CHAPTER 11

ECONOMICS AND ETHICS WITHIN THE AUSTRIAN SCHOOL OF ECONOMICS

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11.1 Introduction

The Austrian School of Economics, in the minds of most professional economists, is identified with the libertarian wing of the economics profession. This is true whether one reads a popular principles of economics book, such as David Colander's *Economics* (2000) or a popular trade book such as Ha-Joon Chang's *Economics: A User's Guide* (2014). There should be no doubt that self-identified Austrian economists often emphasize the power of the market mechanism to improve the welfare of the masses, and the tyranny of politics as it is said to impoverish the masses while benefiting only the powerful and privileged few. However, this conclusion is not evidence of ethical assumptions influencing analysis or ideology. Rather, it is a conclusion drawn from analysis. If this is a conclusion of economic science, it is not a conclusion widely shared by fellow economists. How can the Austrian economists make such claims? We argue that Austrian economists separate ethical discussions or assumptions from their economic analysis. They maintain strict adherence to value-free analysis through an emphasis on social cooperation, which allows them to maintain their objectivity with respect to individuals' ends. This combination allows Austrian economists to maintain their positions as value-free scientists while arguing that a free-market, capitalist system will best achieve peoples' diverse ends. This conclusion often prompts charges of politically motivated analysis despite Austrian economists' discipline as value-free scientists.

This identification of the Austrian School of Economics as libertarian is ironic for at least two historical reasons. First, in one of the earliest serious books to address the unwarranted intrusion of politics into modern scientific economics, Gunnar Myrdal wrote "in Austria, economics has never had direct political aims in spite of the close

connection of the Austrian marginal utility theory with utilitarian philosophy. The Austrians were preoccupied with value theory and never elaborated a detailed theory of welfare economics" (1929: 128). Second, the Austrian school of economics, in particular the writings of Ludwig von Mises, inspired Lionel Robbins' critique of the efforts by Pigou and others to offer a detailed theory of welfare economics. Ludwig von Mises, the inspiration for Robbins' critique, had completely absorbed Max Weber's (1917) arguments for *wertfrei*, or value-free, social science. Weber's argument was more than a rhetorical strategy in debate—it was a discipline for constructive conversations in scientific debate. It was an argument for positive analysis prior to the development of the positivist philosophy of science. Put simply, it argued that, as social scientists, we should not engage in arguments over the ends of various public policies, and instead restrict our analysis to the efficacy of the means chosen to pursue those given ends. By restricting the analysis to the logical examination of means and ends, the theorist can serve as the social critic without violating the intellectual discipline of *wertfrei* social science. To ignore these strictures, however, is to betray science and engage in normative philosophizing parading as positive analysis.

Following these strictures in his critique of socialism, Mises did not question the ends of socialism, but treated those ends as given. At the time, one of the critical ends of the socialist project was the rationalization of production.[1] Mises (1920) argued that the means chosen by the socialists—for example, collective ownership of the means of production—was incoherent with respect to the rationalization of production. Without private property in the means of production, economic decision makers would be unable to engage in rational economic calculation of alternative paths of investment and production. Absent the means of rational economic calculation, that rationalization of production would be impossible. Socialist means were incoherent with respect to socialist ends.

This is a decisive objection, and it is an objection that requires *no* assessment of values or political philosophy. It is an immanent critique of a social philosophical and political economy argument. Mises applied his *wertfrei* economic analysis not only to the extreme case of socialism, but also to less extreme examples of interventionism, such as price controls and the manipulation of money and credit by a central bank. Despite the caustic tone one can read in Mises, a careful reading of his work reveals that he strictly adhered to the discipline of the analysis of the efficacy of chosen means to given ends. He *never*, as an economist, questioned ends.

It was this discipline, with its depth of implication for important topics, that captured the imagination of Lionel Robbins in the 1920s. Robbins used what he learned from Mises to launch his own critical analysis based on positive economics against socialist and interventionist proposals in Britain, expose the pretensions of Pigou's welfare economics, and challenge the emerging "new" economics of the Cambridge circus, which

[1] The goal of socialists was to bring society out of the "anarchy of production"—meaning the lack of central planning of production in capitalism—and instate the "rationalization of production"—meaning the central planning of production.

included Joan Robinson and Richard Kahn, around Keynes. In *An Essay on the Nature and Significance of Economic Science* (1932), Robbins elaborated the strictly value-free nature of economic *science* and demonstrated the pseudo-scientific nature of welfare economics which ultimately amounted to little more than normative philosophizing parading as positive analysis. As F.A. Hayek migrated from Vienna to LSE, he and Robbins represented a formidable challenge to the Cambridge hegemony in British economics at least throughout the 1930s. The Austrian school of economics, mixed with the contributions of Philip Wicksteed and Edwin Cannan, provided the foundations for a properly understood neoclassical economics of the LSE in the 1930s and 1940s. Subjectivism, processes, knowledge, and competition became the hallmark of this neoclassical approach. Economics was perceived as a purely scientific discipline that had profound implications. Economic science had put parameters on people's utopias.

