policy

advocate's arguments.⁴ To avoid misinterpretation in light of the context, one might add that "successful" is defined in terms of the views of the particular men to whom Mises refers.

Rothbard goes on to ask how Mises could "know that some advocates of price control do not *want* shortages. They may, for example, be socialists anxious to use the controls as a step toward full collectivism" (Rothbard 1976 p. 102). Surely Mises would have agreed that if one's aim is full collectivism, a price control would be a possible means for attaining that goal.

Rothbard further claims that Mises asserts "that all supporters of price control -- or of any other government intervention -- must concede, after learning economics, that the measure is 'bad'" (*ibid.*, p. 102-3). But Mises did not make this assertion. On the contrary, consider what he writes about people who hold myths.

E]conomics 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 wages for all those eager to earn wages (Mises 1966: 884).

Regarding Rothbard's criticism of what he regarded as Mises's first solution to the problem of advocating laissez faire while maintaining value-freedom, it is evident that Mises did not propose the solution that Rothbard claims.⁵ However, even this statement does not say that one

⁴Larry Eshelman makes an argument similar to that made here when he describes Mises as a "nonmoral functionalist." This means that Mises "can make judgments without abandoning the value-free stance of the economist" (Eshelman, 1993, p. 6). Arguing against Rothbard's interpretation, Eshelman writes that "Mises's point is simply that such policies will not accomplish their proclaimed goals" (*ibid.*). Eshelman quotes Mises's views on social cooperation, which Mises regards as the principal characteristic of laissez faire:

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 (Mises 1966, p. 883).

⁵Rothbard also argues that in showing the effects of a government policy, economists, including Mises, can only show the long-term effects. But what about a person who has "high time preference?" Rothbard asks. "There is no way that [Mises] could assert the superiority of the long run over the short run without overriding the values of the high-time-preference people..." (Rothbard 1976, p. 103-4). This cannot be correct. I am not aware of Mises ever writing that economics is only concerned with long-run interests. If a policy advocate is concerned with short-run interests, surely the principles of economics can be used to evaluate his argument in the same

should disregard short-run effects. Mises did not resolve the problem of advocating laissez faire while maintaining value freedom by employing the unanimity principle.

It will be recalled that in his definition of progress, Mises assumes that individuals "are motivated by the urge to improve the material conditions of their existence." One might ask how Mises knew this. The answer is that he does not claim to know this. He assumes it. To successfully criticize Mises's position, one would have to assert that this assumption is unwarranted. It is important to realize, however, that such a criticism would not assert that there is a contradiction between value-free economics and Mises's position that laissez faire is superior to the other ideologies with which he compared it. It would be a challenge to Mises's claim about the aim of economics. In Mises's view, liberals, socialists, and interventionists are all interested in the production of material wealth. But value-free economics shows that the peoples' aims of producing material wealth cannot be satisfactorily met under the systems of socialism and interventionism. Using the same definition of progress that the socialists and interventionists use, value-free economics shows that where socialism and interventionism cannot succeed, laissez faire can. In short, to challenge the idea of progress based on individual aims to attain material wealth is to challenge not only those who profess laissez faire but also those who promote the other ideologies for which progress is regarded as important. Rothbard's misinterpretation seems to be based on a belief that there is some other aim of economics. One conjectures from his claim that economics

way that they can be used to evaluate an argument about long-run effects. Of course, there may be doubt about precisely when a particular policy's effect will be felt. But, so far as I know, there are no examples of cases where Mises neglected short-run interests if he had reason to believe that advocates of a policy were concerned with these.

There are two possible bases for Rothbard's confusion. The first is Mises's discussion of arguments made by classical economists. Mises referred to their arguments by the title "harmony of rightly understood interests of all members of the market society" (Mises 1966, p. 674). In a footnote, he writes that for "rightly understood interests,' we may as well say interests 'in the long run'" (*ibid.*). He also writes that the classical economists held "that everybody is interested in the preservation of the social division of labor, the system that multiplies the productivity of human effort..." (*ibid.*). Since Rothbard cites this passage, he apparently believes that it supports his view that Mises uses a version of the unanimity principle. But Mises is not expressing his own views here. He is writing about the views of the classical economists.

The second possibility is that Rothbard has confused Mises with Henry Hazlitt who, in his short book on applied economics, asserts that:

the whole of economics can be reduced to a single lesson, and that lesson can be reduced to a single sentence. *The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequence of that policy not merely for one group but for all groups* (Hazlitt 1975, p. 12).

is the handmaiden of ethics that he wanted to use economics to support his recently published "ethics of liberty" (Rothbard 1978 [1973]).

