

A CRITIQUE OF DEFINITIONS IN ECONOMICS FROM AN AUSTRIAN PERSPECTIVE: MICROECONOMICS

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Abstract: In the physical sciences, it goes without saying that all practitioners use words in the same manner. A mere verbal dispute would be anathema in this arena of intellectual discourse. There is no dispute, , as to the means of words such as “gravity,” “mass,” “genus,” “species,” “oxygen,” “x-ray,” etc. Matters are not as salutary in the social sciences. The present paper is an attempt to place economics, the queen of the social sciences, on a par with physics, chemistry, biology, etc., or at least to make an attempt in this direction. Systematic knowledge, the sine qua non of science, requires good communication. But this, in turn, can only be achieved, if its necessary condition is attained: precise definitions. In the present paper, we discuss in this regard the microeconomic concepts of entrepreneurship, monopoly, derps, indifference, development and rent seeking.

Key words: Clarity, science, communication

JEL: D

КРИТИЧНИ БЕЛЕЖКИ ОТНОСНО ДЕФИНИЦИИТЕ В ОБЛАСТТА НА ИКОНОМИКАТА ОТ АВСТРИЙСКА ГЛЕДНА ТОЧКА: МИКРОИКОНОМИКА

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Резюме: Няма нужда да се споменава, че в областта на физическите науки всички практикуващи използват думите по същия начин. Чисто словесният диспут би бил анатема на тази арена на интелектуален дискурс. Няма спор, що се отнася до значението на думи като "гравитация", "маса", "род", "вид", "кислород", "рентгенови лъчи" и т.н. Материалните въпроси не са толкова

благотворни в областта на социалните науки. В настоящата статия се прави опит да се постави икономиката, кралицата на социалните науки, на равна нога с физиката, химията, биологията и т.н., или поне се правят стъпки в тази насока. Системните знания, задължителното условие на науката, изисква добра комуникация. Но това, от своя страна, може да се постигне само ако се изпълни необходимото условие: точни определения. В тази връзка, в настоящата статия ние обсъждаме микроикономическите концепции за предприемачество, монопол, безразличие, разработване и наемотърсене.

Ключови думи: яснота, наука, комуникации

JEL: D

A CRITIQUE OF DEFINITIONS IN ECONOMICS FROM AN AUSTRIAN PERSPECTIVE: MICROECONOMICS

Introduction

If we wish the dismal science to rest on a firm foundation, clear definitions are the order of the day. Without this bedrock, economics will rest on loose sand, not firm rock. The present paper is dedicated to addressing definitional matters in microeconomics. We approach this task from an Austrian economic perspective. The most salient difference between that school of thought and the neo-classical mainstream is its reliance on deduction, and synthetic a priori statements which are both necessarily true, and, also, are not tautologies but connect with real world conditions.

In section I we consider entrepreneurship. The focus of section II is on monopoly. In sections III, IV, V and VI we deal with indifference, derps, economic development and rent seeking. We conclude in section VII.

I. Entrepreneur

Perhaps nowhere in the field of economics is the word “entrepreneur” more poorly defined or improperly understood.

To the layman, the entrepreneur is a businessman who owns his own firm. He is initiative-taking, innovative, comfortable with risk, and insightful. To the economist, however, the entrepreneur is analyzed and defined not only in terms of his specific qualities, or the activities undertaken, but more generally in terms of his functional role in the market.

Cantillon (1775 p.54) was the first economist to describe the entrepreneur in functional terms. He drew a distinction between those actors whose salaries are more or less certain and known, because they are employed by others, and those who work for themselves; the entrepreneurs. He understood that the livelihoods of entrepreneurs are subject to making correct decisions under conditions of uncertainty. Cantillon included within this category anyone who is self-employed, whether or not they employ their own capital. Thus, even beggars and robbers could be described as entrepreneurs.

Knight (1921) also refers to entrepreneurs as operating under conditions of uncertainty, but differentiates that concept from risk. The latter can be quantified in terms of class probability, the former cannot. Entrepreneurs are actors who make judgments about the future, says Knight, but because every such assessment is unique and the outcome is unquantifiable, entrepreneurship has no diminishing marginal productivity, and therefore no specific “price” or wage. As a consequence, there is no market for entrepreneurs qua entrepreneurs. A true entrepreneur cannot be employed by others, or earn a salary, but rather must be self-employed, and risk his own capital. As such, he earns profits or suffers losses.