Such parameters do not preclude prosperity; they encourage it. While the goal of the socialists was to engender a richer society from the virtuous cooperation of neighbors, Mises, Hayek, and Robbins demonstrated that their chosen means—collective ownership of the means of production—would fail. Rather than cooperating in achieving their different ends, neighbors would compete for resources. Socialism would foster fierce competition, not virtuous cooperation. Social cooperation is necessary for prosperity. Prosperity occurs when neighbors—even strangers—can hold different ends, but cooperate for the achievement of those different ends. Mises, Hayek, and Robbins emphasized that those rules which foster cooperation rather than competition are the key to prosperity and growth. Thus, they maintained their role as value-free scientists while arguing that free markets and capitalism would induce growth without sacrificing individuals' ends.

How ironic is this insistence on strict value-freedom in their writings, in light of the authors being the main intellectual opponents ideologically speaking against socialism and Keynesianism, as well as methodologically speaking against excessive aggregation, excessive formalism, and positivistic empiricism (Gunning 2005)? In fact, as "positive analysis" came to be understood by fellow economists *not* in terms of means-ends analysis, but, rather, as the willingness to subject hypotheses to empirical refutation, the Austrian school stance of *wertfrei* became less and less understood. As a result, the inference that the Austrian school of economics was simply a handmaiden to a more or less laissez-faire ideology became more prevalent among professional economists and in the popular imagination. This unfortunately has not changed. Mises and Hayek (if not Robbins) are better known for what they oppose than for their understanding of economic forces *at* work across a variety of social situations.

We welcome this opportunity, and in this context, to discuss once again, the relationship of economics and ethics from an Austrian school perspective. We will do so in the following manner. Section 11.2 will explore the question "Is economics value-free?" Section 11.3 will then explore further how the relationship between value-free analysis and the ethical concerns that are embedded in every question of the scale and scope of governmental action. Section 11.4 will focus on the emphasis of social cooperation in the Austrian school, and the insight into economic growth that an emphasis of social

cooperation provides. Finally, we conclude the chapter with some summary remarks on the science of economics, the art of political economy, and ethical discourse.

11.2 Is Economics Value Free?

Adam Smith's writings build on an argument that the right and the good are inexorably linked to each other. The "system of natural liberty" that he articulated also resulted in the "wealth of nations," so one can reasonably infer from reading him that what is right for mankind, is also good in terms of consequences for mankind. In other words, virtuous pursuits lead to prosperity. This is perhaps best captured in a conjecture made in lectures notes from 1755, 21 years before he published *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith said:

> Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.
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> (Quoted in Stewart 1793: 68)

In a presentation to the Royal Academy in Edinburgh in 1793, a few years after Smith's death, Dugald Stewart revealed these lecture notes he had in his possession to demonstrate the consistency of Smith's thinking through time. Smith's own system of thought has been subjected to interpretation and debate for centuries, with the most famous controversies surrounding the supposed tensions between *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* (1776). To many this shows the tension between social philosophy and political economy in general, while to others the reconciliation of the two texts demonstrates the intimate connection between political economy and social philosophy. We will not resolve this issue, but, for our purposes, the critical issue is the recognition that at the time of Smith, the system of natural liberty—what David Hume would describe as a system of property, contract, and consent—provided the institutional framework within which economic forces would work to lift mankind from abject poverty into material progress and human flourishing (Smith 1776: 51). The right and the good work together.

This basic conjecture spread among economic thinkers as the teachings of Hume and Smith were translated into French by Jean-Baptiste Say, and refined in the United Kingdom by David Ricardo and James Mill. But the French Revolution had a damning influence on such a simple conjecture about the right and the good. Claims of the "rights of man" no longer were simultaneously conjectures about "utility." As Jeremy Bentham famously said, rights claims were "nonsense upon stilts" (1843: 914), and utility is all that we can reasonably discuss. And, after Bentham, that is what political economists

and economists did, even to the chagrin of critics who vociferously proclaimed that economists know the price of everything but the value of nothing. In philosophical tracts, poems, and even novels, economists are portrayed as cold-hearted "philosophers of fact" without care or commitment to the betterment of mankind, let alone to the least advantaged among us.

How could it be that a systematic body of thought that began with an inquiry into the nature and causes of why some nations are rich while other nations are poor has come to be understood in such a manner? The narrative conjecture we will work with is that during the nineteenth century, advancements in the discipline of political economy demonstrated the correspondence between the aspiration of individual autonomy from oppression with improvements in material progress and generalized prosperity, but these same developments did not address the question of the distributive justice of the social system of exchange and production. Throughout the nineteenth century, the evidence continued to accumulate throughout Europe and North America about productive specialization and peaceful social cooperation that follows from the general institutional framework of property, contract, and consent. But within this experience, there was also a growing awareness of lingering social ills such as poverty, ignorance, and squalor. Urbanization highlighted these social ills. The wretched conditions of ill-fortune were more directly visible as neighbors were on top of neighbors. Rather than famine, the scourge of the modern age was mass unemployment due to industrial fluctuations.

