The Anatomy of Economic Advice

PART I

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As is the case with virtually all branches of human knowledge, economic knowledge and understanding are valued not only (or even primarily) for their own sake, but for their usefulness in practical terms. The enormous sums expended each year on economic research and economic education certainly would not be forthcoming if it were not expected that such research and education could help promote wise policies leading to prosperity and economic well-being.

Indeed, there can be no doubt that those advocating free-market policies (in The Freeman or elsewhere) do so firmly convinced that such advocacy grows naturally out of economic understanding. I certainly share this conviction. Yet the path leading from valid economic understanding to sound economic policy advice is not straightforward. To proceed from an “is” statement to an “ought” statement is, in all contexts, fraught notoriously with philosophical hazards. In the context of economics these dangers are compounded further by the subtleties that complicate the sources of economic understanding itself.

Our attempt to clarify the basis in economic science for valid and useful economic advice will proceed as follows. In the present article we elaborate on the apparent paradox involved in offering “scientific” advice (that is, advice supported or even entailed by science) in the economic arena. In the second article we shall examine the philosophical foundations of economic science itself (with a special interest in its potential in regard to economic policymaking). In the concluding article we will try to draw together our various insights and to formulate our conclusions in regard to the scientific validity of economic advice.

The “Science” and the “Art” of Political Economy: A Nineteenth-Century Dilemma

The founding fathers of economics, including, most prominently, Adam Smith, generally saw their discipline as constituting what came to be called an “art”—that is, a body of advice on how to achieve a well-defined objective—the enhancement of national wealth. Although the title of Adam Smith’s classic was An Inquiry into the Nature and Causes of the Wealth of Nations (suggesting it to be a disinterested scientific inquiry, concerned neither to promote increased national wealth nor to prevent it), Smith himself has usually been seen to have conceived his subject as an art (setting forth ways to increase national wealth). But thoughtful economists of that period had serious misgivings about such an approach.

Some of the classical economists following Smith indeed wrestled with the relation between a science of political economy and an art of political economy. One such economist was Richard Whately, who was not only an economist of note but also an Anglican archbishop. He felt the need to defend himself in regard to his interest in the science of wealth (an interest his critics apparently thought of as unbecoming a clergyman). Whately pointed out (in a 1831 lecture at Oxford) that the conclusions of political economy can be deployed in policies designed to reduce wealth (if wealth be seen as morally suspect) —just as they can be used to formulate policies for increasing wealth!

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At one stage in his academic career Nassau Senior, one of the most prominent early nineteenth-century political economists, flatly denied the very possibility of such an art. Although Senior later retreated from this categorical position, he was never completely reconciled to the idea of political economy as an art. In his 1860 presidential address to The Section of Economic Science and Statistics (of the British Association), almost a quarter century after his denial of the possibility of an art of political economy, Senior insisted that the political economist is concerned only with the production or distribution of wealth—regardless of whether “wealth be a good or an evil.” He clearly believed that, qua economist, the economist has no business offering advice. “Whenever he gives a precept, whenever he advises his reader to do anything, or to abstain from doing anything, he wanders from science into art. . . .”

As the nineteenth century wore on, Senior’s qualms came to be ignored. Particularly on the Continent, economists paid scant heed to Senior’s admonitions. The German Historical School (which dominated continental economics during the closing decades of the century) made no attempt whatever to separate their substantive economics from advocacy on behalf of specific social programs. For them it was precisely this advocacy that gave economics its importance as a branch of knowledge. Joseph Schumpeter cited the testimony of a student in a class taught by a prominent leader of the School, to the effect that the mood in the classroom resembled that of an election rally.