Mises similarly describes uncertainty as the defining operating environment of the entrepreneur. From a purely analytical point of view, the functional roles of the entrepreneur and the capitalist can be separated from one another. The entrepreneur acts in response to changes in the market data, and makes profits or suffers losses, while the capitalist advances present goods, so as to receive goods in the future, and

earns ordinary interest. It is important to emphasize that for Mises these roles do not exist independently in reality, because in the real world, profit and interest are always earned together. Pure profit does not exist in the ERE, only ordinary interest (Mises 1949, p. 255).

Mises' description of the market is one based on the concept of price coordination. Entrepreneurs operate within a calculational framework, in which they use their "understanding" of future conditions to appraise future prices subjectively. They do this based in part on the objective prices existing today, in order to calculate the potential revenues and costs. When their predictions are correct and they make profits, their actions are equilibrating. If, hypothetically, the exogenous data were to cease changing, entrepreneurial action would lead to an imaginary final equilibrium state, which Mises terms the Final State of Rest (FSR). If such a state were to persist, it would imply no uncertainty, and the role of the entrepreneur would disappear in what would become the ERE. In reality, the external data are always changing, and therefore, while the profitable actions of the entrepreneur tend to move the market in the direction of the FSR, this situation is never achieved. Moreover, this tendency does not involve a movement that can be measured in calendar time, because the hypothetical final equilibrium is continuously changing.

Aside from Mises' imaginary construction of functional distribution, he concedes that economics also uses the narrower definition of the term entrepreneur, as understood by the layman, to describe an individual who possesses initiative, and undertakes ventures. Mises (1949, pp. 256-257) considers it unfortunate that the same term is used in both cases, and very reasonably prefers to use the word "promoter" in the latter instance. The promoter cannot be defined praxeologically, but the term is nevertheless an important concept in economics, says Mises, for it emphasizes the inherent inequality in the attributes of market actors, and the fact that these are the individuals who distinguish themselves by being the "the driving force of the market." Following Mises, Rothbard (1962) also makes a distinction between the functional roles of the capitalist, who earns pure interest, and the entrepreneur, who makes profits or suffers losses. However, to emphasize the fact that pure interest alone can only be earned in the imaginary world of the ERE – where there is no uncertainty – and that profit and interest are always earned together outside of the ERE, Rothbard (1962, p.562) insightfully describes the real-world entrepreneur as a capitalist-entrepreneur. This is a person who advances goods in the present in exchange for goods receivable in the future, and does so under conditions of uncertainty. While the underlying pure interest – the return on the capitalist aspect – is governed by the social time preference, the difference between this return and the overall (or natural) interest rate constitutes entrepreneurial profit or loss. The latter is dependent on exchange-specific uncertainty premiums and the terms of trade, as well as changes to the PPM that are not predicted.

Perhaps the most well-known description of the entrepreneur is that of Kirzner. However, it is important to realize that when Kirzner (1973) uses the term entrepreneur, he is describing a rather different functional role for this actor than that of Knight, Mises, and Rothbard. Kirzner subscribes to the knowledge-discovery and plan-coordination paradigm, first elucidated by Hayek. Therefore, while the entrepreneur allegedly still operates under conditions of uncertainty, the principle "essence" of entrepreneurship is not judgment based on understanding, but rather "alertness;" alertness to existing opportunities that can be "discovered." The entrepreneur is an "arbitrageur" who discovers price discrepancies in the market, and then acts upon this knowledge in order to make profits. Unlike the Misesian

entrepreneur, his actions are plan coordinative, and he moves the market toward a hypothetical, yet objective, general-equilibrium state, which remains static long enough for this movement to occur in calendar time.

Like Mises and Rothbard, Kirzner (1973, pp. 32-37) describes a functional “pure entrepreneur,” which he differentiates from the pure capitalist. Unlike these other authors, however, the capitalist is a mere Robbinsian maximizer, a price taker who operates within a given means-end framework. Therefore the pure capitalist's functional role of earning pure interest, and the concept of separating this return from entrepreneurial profit, is absent in Kirzner's analysis. Moreover, because “resource owners” are also Robbinsian maximizers in Kirzner's analytical framework, the pure entrepreneur owns no assets himself. This is certainly problematical, since Kirzner (1982a, 1982b) also describes the latter as being “bold,” but it is hard to see how this can be the case, given he risks no capital of his own. It is also impossible for him to suffer any losses, which again takes the Kirznerian “entrepreneur” out of the realm of how he is usually considered.