This situation created a significant paradox: economics is vitally important for understanding the forces that define and shape the modern industrial world, but, as it was often claimed, lacked the tools necessary to fix the modern world. Some economic traditions, such as the Austrian school of economics in the late nineteenth century, were comfortable with the limiting role of "students of civilization" (Dekker 2016), but most practitioners wanted more out of economics. This was especially true of the Cambridge School from Alfred Marshall to John Maynard Keynes. In a 1908 lecture, "Economic Science in Relation to Practice," A.C. Pigou summarizes the position as elegantly as we have seen:

> If it were not for the hope that a scientific study of men's social actions may lead, not necessarily or immediately, but at some point and in some way, to practical results in social improvement, I should myself – I do not intend to speak for others – I should myself regard the time devoted to that study as time misspent. That seems to me true of all social sciences, but especially true of Economics. For Economics "is a study of mankind in the ordinary business of life"; and it is not in the ordinary business of life that mankind is most interesting or inspiring. If I desired knowledge of man apart from the fruits of knowledge, I should seek it in the history of religious enthusiasm, of passion, of martyrdom and of love; I should not seek it in the market-place. When we elect to watch the play of motives that are ordinary in man – that are sometimes mean and dismal and ignoble in man – our impulse is not the philosopher's impulse, knowledge for the sake of knowledge, but rather the physiologist's, knowledge for the healing that knowledge in some measure may help to bring. (1908: 11)

This idea that economics must bear "fruit" in ethical discourse and in improving the conditions of man has been the subject of intense discussion from Marshall to Joseph Stiglitz, who in his work *Whither Socialism?* (1994) asks whether the modern economics that he had so much of a hand in constructing could be effectively used in the service of the nineteenth-century humanitarian goals of socialism. Stiglitz answers in the affirmative, and his work on inequality is a prime example of what he means in making that claim.

At this point, it is important to take a step back and address the exact relationship between ethics and economics that is being articulated. In definitional terms, ethics is the study of the ends for which men should strive, while economics is the study of the relationship between scarce means and unlimited ends. Economics does not discuss ends as such. From these definitions, the relationship between ethics and economics consists of separate evaluations of ends and means (Rothbard 1976). Ethical concerns provide the analyst with the questions to be pursued, while economic analysis provides the answer to the viability or efficacy of means for achieving the lofty goals that ethical discourse sets for individuals (Boettke 2007). This is the relationship between economic and ethics that guided (and continues to guide) the analysis of Austrian school thinkers. Their critique of socialism did not discuss the desirability of socialist ends. Likewise, their discussions of free markets and capitalism concerned the effectiveness of such a system in enabling individuals to achieve their ends without discussing the desirability of those ends.

The existence of a strict separation of economics and ethics has been questioned. Some philosophical critiques of economics as a discipline have suggested that economics is full of ethical content. The very definition of words such as "voluntary" and "coercion," or even "property rights," have ethical content embedded in them that cannot be ignored. In discussions of the "just" distribution of property, for example, there are implicit and explicit ethical judgements made throughout that address a range of topics such as acquisition, use, and transference of such property (Rothbard 1973; Block 1975). Economics, by treating the object of study as ethically neutral, reflects an ethical endorsement of the existing pattern of resource ownership (High 1985). A correct counter to this argument, however, is simply to point out that the status quo has no ethical priority. It just is what it is. Thus, the analysis of the situational logic must begin with recognizing the initial starting point.

To quoting Pigou again, "If practice is the impulse to the economist's work, it is plain that Economics cannot stand alone. For our science is not a normative but a positive science" (1908: 13). As he argues, economists cannot tell you what ought to happen, only what is likely to happen given a change in the context of economic decisions. Economics cannot guide reform on its own. It cannot "pass judgements on questions of the relative goodness-in-themselves of various states of conscious life" (ibid.). That is the domain of ethics.

This division of labor would be fine if it were maintained in practice. It is useful only to the extent that analysts understand that the high ideals of the ethicist will only have practical importance to the extent that the "ordinary business of life" is allowed to inform the understanding of the viable as well as the desirable (ibid.). Grand ethical

aspirations that are not economically viable are not simply grand plans that have gone awry. Instead, they are potentially unethical delusions that harm human beings and reduce well-being.

In their development of the strict Weberian idea of economics as *wertfrei*, or value-free, Mises and Robbins directed their criticisms at the theory of welfare economics developed by Pigou. Pigou thought he could develop a science of economics that could provide answers to passionate concerns with the plight of man: we need not rely only on the poets and Romantics to see with "vividness the faces of the suffering and the degraded who have been worsted in the industrial struggle" (1908: 12). Pigou thought he could use Marshallian analysis and his idea of "welfare economics" to design solutions—as a doctor would prescribe a medicine—to cure the ills of industrial society. In his mind, redistribution would bring relief from poverty; regulation and taxation would curb monopoly power and externalities; and taming of industrial fluctuations through judicious intervention would correct for unemployment and labor strife. But precisely *how* is the *science* of economics going to justify the necessary coercive interventions to stave off industrial conflict?