The Laissez Faire Advocate as Citizen, Not Economist

Mises's second solution to the problem of advocating laissez faire while maintaining value-freedom, according to Rothbard, is that a person can wear two hats. Although the economic scientist cannot advocate laissez faire, he can do so as a *citizen* (Rothbard 1976, p. 104). Rothbard then criticizes Mises's alleged position as a citizen, characterizing it as utilitarian. Utilitarianism may lead to anti-liberal conclusions, he argues. If a majority of ordinary people mistakenly believe that their utilities will be improved by anti-liberal policies, Mises's majoritarian utilitarianism would logically lead him to approve the policies.

Rothbard presents no evidence that Mises, the citizen, is a utilitarian. He merely asserts it.⁶ In any case, Mises's support for the ideology of laissez faire, as opposed to the ideologies of socialism and interventionism, was not based on utilitarianism; it was based on his assumption that all of these ideologies are concerned with earthly ends. Economics teaches that social cooperation via the property system and division of labor enable the immense majority of people to make progress, i.e., to attain their goals of "a greater and better supply of food, clothes, homes, and other material amenities" (Mises 1966, p. 193).

Rothbard chastises Mises for failing to consider a variety of competing goals (Rothbard 1976, p. 106). Mises had, of course, considered ascetic goals (Mises 1966, p. 178-179) but, inasmuch as his aim was to evaluate the rival ideologies mentioned above, he places them outside the range of concerns. Other goals mentioned by Rothbard include equality of income and preference for short-run benefits at the expense of long-run benefits. These, in Rothbard's view, could lead people to oppose laissez faire. He asks rhetorically:

What could Mises reply to a majority of the public who have indeed considered all the praxeological consequences and still prefer a modicum – or, for that matter, even a drastic amount – of statism in order to achieve some of their competing goals? (*ibid.*, p. 104)

He answers by saying that Mises, the utilitarian, could only reply by pointing out that government intervention has a cumulative effect. He notes that this is not a fully satisfactory answer in that some programs are not cumulative and that others, although cumulative, take so long to have their effects that individuals might well intentionally ignore the effects.

⁶Leland Yeager (1993) follows Rothbard in making the claim that Mises is a utilitarian. Like Rothbard, but unlike Eshelman, he provides no argument supporting this. Moreover, like both authors, he refers to Mises's statements about particular philosophical or ethical positions as evidence that Mises himself held those positions.

Rothbard's discussion about how Mises would respond to such a case is speculative and, I believe, wrong. Although Mises did argue that intervention is cumulative, his target in this discussion was price controls and similar interventions. These would be cumulative in a very special sense. The policy makers who proposed the intervention would discover that it did not accomplish the goal they had aimed to achieve. Then they would propose another intervention on top of the first with the aim of correcting it. But instead of correcting it, the new intervention would also fail to achieve the goal of correcting for the first policy. Assuming that they stuck to the ideology of interventionism, the policy makers would respond yet again with a new intervention to correct for the second and, derivatively, for the first. Now the important point to recognize here is that Mises's target is not a specific intervention but the ideology of interventionism. He did not argue that every intervening policy would inevitably lead the policy maker to intervene further. He argued that *if the policy makers followed the ideology of interventionism*, they would necessarily (i.e., by definition) intervene further when they discovered (as they must) that their intervention had failed to achieve the goal it had been intended to achieve.⁷

One might ask about other policies besides intervention; for example, Rothbard refers to the policy of redistributing income in order to achieve greater equality. The fact is that Mises simply did not consider a wide variety of policies to deal with what modern economists would call cases of market failure or, in Rothbard's terms, cases where statism might be advocated. In his economics and discussions of liberalism, Mises disregarded the case of jointness in demand, one characteristic of public goods. And he dealt with nonexcludability only in a brief section of *Human Action*, noting that it was a case of incomplete property rights giving rise to different incentives than if property rights were complete (Mises 1966, p. 654-656). He did not recommend a government role in such cases, but he did not recommend against such a role either. For example, in a brief discussion of roads, he merely considers the hypothetical case of a government agency that operates the roads. He does not ask whether this is or is not desirable (*ibid.*, p. 722-723). Mises might well have favored government administration of roads and the provision of other so-called public goods. Since to my knowledge he did not treat these issues in any detail in his economics text, perhaps we shall never know. There can be no doubt, however, that he favored the ideology of laissez faire in general over socialism and interventionism. In comparison with these, he asserted that it had led to progress, as defined above.