Given that Kirzner concedes the entrepreneur operates with an eye to the future, and that the future is uncertain, it is also problematical that he describes entrepreneurial action as arbitrage, involving the buying and selling of goods in the same time period. Responding to his critics on this issue, Kirzner (1999) argues that the term arbitrage is a “metaphor,” but if this is the case, then it throws the alertness and discovery paradigm into doubt. Moreover, questions remain concerning the notion that the Kirznerian entrepreneur can be innovative and at the same time plan coordinative. Kirzner (1999) responds that unlike the Schumpeterian entrepreneur, who causes a “perennial gale” of “creative destruction,” his innovative-entrepreneur's actions are equilibrating, because he discovers misallocations of resources in the form of previously-unrecognized techniques and inventions that other actors have failed to notice or act upon. For example, the replacement of the horse-drawn carriage by the automobile might have been disruptive to those employed in making carriages, but overall it represented a higher state of coordination. If this is the case, however, it raises the question of where Kirzner's objectively-given final equilibrium really lies.

Kirzner's analysis might be defended by saying that coordination applies not only intra mankind, but, also, between human beings on the one hand, and what might be called “final knowledge” on the other. For example, moving from the horse to the car gets humanity closer to a more advanced technique – i.e. a technique more closely aligned with that which would be available in this ultimate state, assuming there is one – and thus is in that sense coordinative, not in terms of people – here it is obviously disruptive, but regarding a move in the direction of greater coordination with physical laws: a gas-powered vehicle represents this more than being transported by an equine.

There is one final meaning of the word entrepreneur. Since all action is future-oriented, uncertain, and involves exchange – i.e. an exchange of the actor's present state of affairs for a future one that is perceived, ex ante, to be superior – it follows that in some sense all action is entrepreneurial. For example, even an employee must choose which job opportunity to pursue, and calculate the potential profit to be made by taking one path or the other. Indeed, outside the catallactic context, where the profit or loss is only psychic, any interpersonal exchange can be said to be entrepreneurial. And even actions involving isolated exchange require the actor to calculate (ordinally) the potential profit, by appraising the psychic revenue as against the cost of the next best alternative, based on his understanding of future conditions. Thus, when Robinson Crusoe decides to use his time to catch fish instead of searching

for berries or relaxing on the beach, even this is entrepreneurial, according to this particular definition of the term.

There are thus many different meanings of the term entrepreneur: Cantillon's entrepreneur who is the self-employed actor, the destructive-creative Schumpeterian entrepreneur, Mises' and Rothbard's hypothetical functional entrepreneur, whom these authors differentiate from the pure capitalist, the Misesian promoter-entrepreneur, who is akin to the layman's concept, Rothbard's capitalist-entrepreneur, the Kirznerian pure entrepreneur, and finally Acting Man as entrepreneur.

With so many definitions, is it any wonder there is sometimes confusion?

One way to solve this confusion is to ignore the issue almost entirely. This would appear to be the course of action taken by all too many neo-classical economists. That is, they see at least the ideal world in terms of perfect competition, and here there is only room for the "big three" namely, land, labor and capital. The entrepreneur either entirely, or virtually always, drops out of the picture. How can such a claim be buttressed? Not by recourse to any one article or book of a mainstream economist. Not every publication can address every issue, and no economist can be blamed for ignoring one of the many, many aspects of the dismal science. Even Austrian economists do not always and ever wax eloquent about this concept. However, textbooks are the amalgamation of received knowledge of the overall profession. If entrepreneurship is barely mentioned therein, and/or entirely ignored, it is then safe to say that this idea has vanished, or been banished, from their lexicon. Let us look at the record.

II. Monopoly

Monopoly, too, is a word that has had a bandit-like existence in the economic literature. Originally, it depicted a grant of special privilege to a favored nobleman. For example, the Duke or the Count might have fought a tremendous battle in the middle ages and was awarded by the king the monopoly over sugar, or salt, or shoes, or some such. But there is also a very different definition of the word also current in economic linguistics. This has led to no end of mischief. Part of the reason for the confusion is that etymologically "monopoly" refers to a single seller. IBM, Alcoa, and Ford, before the rise of competitors, were all single sellers of their respective goods and service, but did not benefit from any artificial protections against competition.