Mises and Robbins sought to address this question by adopting their roles as defenders of the scientific status of economics and as critics of the proposed set of interventions and articulated their case for a value-free economics. Economics as a scientific discipline cannot simply deliver knowledge to those who want it merely because they want it. It has limits to its inquiry just as all scientific disciplines do. It also has more impact in its negative knowledge than most policy activist would like to acknowledge.[2] Thus, economics puts parameters on utopias. It does this first and foremost by stressing the primordial fact that we live in a world of scarcity. Recognizing the fact of scarcity implies that we are forever negotiating trade-offs, and in that negotiating of trade-offs we must deal with the incentives that actors face in the conduct of the "ordinary business of life" as well as the unique knowledge of circumstances they use in making their choices. High-minded ideals that do not account for the incentives and knowledge involved in the "ordinary business of life" will amount to little more than daydreaming at best, and could inflict harm on those who were the intended target for assistance. None of what we have said so far entails value judgements or ethical assessment. It simply follows from the positive analysis of the efficacy of chosen means to satisfy given ends.

The economist must limit their role to that of a student of society, and, if done with intellectual discipline, a social critic—but a critic that only engages in critique founded in means-ends analysis, and never the transcendent critique of imagined alternative ends to be pursued. Mises and Robbins, following in the utilitarian tradition of English classical political economy, thought that the assumption of universally shared goals for public policy—namely the public interest and in particular the welfare of the least advantaged—resolved many of the thorny issues in utilitarian philosophy. But economists in Cambridge at the time, such as Pigou, thought you could combine that alleged

[2] By "negative knowledge," we refer to the point that Hayek (1945) makes, namely that policy planning requires access to knowledge that planners do not and cannot know.

commitment to a universally shared ethic with the public interest using the tools of economic reasoning based on interpersonal comparisons of utility.

Two critical things emerge that threaten the scientific status of economics if Pigovian welfare economics comes to characterize the economic discourse. First, value judgements are smuggled, unexamined, into the analysis at various stages. Second, various unwarranted assumptions and conceptual confusions related to the concepts of utility, equilibrium, and optimality are introduced. The *science* of economics is reduced to normative philosophizing parading as positive analysis. Furthermore, there is absolutely no argument whatsoever that the economist should have any privileged position in deliberations for collective action other than the mantel of science; after that has been abandoned, all that is left is the charisma of the personality.

Mises and Robbins (and Hayek) were embroiled from 1920–40 in various heated public policy debates concerning socialism, war, and depression. They believed that economics had something to offer to these pressing issues, but only if it retained its strict scientific stature. They stressed how alternative institutional arrangements impact the ability of individuals to pursue productive specialization and realize peaceful social cooperation. Clearly defined and strictly enforced private property rights yield one pattern of exchange and production, while poorly defined and weakly enforced property rights yield a different pattern. In theory, collective property rights regimes, *by definition,* would have to forego the economic forces that follow from a regime of property, contract, and consent. Additionally, in practice, a collective property rights regime would deviate from the theory and function of property rights due to attenuated property rights and the disparities of bargaining power that political privilege wrought.

In the debate over market socialism, the first line of argument was the inability for even selfless planners to engage in rational calculation of alternative productive ventures. Mises, Hayek, and Robbins did not emphasize the incentive problems that socialist proposals would face because they wanted to grant, for sake of argument, as much common ground as possible and highlight the decisive objection: socialism, by design, would have to forgo the intellectual division of labor that characterizes a modern economy. Their argument evolved in the 1930s and 1940s into one that stressed the *political consequences* of the planned economy. They sought to demonstrate that socialism was incompatible with democratic aspirations in works such as Hayek's *The Road to Serfdom* (1944) and Mises' *Omnipotent Government* (1944). The British advocates of market socialism often argued that they were socialist in their economics because they were liberals in their politics, so if the argument of Mises and Hayek had force it would be another intellectual death blow to the argument motivating the growth of government planning in the wake of the Great Depression and the Second World War.

This is why Hayek's book is written as a tragic tale: the serfdom that results is the unintended and undesirable consequence of a path that is pursued with the highest of ideals in mind. Mises' story rhetorically is less a tragic tale and more a dire warning. But, both stress how liberal democracy is incompatible with the loss of economic freedom, and attempt to make this argument in a way—read carefully—that is positive and not normative. The argument they present constitutes *is* and *follows from* statements, not

should and *should not* statements, and the notion of *desirable* they employ is from the point of view of the advocate or some widely shared ideal of the public interest. Motives are not questioned. Ends are not subjected to critical dialogue. Instead, the analysis is one of the efficacy of chosen means in the obtainment of given ends.

11.3 Ethical Concerns, Economic Analysis

The Austrian argument for the strict value-free nature of economic analysis limits what economics can do. To demand that a discipline do something it cannot is a surefire way to corrupt a discipline. This is why the Austrian writers were adamant that economics cannot be a tool of advocacy. Rather, it is a tool of social understanding and social criticism that provides an analytical understanding of the forces or processes *at work* in any economic system, as well as negative knowledge. Economics cannot answer questions like whether profits are deserved, but its analysis of factor pricing and the allocation of entrepreneurial talent can inform on the consequences of various answers to such questions in relation to the pattern of exchange, production, and distribution.