Refutation of Economic Teachings by Discursive Reasoning

Rothbard's claim that Mises provides a third solution to the problem of advocating laissez faire while maintaining value-freedom is related to Mises's statement in his "Epistemological Relativism" paper that "[h]e who disagrees with the teachings of economics ought to try to refute them by discursive reasoning, not by abuse, insinuations, and the appeal to arbitrary, allegedly

⁷This point is recognized by Sanford Ikeda (Ikeda 1997, p. 42-44).

ethical standards" (Rothbard 1976, p. 108; Mises 1961, p. 133). Rothbard attacks the statement with an assertion, writing that "no one can decide upon *any* policy whatever unless he makes an ultimate ethical or value judgment." Accordingly, it is "pointless for Mises to call for his critics to use 'discursive reasoning' since he himself denied that discursive reasoning can be used to establish ultimate ethical values" (Rothbard 1976, p. 108). Thus, according to Rothbard, Mises was unknowingly involved in a contradiction because he did not realize that every policy decision requires an ultimate value judgment.

However, Rothbard took Mises's statement out of context. In the cited passage, Mises was not referring to the use of discursive reasoning to evaluate a *public policy*. Instead, he was referring to its use in evaluating the logic of the *proposals advocated by others*.⁸ In this article, Mises does not make his point about the task of economics as clearly as he did in *Human Action*. Perhaps this is because he was writing to a rather special audience of philosophers of the social sciences.

So far as I am aware, Mises never claimed that one could "decide policy" without making an ultimate value judgment. But he claimed again and again that one could judge whether the policy proposals of others were logical and relevant to the goals that they revealed they wanted the proposals to achieve. Indeed this was one reason he gave for the possibility of a value-free economics.

5. Why Did Rothbard Misinterpret Mises?

What led Rothbard to misread Mises on the relationship between advocacy of laissez faire and value-freedom? It seems to me that the answer lies with Rothbard's acceptance of the tenets of modern welfare economics. The first two of the solutions that Rothbard attributed to Mises were directly out of the modern welfare economists tool kit: unanimity and majoritarian utilitarianism. In an article some 20 years earlier, Rothbard had sought to construct a welfare function on the basis of his notion of "demonstrated preference" (Rothbard 1956). His belief that he had succeeded, I suspect, gave him confidence that he could apply the same apparatus to the problem of interpreting Mises's works. Thus he could feel that Mises failed in giving due credit to welfare economics and that unacceptable welfare judgments were concealed in Mises's writings.

This, in my view, is a serious error and is far more important than the simple fact that Rothbard misinterpreted Mises's statements about laissez faire. Modern welfare economics is built on a foundation of mathematical economics. The people who populate welfare economics models are not actors; they are automatons. The economic system in which they function is not a real system within which individuals must identify which items are goods and resources, how much of the goods and resources to produce, which methods to use, and what prices to charge.

⁸Actually, Mises does not mention public policy at all, although he does mention the advocacy of capitalism and socialism.

Accordingly, welfare economics is irrelevant to the problem with which Mises dealt, namely, the comparative evaluation of these three ideologies.

The proper Austrian view of modern welfare economics is the same as the proper Austrian view of mathematical economics. It has no direct relevance to the problem of evaluating ideologies. It is simply not a framework that can be used to make the kind of judgments with which Mises was most concerned. Mises's evaluation of laissez faire was not an evaluation of particular statist policies but of the private property system in general and the means of social cooperation that economics teaches it engenders. To evaluate this system, one must assume an entrepreneurial economy or "market process," not an equilibrium system.

6. Conclusion

Rothbard argues that economics is the value-free handmaiden of ethics. For Mises, economics was value-free and economic reasoning provides a singularly convincing argument for the ideology of laissez faire versus the ideologies of socialism and interventionism. Rothbard claims that a problem exists because value-free economists burn to make judgments about the goodness or badness of a particular policy. Mises, however, argues that economics does not help us judge whether a policy is good or bad but only whether a particular policy will succeed in achieving the aims that a policy proposer puts forward.