Note that these are entirely different concepts. The one comes about through an act of the state the other through the free enterprise system. However, while the majority of the economics profession is not quite but almost indifferent with regard to the former, its practitioners are adamant that the latter is a market failure, calling for anti-trust legislation. Why would economists be so unwelcoming about market success; introducing new products, and or selling them for lower prices with better quality and thus taking up more and more market share? Or, merging with other firms so as to increase in size? In a word, or, rather, a phrase, they fear the economic inefficiency of so called "dead weight loss." This is the idea that when a business becomes large enough, it can earn profits not by better satisfying customers, employees, suppliers, that may have previously increased its size, but by "restraining trade." That is, but not selling as much as it could, so as to jack up the prices and exploit all and sundry with excess profits.

Note that this type of "analysis" is the very opposite of the Austrian axiom of benefits from commercial activity. In the view of the Praxeologists, both parties necessarily gain in economic welfare, at least ex ante, from all human action, certainly including that which takes place in markets. When A trades an apple to B for a biscuit, the

former values the cookie more than the fruit, and the latter ranks them in the opposite direction. They each gain since they more greatly value what they receive than what they give up. But neoclassical economics starts from a very different premise. They deduce from the fact that A and B have not yet traded that there is some market imperfection. A still holds the apple, and B the biscuit. There has been some sort of restraint of trade, otherwise the two of them would have consummated the deal.

But this is stuff and nonsense. While we are indeed entitled to deduce from a commercial interaction that both parties benefited *ex anti*, nothing whatsoever follows from fact that a purchase did not take place. Novak Djokovic enters 12 tennis tournaments per year. The neoclassical economist determines that were this athlete a perfect competitor, he would have engaged in 15 competitions on an annual basis. Thus, Djokovic is cheating his fans out of 3 sets of matches. He is “restraining trade.” If they followed their usual pattern, and if his Herfindahl Index were high enough, they would advocate that the anti trust authorities compel this tennis star to play more games. This is roughly the intellectual level of economic analysis underlying the case for anti trust, on grounds of welfare economics.

Another *reductio ad absurdum* of this system is monogamous marriage. In that institution, each partner to the contract “restrains” sexual trade with third parties. They will be loyal to each other. They will engage in what would be called a bilateral monopoly were it conducted in a different context. If the advocates of mainstream monopoly theory were logically consistent, they would call for a ban on monogamous marriage.

If the “monopolist” charges too high a price, he can be accused of exploitation and profiteering. If the price is too low, then the indictment reads in terms of predatory pricing and cut-throat competition. And, if the same as others in the industry, then collusion or cartelization. No matter what pricing policy the business pursues, it can run afoul of anti trust law. This is in sharp contradistinction to other laws such as those outlawing murder, rape and theft. In these latter cases, an individual can be found guilty if he behaves in a certain manner, and innocent if not. Thus, in some sense, the latter are legitimate laws, the former is not.

Let us take one more poke at this supposed market failure. The trigger for monopolistic power in anti trust is a certain concentration ratio. What proportion of an industries’ profits, or sales, or employment is accounted for by one or a few firms? If this level rises above a given point, there is a potential violation of the anti monopoly law. Let us lightly pass over the critique that any such point is necessarily arbitrary. Even were this not the case, the difficulty still remains that the definition of the “industry” is also capricious. For example, does the industry comprise only cars, or are busses, trucks and motorcycles also included? The latter are certainly substitutes for the former, at least in the views of many potential customers. But, once allow these into the rubric of industry, how to exclude other means of transportation, such as trains or boats? And then there are violin lessons, pianos, stays at hotels, pursuing a masters degree, etc. They do not at all resemble automobiles, and are not used for transportation, but, again in the minds of possible purchasers, they, too, compete with these vehicles. The prosecution in the anti trust case wishes to define the industry as narrowly as possible, so as to achieve a high concentration ratio, which triggers an anti trust case. Cars will do very well from this perspective. But the defense wishes to enlarge the concept, so as to register as low a concentration ratio as possible. So which definition is “correct?” The point is, at least from the Austrian analysis, neither. For “industry” is not a praxeological term. It is part and parcel of ordinary language, in much the same way as are “indifference” and “work.” Any such determination can

only be arbitrary and capricious, stemming from political, not economic, considerations.

The suggestion that emanates from these considerations is to reserve the word “monopoly” for unjustified governmental grants of special privilege to business interests, and to ignore mere size, even gigantic size, provided it was attained through satisfying customers and other market participants, not statist grants of privilege to favored individuals.