Ethical concerns can, and do, ignite our imagination as economists such as they do citizens in general. Joseph Schumpeter in his *History of Economic Analysis* (1994), referred to the *pre-analytic cognitive act* that often provides the raw material for scientific analysis as *vision*. Vision, he argued, was a critical part of the scientific-scholarly enterprise. Concerns about poverty, ignorance, mass unemployment, gross injustice, and so forth clearly can ignite—and one could argue always have ignited—the imagination of economic thinkers. There are social ills that must be addressed.

Perhaps the social "miracles" that some economists, such as F.A. Hayek, have identified in the coordination of vast multitudes through market exchange, are merely a precursor to identifying root causes of those social ills. In "The Use of Knowledge in Society" (1945), Hayek described the functioning of the price system as a "marvel" to remind his peers the basic teaching of economics: the unmatched success of the price system in allocating resources to their highest valued use. The basic structure of the economy is the most powerful tool for satisfying individuals' wants. Additionally, Hayek (1931: 224–5) argued, as a methodological point, that one must understand how a system could in theory achieve full employment before postulating an explanation for unemployment. If a thinker did not follow this procedure, and instead began her analysis with unemployment, then what explanation for unemployment could be offered? None: it would just be the starting point. Unless we can discuss causes of the initial condition, how can we learn more about the social ills that we hope to eradicate, or at least ameliorate.

What is true for the analysis of unemployment, is also true for Want, Disease, Ignorance, Squalor, and Idleness (Beveridge 1942: 6). The economic way of thinking is a powerful tool—perhaps the most powerful tool in the social scientist's toolkit. It enables

a properly trained thinker to assume the observational heights of a genius through its use, while a genius working without this tool mistakes nonsense for analysis (Buchanan 1966: 7). As the intellectual stakes rise—like in studies of development—the consequences of this mistake in thought rise exponentially. Human suffering and misery, we contend, is largely man-made. No doubt there are geographic advantages in development, as there are random events of purely natural origins that can bring in their wake destruction and devastation, but the vast majority of human suffering is due to the cruelty of man, and driven more often than not by bad ideas that work in concert with special interests.

F.A. Hayek argued in his Nobel Prize lecture (1974), and elsewhere, that nobody is as dangerous as an economist who was only an economist. Hayek was making an appeal for economic science to be embedded in politics and law, as well as culture and history. It was not a denial of the universal applicability of the logic of choice, or what Hayek called "the economic calculus." Rather, it was a recognition of the context specific nature of any efforts in applied economics, as well as a corresponding call for humility among economists with respect to their ability to manipulate that context. Hayek concluded his Nobel address by arguing that if the discipline of economics is to do more good than harm, economists must cease envisioning their task as engineers fine-tuning a machine. Instead, they must focus their attention on understanding what alternative institutional arrangements cultivate and facilitate the creative powers of a free civilization with its corresponding growth of knowledge and, thus, of wealth.

Similarly, James Buchanan (1987) argued that economists should stop giving advice as if they were offering it to a benevolent despot. In his effort to balance the economics discipline's attraction to the zealot and reformer with the demands of objectivity and rigorous analysis, Buchanan (1959) introduced two stages of analysis and an insistence on the priority of democracy. In his system there is the analysis of the rules of the game, and then an analysis of the best strategies players will play given that set of rules. What we conjecture to be a "good game" results from a critical analysis that tacks back and forth between these two levels of analysis.

Based on this exercise, Buchanan argued, we could, as citizen-economists who have no claim whatsoever to any status above our fellow citizens, offer the suggested structural rule changes that our analysis leads us to believe will be Pareto improving, to "test" in the democratic process of collective deliberations (1959: 137).

> Propositions advanced by political economists must always be considered as tentative hypotheses offered as solutions to social problems. The subjective bases for these propositions should emphasize the necessity for their being considered as alternatives which may or may not be accepted. But this is not to suggest that one proposition is equally good with all others . . . But this change is a 'cure' [to social ills] only if *consensus* is attained in its support. (ibid.: 128)

Let's make this as clear as possible: economists are not making recommendations for in-rule changes in economic activity. All suggestions for changes are at the level of

structural rules. But those changes can never be imposed as part of some expert demand to be undeterred by democratic checks. Instead, rule changes are "tested" in the democratic process of collective decision making to see if we can secure agreement from fellow citizens. This securing of agreement means that the threat of externalities in the political process will have been minimized.

If we hope to enlist our vision of social ills to direct, and hopefully improve, our positive economic analysis, then either we go in the direction of Hayek and Buchanan in terms of a focus on rules, or we have to postulate some universal ethic that is widely shared as some ultimate given end (Rothbard 1976). If we admit that there exists a universal ethic—either derived from rational analysis such as in the natural law tradition (for example, Rothbard and the non-aggression axiom) or simply postulated as an appeal to common-sense (such as Kirzner and the finder's keeper ethic)—then we use positive economic analysis to inform us about the impact of alternative institutional arrangements on our ability to realize these ethical ends.