It was the great sociologist Max Weber who recognized the danger to the reputation of economics as an objective science that was posed by such a politicized attitude. He maintained that the scientific character of any social science requires that it be meticulously impartial as between different judgments of value. This ran counter to the dominant perspective in German economics. At a meeting of German-language social scientists held in 1907, Weber’s position was the subject of bitter disagreement. Weber insisted that scientists who disagree sharply on moral priorities should, despite this, be able, at least in principle, to agree on the positive propositions of their discipline. We shall return very soon to comment further on this Weberian doctrine of wertfreiheit (freedom from value judgments).4

The Twentieth Century: The Economics of Welfare

By the end of the nineteenth century, mainstream economic theorists no longer saw their discipline as concerned with material wealth. Instead they focused on the subjective sense of well-being that human beings hope to derive from their wealth and from their economic activities. This led them (particularly in England) to see economics as primarily concerned with “welfare.” Very soon they were speaking of the “economics of welfare” (the new title of A.C. Pigou’s 1920 book, itself the second edition of a 1912 book titled Wealth and Welfare). To think of economics as the science able to promote economic welfare seemed an innocuous small step. Thus for much of the first half of the twentieth century it was taken almost for granted that the economist is the expert who formulates policies to be implemented in order to promote aggregate economic welfare. It seemed to be obvious that economists had the professional duty of advocating policies they believed would, scientifically, enhance social well-being. And even economists squeamish about the philosophical coherency of any notion of aggregate well-being were able to devise more carefully formulated versions of welfare economics by reference to “Pareto optimality” or similar sophisticated constructions.

It was during this period that economists began to find ample employment opportunities in government.
As the tide of public opinion turned (during the second quarter of the century) decisively in favor of massive government intervention in the market economy, economists increasingly saw their discipline as capable of generating very definite policies for enlightened governments to follow. Economists were placing their science (particularly the branch that made up “welfare economics”) at the service of political parties. Inevitably this tended to raise those same gnawing questions concerning the objectivity and impartiality of that science which had so troubled Max Weber. More and more, it seemed, any political program, any proposal for economic legislation, could find economists prepared to present a “scientific” case in its support.

**Mises and Wertfreiheit**

Ludwig von Mises, the towering Austrian School economist of the twentieth century, was an ardent champion of Weber’s *wertfreiheit* principle for all social sciences, and particularly for economics. He believed that the objectivity of the science requires nothing less than its complete detachment from the personal preferences and value judgments of its practitioners. Implicit in Weber’s *wertfreiheit* principle is the conviction that it is, at least in principle, possible for the economist to pursue his science in detachment from his own personal judgments of value. In fact, however, some twentieth-century philosophers have challenged (and do still challenge) this, maintaining that it is an illusion to believe that one can suppress one’s value judgments while engaging in one’s science. Inevitably, they argue, one’s science reflects one’s moral presuppositions. Mises may have agreed that to maintain such detachment may be difficult—but he would have emphatically rejected claims that it is impossible. It is the scientist’s obligation to the reputation and integrity of his science, Mises would have insisted, that he insulate his scientific work from any hint of “contamination” arising from personal predilections. The medical researcher exploring the links between cigarette smoking and cancer must pursue his laboratory testing and his statistical analysis without that research being affected in any way by his own preference for smoking or his own fears concerning the disease. So too must the economist’s analysis of markets, of regulation, and their consequences be utterly independent of his own moral opinions concerning liberty, the inequality of incomes, or whatever.

Mises’s position offers a fascinating illustration of the ambiguities and complexities involved in the *wertfreiheit* principle. Gunnar Myrdal was a prominent twentieth-century Swedish social scientist. (His positions on economic policy were so utterly at odds with those of Mises, that when, in 1974, Myrdal and F.A. Hayek were joint recipients of the Nobel Prize in economics, it was widely understood that these choices represented a kind of ideological balancing act, with Hayek’s approving views on free markets being counterbalanced by Myrdal’s advocacy of comprehensive government control of the economy.) In 1930 Myrdal published a German-language book that examined the history of economics and concluded that most of the leading economists during that history had injected political presuppositions and ideals into what they presented as scientific investigations. This book was translated into English in 1955. Fritz Machlup (himself an eminent Austrian-trained twentieth-century economist who had been a pupil of Ludwig von Mises and who treated Mises at a personal level with exemplary loyalty) wrote a review of this published translation. Machlup drew attention to Myrdal’s declaration that (unlike the other schools of economic thought) the Austrian School of economics was not guilty of injecting political ideals into their scientific work. Machlup found this approving judgment surprising. “How did the anti-interventionist writings of the Austrian von Mises escape Myrdal’s attention?” he asked. Apparently Machlup was not able to reconcile Mises’s stated insistence on *wertfreiheit* and detachment from ideological pre-commitments with Mises’s eloquent writings in favor of laissez faire and the free-market economy.
In fact a reader of Mises’s work cannot fail to sense a paradox surrounding the passion with which Mises wrote his economics. By the time we reach the third part of this series, we shall hopefully have resolved this paradox. Here we shall merely identify it and relate it to the broader challenge of extracting useful advice from _wertfrei_ economic science.