III. Indifference

The word “indifference” is perhaps the most dramatic example of confusion in economic language. We all know what this word means in ordinary language. It is a perfectly meaningful word, used correctly in casual speaking. However, it is incompatible with human action, in that no one would bestir himself to engage in any commercial behavior were he fully indifferent between the costs and benefits therefrom. For example, Crusoe would not pick berries if he were completely indifferent between doing so and continuing to lie on the beach. There would be no (psychic) profit in it for him to act in this way. Matters are similar in physics regarding “work” which involves distance. This word, too, has a very different meaning in ordinary language. For example, holding weights at arm’s length, not moving them at all, does not constitute “work” in physics, but most certainly does so in ordinary language.

One would think that this is an obvious point. Specialist disciplines sometimes have their own language, where words do not mean exactly the same thing as used by ordinary speakers. A biologist, too, means something far more specific by “species” than does the man on the street. Yet, at least with regard to the use of “indifference” in economics, our claim has created great controversy. This is, perhaps, testimony, either to the obtuseness or combativeness of mainstream economists.

IV. Derps

What is this new word “derp”? Krugman (2014A) defines this as follows: “... belief in some economic doctrine that is completely unmovable by evidence.” Or, Krugman (2013B): “... people who take a position and refuse to alter that position no matter how strongly the evidence refutes it, who continue to insist that they have The Truth despite being wrong again and again.”

Is this a good new word? The present authors do not see why not. Surely, this is an important concept. There are such people around, scholars, even, who are resolute in their beliefs, no matter what the evidence.

For example, Friedman (2008) opines:

“Major premise: Socialism is a failure. Even lifelong Communists now accept this proposition. Wherever socialism has been tried, it has proved unable to deliver the goods, either in the material form of a high standard of living or in the immaterial form of human freedom. Minor premise: Capitalism is a success. Economies that have used capitalism – free private markets – as their principal means of organizing economic activity have proved capable of combining widely shared prosperity and a high measure of human freedom. A private market system has proved to be a necessary though not a sufficient condition for prosperity and freedom. Conclusion: The U.S. needs more socialism. An obvious non sequitur, yet there is no denying that many apparently reasonable people – including most members of Congress and of the Bush administration – accept all three propositions simultaneously.”

Of course, not every important concept deserves a word of its own. What is a word, after all? It would appear to be a few letters, strung together, which in a certain formation offer an abbreviation function. For example the word “cat” calls forth a specific concept. It does so briefly, succinctly compared to a long-winded verbose description of this feline. Occam would have approved. But, “derp” does pretty much the same thing. So, the present authors heartily approve of Krugman’s initiative in this regard. We are all Krugmanians now, at least insofar as his addition to our vocabulary is concerned.

But why call this phenomenon “derp.” Do the four letters in this word stand for anything? Why not, instead, make up the following word, based on the first letters of the definition of this phenomenon: “belief in some economic doctrine that is completely unmovable by evidence,” that is, “bisedticube.” Well, “derp” is easier to pronounce than “bisedticube.” We could, perhaps, play with the latter and change it to the two word phrase “biased cube.” This makes more sense than “derp” in some ways, but “biased cube” is not exactly true to “bisedticubet.” So, again, we must side with the professor from Princeton. We repeat: We are all Krugmanians now, at least insofar as his addition to our vocabulary is concerned.

In what way does this Nobel prize winning economist utilize the word “derp?” He uses it as a stick with which to beat up on those economists who maintain that the recent bouts of quantitative easing have so increased the money supply that price rises were sure to follow, and causally so. Krugman maintains, to the contrary, “taint so.” He (2014A) asserts:

“The inflation controversy is a prime example. If you came into the global financial crisis believing that a large expansion of the Federal Reserve’s balance sheet must lead to terrible inflation, what you have in fact encountered is this:

“I’ve indicated the date of the debasement letter for reference.

“So how do you respond? We all get things wrong, and if we’re not engaged in derp, we learn from the experience. But if you’re doing derp, you insist that you were right, and continue to fulminate against money-printing exactly as you did before.”

Here, unhappily, we must part company with the master economist. While we “concede” that Krugman lands some good knockout punches against the garden variety monetarist who maintains a strict proportionality between the money supply and the price level, we deny he goes so with regard to the more sophisticated member of this school of thought, and certainly not insofar as Austrian economists are concerned. For in the view of the latter school, there is first, such a thing as economic law which is impervious to “evidence,” and, second, all economic law is of the contrary to fact conditional variety.