None of the approaches avoid tensions at a conceptual and practical level, but tensions probably plague all efforts at theorizing about the human condition and the ethical assessment of the just and the good. While Hayek may have warned about the danger of the economist who only knows economics, surely the most dangerous of all intellectual creatures is the moral philosopher who knows no economics. Economics puts parameters on our utopias. As economists, we do not only study choice within constraints; the discipline enables us to understand constraints on our mental flights of moral fancy. We must strive for a morality for mortals, not angels.

In one of the smartest essays by an economist on this subject, Dennis Robertson (1956) famously asked "What Does the Economist Economize?" His answer was that we economize the most precious of all resources—love. If our philosophical ideals require us to postulate that mankind must love one another for them to work, they will exhaust the supply of love and prove them to be unobtainable, resulting in human suffering and misery. Instead, we must strive to find institutional arrangements that improve the human condition and do not rely on love for their operation, but instead invoke ordinary human motivations and cognitive capacities. In the world of mortals, omniscience, omnipotence, and benevolence are not acceptable assumptions. Invoking them may produce romantic poetics, but not political economy or social philosophy.

But there should be no doubt that economists—as citizens and as scientists—can, and in fact often will, have serious ethical concerns that motivate their scientific inquiry. That is, we contend, not only a natural human impulse, but a healthy aspect about the "worldly philosophy." The effort to eliminate ethical concerns from economic discourse was a huge intellectual error, which did not result in ethical concerns disappearing from economics, but in these ethical concerns being smuggled into the analysis in extremely unhealthy and unacknowledged ways. Amartya Sen's *On Ethics and Economics* (1987) argued persuasively for a useful way to think about production of economic thought as in-line with a production possibility frontier, with economics as engineering on one axis and economics as ethics or moral philosophy on the other. Clearly, Sen suggests, the economics profession moved toward a corner solution of economics as engineering

throughout the twentieth century. He argues it is time to perhaps move along the frontier and away from the corner solution by opening up professional discourse among economists of an ethical or moral philosophical nature. Subsequent works by scholars such as Deirdre McCloskey, as well as Sen himself, suggest that such a movement along the frontier need not produce crippling trade-offs, but perhaps aid in the process of pushing the frontier of economic knowledge production farther out from the origin (McCloskey 2010). In short, the *science* of economics improves with a return to the *moral philosophy* questions of Hume and Smith, of Say and Bastiat, of Mill and Wicksteed, of Mises and Hayek, of Buchanan and Sen, of McCloskey and Schmidtz, Gaus, Storr, and Chamlee-Wright.

11.4 Social Cooperation in the Austrian School

The Austrian school engages those moral philosophy questions while maintaining a *wertfrei* analysis through an emphasis on social cooperation. For Mises, social cooperation is the only ethical standard by which social rules and policies can be judged: "There is no other standard of what is morally good and morally bad than the effects produced by conduct upon social cooperation" (1952: 145). By holding maximizing social cooperation as the end for which economists analyze the purposed means, economists can pursue an answer to why some nations are rich and others are poor without sacrificing individuals' ends to those of "society"—or more accurately, those of the economist. An emphasis on social cooperation enables the economist to remain rigidly value-free, and focus her analysis on the effect of policies on social cooperation in a society.

From Philip Wicksteed in 1910 to Tyler Cowen today, Austrian school thinkers have emphasized how social cooperation is the path to prosperity. Prosperity depends on structural rules that enable individuals to cooperate in the achievement of their diverse ends. For this reason, Austrian school thinkers emphasize an institutional framework of property, contract, and consent—all of which constitute a market system.[3] Such structural rules enable individuals to exchange freely. Through exchange they aid in the achievement of each other's ends. Thus, an important aspect of the market system is that it is means-based, not ends-based, meaning that individuals need not have the same goal. Instead, individuals use the price system and exchange in order to achieve their ends while meeting the ends of others. This process of mutual satisfaction through social cooperation aims at the long-run maximization of individuals' ends, and, ultimately, economic growth.

[3] Following Kirzner (1989: 8), we understand the "market system" as identical with "capitalism" and describing a society characterized by specific structural rules—namely private property rights, freedom of contract and consent, and voluntary participation.

In *The Common Sense of Political Economy* (1910), Wicksteed introduces *non-tuism* as a central aspect of the market system. An individual need not condone the ends of others or their moral character to satisfy their ends while pursuing her own. The vicious and virtuous serve each other. Nor does an individual need to be self-sufficient. Cooperation through the market system allows her to achieve her ends without sharing the values or resources of the people with whom she cooperates.