Ludwig von Mises and the Importance of Economics

Mises was, as we have seen, convinced that economics must be pursued dispassionately—as a _wertfrei_ discipline—but he wrote with white-hot passion about the dangers that face mankind should it ignore the truths which academic science reveals. He concluded his magnum opus, _Human Action_, with the following searing sentences: “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 and therapeutic achievements of the last centuries have been built. It rests with men whether they will make 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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Because Mises believed that only laissez-faire policies can sustain modern civilization, he felt driven to clarify and defend the philosophical foundations of what he called “modern economics.” (For Mises, modern economics was the body of economic teachings rooted in the classical economics of Adam Smith and his followers, as refined and reformulated by the so-called neoclassical economists, including especially the founder of the Austrian School, Carl Menger and his followers, among whom was Mises’s own teacher, the eminent Eugen von Böhm-Bawerk).

Mises’s clarifications of the foundations of neoclassical economic theory included, in particular, his defense of economics from the Marxist charge that conventional economists are merely the lackeys of Wall Street, advocating free markets only in order to serve their capitalist paymasters. Mises saw clearly that, unless economists purged their science of any taint of personal bias (that is, as expressing personal judgments of value), their teachings would be vulnerable to such dismissal. Precisely because he saw free markets as the essential prerequisite for civilized, prosperous society, and because he believed that disinterested economic analysis definitively supported this view, Mises was terrified by the possibility that economic science was to be dismissed as nothing but capitalist propaganda. Fritz Machlup saw Mises’s advocacy of laissez faire (his “anti-interventionist” writings) as an example of precisely that departure from impartiality in the pursuit of economic science, for which Myrdal had indicted so many economists (but for which had declared the Austrian School, in general, as having been _not_ guilty). We shall return, in the third essay in this mini-series, to examine the validity of Machlup’s charge.

Most economists of the postwar period did not pay much attention to these concerns. It is true that Milton Friedman, one of the leading scholars of the eminent Chicago School, advocated (in an influential 1953 essay)
what he called “positive economics” (in which economic propositions could be established that might command the assent of scholars regardless of their personal predilections). But this came to be viewed primarily as an exercise in methodology, presenting the case for treating economics as a strictly empirical (as opposed to a logical) discipline (rather than as a case for *wertfreiheit*).

From time to time more serious attention was devoted to the *wertfreiheit* issue. Thus a leading historian of thought, Terence W. Hutchison (who was, as it happens, a scholar in the methodology of economics who had bitterly criticized Mises’s own methodological writings), wrote a book on the subject. But few other economists gave much thought to the dangers to their impartiality (or to their perceived impartiality) that may lurk in their policy pronouncements. And some economists otherwise deeply influenced by the Austrian School, and Mises in particular, expressed strong reservations against the *wertfreiheit* doctrine. Thus Murray Rothbard, a leading disciple of Mises, argued for the explicit articulation of the ethical principles on the part of the economic scientist offering policy advice.