Hoppe (1995) offers a few examples:

“Now let us turn to some typical economic propositions. Consider the validation process of a proposition such as the following: Whenever two people A and B engage in a voluntary exchange, they must both expect to profit from it. And they must have reverse preference orders for the goods and services exchanged so that A values what he receives from B more highly than what he gives to him, and B must evaluate the same things the other way around.

“Or consider this: Whenever an exchange is not voluntary but coerced, one party profits at the expense of the other.

“Or the law of marginal utility: Whenever the supply of a good increases by one additional unit, provided each unit is regarded as of equal serviceability by a person, the value attached to this unit must decrease. For this additional unit can only be

employed as a means for the attainment of a goal that is considered less valuable than the least valued goal satisfied by a unit of such good if the supply were one unit shorter.

“Or take the Ricardian law of association: Of two producers, if A is more productive in the production of two types of goods than is B, they can still engage in a mutually beneficial division of labor. This is because overall physical productivity is higher if A specializes in producing one good which he can produce most efficiently, rather than both A and B producing both goods separately and autonomously.

“Or as another example: Whenever minimum wage laws are enforced that require wages to be higher than existing market wages, involuntary unemployment will result.

“Or as a final example: Whenever the quantity of money is increased while the demand for money to be held as cash reserve on hand is unchanged, the purchasing power of money will fall.

“Considering such propositions, is the validation process involved in establishing them as true or false of the same type as that involved in establishing a proposition in the natural sciences? Are these propositions hypothetical in the same sense as a proposition regarding the effects of mixing two types of natural materials? Do we have to test these economic propositions continuously against observations? And does it require a never-ending trial and error process in order to find out the range of application for these propositions and to gradually improve our knowledge, such as we have seen to be the case in the natural sciences?

“It seems quite evident (except to most economists for the last forty years) that the answer to these questions is a clear and unambiguous No. That A and B must expect to profit and have reverse preference orders follows from our understanding of what an exchange is. And the same is the case concerning the consequences of a coerced exchange. It is inconceivable that things could ever be different: It was so a million years ago and it will be so a million years hence. And the range of application for these propositions too is clear once and for all: They are true whenever something is a voluntary exchange or a coerced exchange, and that is all there is to it.”

Hoppe is clearly a derp, and so are the present authors. If there were such a thing as “evidence” that contradicted any of these economic laws, we should be “unmovable.” We should “refuse to alter” our positions on these matters. We should “continue to insist that (we) have The Truth” on them. Ditto for the Pythagorean Theorem, which is to mathematics as are these contentions of Hoppe’s. Suppose that many people measure triangles, and cannot support the Pythagorean Theorem on the basis of these examinations. The “evidence” is all against the Pythagorean Theorem. Should we be “moved” by any of this? Of course not. Should we “continue to insist” on its “Truth despite being wrong again and again?” Of course we should. Why? Because neither the Pythagorean Theorem, nor those apodictic economic axioms are the sort of things which are even relevant to “evidence.”

In the view of Hulsmann (2003):

“...whole class of economic laws are counterfactual laws. They concern the relationship between what human beings actually do (their behaviour, their thoughts) and what they could have done instead. These laws can be applied in counterfactual analyses of the real world, which consist in comparing observed human behaviour and its unrealised choice alternatives in various (e.g., quantitative) terms.”

If we place the minimum wage under this rubric, we can say that unemployment will be higher than it otherwise would have been in the absence of this law. With regard to quantitative easing or other forms of inflation, we can say that price rises will be greater than otherwise would have occurred in the absence of such a policy. The

point is, these economic laws, Krugman to the contrary notwithstanding, are simply incapable of empirical testing, of refutation of falsifiability. No more so than are the laws of mathematics, such as the Pythagorean Theorem.

Of course, there are economic claims that are empirical. Here, we must agree with Krugman, derping would be a disaster. For example, the demand elasticity for carrots in Texas in 1990 was -2. The Krugmanites of the world may test claims of this sort to their heart's content.