> And so, under the all-covering cloak of money payments for services and commodities, and sales of instruments and supports of life for money payments, all purposes and impulses, of love and of lust, of narrow greed and of broad beneficence, of enlightened and productive insight, of blind, tangled, and self-confuting gropings, all destructive and reckless passions, all wasteful and desolating vices, all noble ambitions, all vulgar or refined enjoyments, all fruitful enterprises, and all foolish or wicked schemes of industrial waste, enter the open market and draw to themselves the efforts and services of men in proportion not to their worthiness or fruitfulness, but to the means they command of furthering the purposes of others; for they secure the co-operation of all sorts and conditions of men, not in the measure in which such men sympathise with them, but in the measure in which by serving them they will forward their own purposes. Neither the urgency of his wants nor the nobility of his purpose determines the extent to which a man may rely on economic forces to help him. (1910: 395–6)

Cooperation through the division of labor and the market process leads to greater prosperity, meaning that more ends are met at the sacrifice of fewer means. The results of the market process do not depend on one's being judged as morally good. Rather, satisfaction of ends relies on one's ability to satisfy the ends of others.

Mises builds on the non-tuism of the market process that Wicksteed highlighted. He notes that individuals do not serve each other in the market because of feelings of benevolence. Instead, Mises posits that feelings of benevolence develop due to the operation of the market system, and its ability to bring about the achievement of diverse and occasionally competing ends.

> Within the frame of social cooperation there can emerge between members of society feelings of sympathy and friendship and a sense of belonging together . . . However, they are not, as some have asserted, the agents that have brought about social relationships. They are fruits of social cooperation, they thrive only within its frame; they did not precede the establishment of social relations and are not seed from which they spring. (1949: 144)

For Mises, like Wicksteed, non-tuism characterizes economic relationships. It is this character that allows social cooperation and greater prosperity.

Uneasiness, or a longing for greater prosperity, is what initially drives individuals to seek cooperation. Cooperation through the division of labor arises to satisfice individuals' felt unease, and, thus, allows individuals to achieve higher productivity, and enjoy greater prosperity.

> In order to comprehend why man did not remain solitary, searching like the animals for food and shelter for himself only and at most also for his consort and his helpless infants, we do not need to have recourse to a miraculous interference of the Deity or to the empty hypostasis of an innate urge toward association. Neither are we forced to assume that the isolated individuals or primitive hordes one day pledge themselves by contract to establish social bonds. The factor that brought about primitive society and daily works toward its progressive intensification is human action that is animated by the insight into the higher productivity of labor achieved under the division of labor. (Mises 1949: 159)

Mises highlights that no contract was necessary to achieve a society based on cooperation through the division of labor. Rather, the unease—the desire for greater satisfaction of wants—that underlies human action motivated individuals to cooperate and develop a society based on a division of labor.

Hazlitt builds on Mises' conception of the morality that arises from the market system. Like Mises, he emphasizes that cooperation is the means by which individuals achieve their ends. This cooperation requires no unanimity in ends or values. It is independent of one's moral character or goal. Hazlitt extends Mises' analysis by discussing how the diverse and competing ends of individuals are not in conflict with society as is often argued. Instead, society and the individual are in harmony.

> The aim of each of us is to maximize his own satisfaction; and each of us recognizes that his satisfaction can best be maximized by cooperating with others and having others cooperate with him. Society itself, therefore may be defined as nothing else but the combination of individuals for cooperative effort. If we keep this in mind, there is no harm in saying that, as it is the aim of each of us to maximize his satisfactions, so it is the aim of 'society' to maximize the satisfactions each of its members, or, where this cannot be completely done, to try to reconcile and harmonize as many desires as possible, and to minimize the dissatisfactions or maximize the satisfactions of as many persons as possible in the long run. (Hazlitt 1999: 10)

Hazlitt further extends Mises' analysis by engaging directly with ethics, which "is not a science of what is or was but of what ought to be" (1999: 7). However, embracing value-freedom in economics requires him, and the Austrian school, to accept individuals' desired ends as what ought to be. Thus, he says, because social cooperation through the division of labor is what allows most individuals to achieve their desired ends, the market system must be at the core of "a rational system of ethics" (ibid.: 9). Choosing any other system of rules would involve choosing which ends are better for individuals to pursue. Through interaction in the market process, individuals (as society) can choose which ends best forward themselves and society, since only those who serve others in pursuit of their ends achieve those ends. Emphasis on social cooperation is the heart of the connection between economics and ethics in the Austrian school. Holding increased cooperation as an end is what enables more people to achieve more of their desired ends, and thereby enables the greatest prosperity in the long run.

> For each of us social cooperation is the great means of attaining nearly all our ends. For each of us social cooperation is of course not the ultimate end but a means. It has the great advantage that no unanimity with regard to value judgements is required to make it work. But it is a means so central, so universal, so indispensable to the realization of practically all our other ends, that there is little harm in regarding it as an end-in-itself, and even in treating it as if it were the goal of ethics. In fact, precisely because none of us knows exactly what would give most satisfaction or happiness to others, the best test of our actions or rules of action is the extent to which they promote a social cooperation that best enables each of us to pursue his own ends. (1999: 12)

Hayek, like Wicksteed, Mises, and Hazlitt, emphasizes how the market system enables individuals to satisfy their often-conflicting ends by serving the ends of others. Having different ends is what ultimately enables individuals to satisfy those of others. If everyone had the same ends, exchange would be impossible in a world of scarcity. Thus, Hayek argues, prosperity is only possible because the market system is means-based, not ends-based; non-tuism is central to the operation and success of market system.