Mises readily admitted that particular individuals or groups might benefit from a particular interventionist policy. However, they would not benefit from adhering to the interventionist ideology because (1) a single intervention carried out in accord with the interventionist ideology is self-defeating and (2) systematic interventionism (i.e., intervention to correct for past failures of intervention to achieve stated goals) is "cumulative." He did not consider in any depth policies that deal with public goods problems or with patent and copyright protection, and he readily accepted the need for government to provide national security and property rights. Thus, it would be wrong to infer that Mises opposed all government action. His advocacy of laissez faire amounts to an advocacy of an ideology which stands in contrast to the ideologies of socialism and interventionism.

On the issue of the use of a value-free economics, Mises and Rothbard are polar opposites. Mises argues that its use supports the laissez faire ideology and the laissez faire system. Rothbard asserts that one needs a welfare economics, or ethical system, to reach any judgment about policy and, one must assume, about the systems that human beings can use to help meet their non-ascetic ends. Mises did not reveal any interest in developing an ethical system and felt that value-free economics, if only people would understand it and realize its importance, was sufficient to inform people about the merits of laissez faire relative to other ideologies. Rothbard believed that the argument for laissez faire policies must be based on an ethical system and that value-free economics was insufficient to demonstrate their merits.

To support his case, Rothbard critiqued Mises's position on laissez faire. This paper has argued that Rothbard's critique was misguided. It misinterpreted and misrepresented Mises's arguments. Whether modern Austrians follow Mises's value-free economics or Rothbard's ethics, they would be wise to not make the choice based on Rothbard's critique.

References

- Eshelman, Larry J. (1993). "Ludwig von Mises on Principle." *Review of Austrian Economics* 6 (2), p. 3-41.
- Hazlitt, Henry. (1975). *Economics in One Lesson*. New York: Manor Books.
- Ikeda, Sanford (1997). *Dynamics of the Mixed Economy: Toward a Theory of Interventionism*. London: Routledge.
- Rothbard, Murray N. (1951a). "Mises 'Human Action': Comment." *American Economic Review* 41: 181-185 (March)
- Rothbard, Murray N. (1951b). "Praxeology: Reply to Mr. Schuller." *American Economic Review*. 41: 943-946 (December).
- Rothbard, Murray N. (1956). "Toward a Reconstruction of Utility and Welfare Economics." In M. Sennholz, ed. *On Freedom and Free Enterprise*. Princeton, NJ: D. Van Nostrand. Reprinted in Rothbard (1997) *The Logic of Action I: Method Money, and the Austrian School*: Cheltenham UK: Edward Elgar.
- Rothbard, Murray N. (1976). "Praxeology, Value Judgments, and Public Policy." In E. Dolan, ed. *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.
- Rothbard, Murray N. (1978 [1973]). *For a New Liberty*. New York: Collier Books.
- Rothbard, Murray N. (1984). "Rothbard on Mises." In H. Spiegal and W. Samuels. *Contemporary Economists in Perspective*. Greenwich, CT: JAI Press.
- Rothbard, Murray N. (1988). *Ludwig von Mises: Scholar, Creator, Hero*. Auburn, Al: Ludwig von Mises Institute.
- von Mises, Ludwig. (1961). "Epistemological Relativism in the Sciences of Human Action." In H. Schoeck and J. W. Wiggins. *Relativism and the Study of Man*. Princeton, NJ: D. Van Nostrand. Reprinted in R. Ebeling, ed. (1990) *Money, Method, and the Market Process: Essays by Ludwig von Mises*. The Netherlands: Kluwer Academic Publishers.
- von Mises, Ludwig (1966 [1949]). *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company.

Von Mises, Ludwig (1969 [1944]). *Omnipotent Government: The Rise of the Total State and Total War*. Westport CT: Arlington House.

von Mises, Ludwig (1978 [1927]). *Liberalism*. Kansas City: Sheed, Andrews and McMeel.

von Mises, Ludwig. (1981 [1922]). *Socialism, An Economic and Sociological Analysis*. 3rd revised edition. Indianapolis: Liberty Classics. (Originally published under the title of *Die Gemeinwirtschaft: Untersuchungen uber den Socialismus*.)

VonMises, Ludwig. (1988 [1940]). *Interventionism: An Economic Analysis*. Translated by Thomas Francis McManus and Heinrich Bund. Edited by Bettina Bien Greaves. Irvington-on-Hudson, NY: Foundation for Economic Education.

Yeager, Leland B. (1993). "Mises and his Critics on Ethics, Rights and Law." In Jeffrey M. Herbener (ed.), *The Meaning of Ludwig von Mises*. Norwell, MA: Kluwer Academic Publishers.