Recently a noted exponent of free-market economic policymaking, Daniel B. Klein, called on economists to deploy their science to modify the political-economic choices of the public.7 Klein contended that economists who themselves value the free society have a moral *obligation* to help mold public opinion toward an appreciation for liberty. Economists are in a unique position to do this because they enjoy a respected professional reputation. Instead of spending their time talking to each other in the language of abstract mathematical models, economists ought to be engaging in “public discourse,” talking to Everyman about issues of practical public policy. Klein surveys a swath of literature in which economists, both advanced scholars and frustrated graduate students, bemoan the irrelevance of the academic work being done by the economics profession. He finds the profession locked into a mindset in which it is in the rational professional interest of the individual economist to *avoid* addressing Everyman on realistic issues, focusing instead on the abstract models upon which professional repute and rewards (perversely) depend. In urging the economist to tell Everyman what is good for him, Klein is clearly urging the economist to see his professional responsibility as extending beyond the strictly positive. The economist must not only—or even primarily—concern himself with the understanding and prediction of chains of economic cause and effect; he must also deploy that understanding to advise (and even to exhort) the man in the street as to what are his best (and worst!) courses of action.

**Castigated Economists**

In urging the economist to tell the public what economic science sees as good for them, Klein was explicitly rebelling against the position taken by George J. Stigler, the Nobel-laureate Chicago School economist. In 1982 Stigler published a book in which he castigated economists (from Adam Smith to Stigler’s own time) for doing precisely what Klein wished them to do (that is, to tell the public what is good for them). Stigler strongly protested against economists being “preachers” (treating the public as mistaken, perverse children whose behavior can be improved if they are properly instructed through appropriate moral suasion).

For Stigler the economist should refrain from “preaching” not because of any concerns that such preaching violates their scientific objectivity and moral neutrality. Rather Stigler denounced such preaching because to preach economic policy is to believe—quite mistakenly, in Stigler’s opinion—that the economist knows what is economically good for the public better than the public itself knows. Stigler carries the assumption of perfect knowledge (which has notoriously characterized many of the models constructed by economic theorists in order to account for real-world facts) to a consistent, but extreme, degree. He assumes, in effect, that all that economics might be able to teach is *already known* to the public and to its political agents. The economist may think the outcome to be expected from a given policy to be undesirable, but if the public adopts that policy this proves that the public in fact *desires* that very outcome. The economist who denounces that policy as “wrong” is simply revealing that he has a set of objectives different from those that are in fact being pursued by the public.

Certainly the history of economics reveals little unanimity among economists concerning the possibility and the usefulness of the *wertfreiheit* principle. The prestige
associated with the teachings of economic science, and the importance that educated public opinion attaches to them, have waxed and waned during that history. The views of economists themselves as to whether or not they have an obligation to enlighten the public on economic policy have varied widely. It is against this rather confusing background that we shall try to clarify the legitimacy of ("scientific") advice to the public by economists.

From “Is” to “Ought”

In the second of this series we shall review the foundations of the strictly positive lessons taught by economic science. That is, we shall briefly set forth the nature of the economic reasoning that establishes the existence of chains of cause and effect in the economic sphere. In this regard we shall follow the Austrian tradition in economic reasoning, particularly as developed in the relevant writings of the twentieth-century leaders of that tradition, Mises and F.A. Hayek. What will emerge from this examination is insight into the powerful market tendency to systematically translate consumers’ rankings of needs, and physical resource constraints, into corresponding patterns of resource allocation. This systematic translation, we shall see, follows from the purposefulness of human action, the entrepreneurial propensity of human beings to discover what is of interest to them, and from the information-communicating capabilities of the market price system. This will lead us directly to the third and final part of this series.

In that third article we shall examine what implications this Austrian perspective holds for the possibility of offering impartial advice on public-policy issues, such that the advice does not reflect any personal or ideological preferences of the economist offering it. Only if this possibility exists can the doctrine of _wertfreiheit_ be upheld consistently by the policy adviser; only if this possibility exists can the objectivity and impartiality of the advising economists be preserved; only if this possibility exists can we hope to uphold the scientific repute of economics. Our conclusions in regard to these questions will enable us to clarify some of the paradoxes we have encountered in the present article. They will provide us, in particular, with an understanding of how the teachings of free-market economists need not compromise their objectivity and impartiality, and may, nonetheless, be presented with passionate conviction and dedicated advocacy.

6. Ibid., p. 885.