> The decisive step which made such peaceful collaboration possible in the absence of concrete common purposes was the adoption of barter or exchange. It was the simple recognition that different persons had different uses for the same things, and that often each of two individuals would benefit if he obtained something the other had, in return for his giving the other what he needed. All that was required to bring this about was that rules be recognized which determined what belonged to each, and how such property could be transferred by consent. There was no need for the parties to agree on the purposes of each partner in the transaction, and that they thus assist the parties as means for different ends. The parties are in fact the more likely to benefit from exchange the more their needs differ. While within an organization the several members will assist each other to the extent that they are made to aim at the same purposes, in a catallaxy they are induced to contribute to the needs of others without caring or even knowing about them. (1977: 109)

The cooperation and productivity of individuals does not depend on having the same ends, but rather using the same means—exchange—to achieve those ends. Crucially, such exchange must be couched in the right structural rules: property, contract, and consent.

In contrast to other Austrian thinkers who emphasize the role of the division of labor in facilitating cooperation, Hayek emphasizes the ability of the market process to bring about cooperation by reconciling diverse knowledge and plans.

> The important point about the catallaxy is that it reconciles different knowledge and different purposes which, whether the individuals be selfish or not, will greatly differ from one person to another. It is because in the catallaxy men, while following their own interests, whether wholly egotistical or highly altruistic, will further the aims of many others, most of whom they will never know, that it is as an overall

> order so superior to any deliberate organization: in the Great Society the different members benefit from each other's efforts not only in spite of but often even because of their several aims being different. (1977: 110)

This difference in knowledge and plans is what allows individuals to satisfy the ends of others. Thus, it is crucial for long-run prosperity that society be means-based rather than ends-based.

Building on a tradition of Austrian emphasis on social cooperation through the market process, Cowen (2017) argues that our concern, as economists and citizens, should be maximizing long-run growth. It is through "sustainable economic growth" that we are happier, healthier, and wealthier. A focus on the long run is a key element of the Austrian emphasis on social cooperation. Hazlitt anticipates Cowen when he writes:

> Ethics must take into consideration not merely the immediate but the longer effects of any act or rule of action; it must consider the consequences of that act or rule of action not merely for the agent or any particular group but for everybody likely to be affected, presently or in the future by that act or rule of action. (1999: 31n1)

Calling himself "two-thirds a utilitarian," Cowen argues that we need to maximize growth according to an ethical framework based on rules and rights. Achieving Cowen's goal of maximized long-run growth requires that we continue to rely on the rules and rights of the market system and the cooperation inherent to it. A system that maximizes social cooperation will achieve the long-run economic growth for which Cowen (2017) calls.

11.5 Conclusion

Economics and ethics study different parts of the same puzzle: human prosperity. Ethics sets the ends for which people should strive, while economics evaluates the viability of the means chosen to achieve those ends. The Austrian school epitomizes this distinction. Austrian school thinkers explore the marvel of human cooperation under the division of labor, and coordination according to the price system. These thinkers maintain their objectivity by adopting a stance of radical subjectivity. They take individuals' evaluation of their own ends as the only relevant valuation. It is not for the economist to declare which ends should be pursued. Thus, the Austrian thinkers' emphasis on social cooperation maintains the individual and her values and ends, as well as encourages a system of rules that leads to long-run growth. In this way, it eliminates any perceived conflict between society and the individual without the economist asserting her values onto individuals or society.

It was through this emphasis on social cooperation that Mises, Hayek, and Robbins maintained their roles as value-free scientists while being perceived as advocates of the free markets and capitalism. Rather than submitting their analysis to ideological priors—as is often charged—they embraced objectivity through radical subjectivism.

It is the role of the individual and society, they argued, to determine desired ends through interaction in the market process. Thus, they acknowledged their limited role as students of civilization, leaving the decision of desirability of ends to the ethicist and citizen.

Recognition of the limited applicability of economists' tools—and the limited role economists can hold—requires a re-evaluation of the practice of economics today. We must not ask economics to "bear fruit." Economics can inform the method of achieving the ends that ethics sets for society, as well as the viability of those ends, but it cannot determine the desirability of those ends. That is the role of the ethicist.

However, the work of the political economist can have value implications. Getting at those value implications requires a Philosophy, Politics, and Economics (PPE) approach (Boettke 1998: 213). Economics and philosophy need to be reunited in the vein of Adam Smith, such that the economist becomes a moral philosopher. This is not to confuse the use of economic and ethical analysis. Each tool must be used within its limits, and the use of each must be explicitly acknowledged. Disciplined practice of economics in a PPE framework will bring unity to the right and the good, encouraging a virtuous and prosperous society.

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