Krugman, of course, is not without a reply to the foregoing analysis. No Princetonian, worthy of his beanie, ever is. He avers (2014A):

“But there is, as I said, a lot of derp out there. And what that means, in turn, is that you shouldn't pretend that we're having a real discussion when we aren't. In fact, it's intellectually dishonest and a public disservice to pretend that such a discussion is taking place. We can and indeed are having a serious discussion about the effects of quantitative easing, but people like Paul Ryan and Cliff Asness are not part of that discussion, because no evidence could ever change their view. It's not economics, it's just derp.”

What this man is saying is that Austrian economics is “intellectually dishonest:” that praxeological economics is not really economics, it is, rather, “derp.” One wonders if he would consider the laws of mathematics, such as the Pythagorean Theorem, in the same light. One wonders about what he would say about empirically testing this statement “Whenever two people A and B engage in a voluntary exchange, they must both expect to profit from it” or this one: “And they must have reverse preference orders for the goods and services exchanged so that A values what he receives from B more highly than what he gives to him, and B must evaluate the same things the other way around.” Presumably, he would not consider these as economic insights at all, but rather, “derp.” What a limited view of the dismal science.

Krugman is nothing if not creative. He coins yet another word (2013A):

“By urp I mean just getting something wrong — and then conceding, as evidence rolls in, that you did indeed get it wrong: “Urp! That was a bad call!” Obviously if someone urps all the time, his credibility is diminished; but everyone is going to do it now and then. To urp is human.

“Derp, on the other hand, means being proved wrong but continuing to loudly assert the same thing again and again regardless. Blanchard and Leigh urped, but they didn't derp; the inflationistas, on the other hand, just keep on derping.

“As I said, some people don't seem to get this distinction. They point to mistakes I've made in the past — mainly my bad call on deficits and interest rates in 2003 — and say, “You derp too!” But I've admitted that this was a bad call, and adapted my analysis accordingly. I wish I'd gotten it right, but everyone with the possible exception of the Pope urps now and then; all I can say is that I think I have fewer urps than most, and I really, really try not to derp.

“So don't accuse me of derp; I'm not that kind of perp.”

Au contraire, Mr. Clever Krugman. We hereby accuse you of derping, not urping. You refuse to acknowledge the truth of this claim: “Whenever two people A and B engage in a voluntary exchange, they must both expect to profit from it. And they must have reverse preference orders for the goods and services exchanged so that A values what he receives from B more highly than what he gives to him, and B must evaluate the same things the other way around.” You refuse to acknowledge this not despite empirical evidence in its favor, of which there can be no such thing, but, rather, despite obvious and necessary truth (ok, Truth) embodied in it.

V. Developing countries

Another word misuse commonly invoked in economics involves the phrase “developing countries.” To be sure, this is not always an error. There are, after all, countries that are engaging in economic development, and there can be no objection to labelling them as such. However, there is a promiscuous use of this terminology, according to which all poor nations are “developing countries” and necessarily so. But if this were true then there would be no room for retrogressing political jurisdictions, not even theoretically. Far from the present authors to claim that there are national economies that are actually worsening. We are too politically correct to assert any such thing. But, we do not want to go so far out on the limb as to linguistically obviate even the possibility of this ever occurring. Accordingly, we suggest the following distinctions: developed countries, undeveloped countries, developing countries, retrogressing countries. In that way, we can (re)attain nomenclature that enables us to describe all possibilities, rather than painting ourselves into a corner and being able to describe only a few of the several possibilities.

Why is it that “developing countries” has entered the lexicon in such a manner as to entirely preclude even the possibility of a retrogressing economy? Although this can only be speculative, our hypothesis is that this is part and parcel of a psychological disease according to which naming something actually has the power to render it more in keeping with our goals. We may stipulate that all men of good will wish for an end to poverty; for, in a word, economic development is a goal of all, barring misanthropes. But this does not mean, in the slightest, that merely characterizing a nation as “developing” will actually lead to that happy result. Very much to the contrary, we know full well the necessary conditions of economic growth: free enterprise, rule of law, private property rights, laissez faire capitalism, etc. And, renaming an actual situation, using mere verbal legerdemain, is certainly not one of them.

Then, there is the matter of political correctness. There are no longer any disabled people. They have now become “differently abled.” Nor are there any invalids any more. They are just as “valid” as anyone else, we are told. In similar manner, likely, it is nowadays not quite the thing to point to a retrogressing country. It is now to be considered “developing” whether it actually is, or not.

VI. Rent seeking

At first glance, there would appear to be nothing untoward about the phrase “rent seeking.” Do not landlords seek rents? Indeed they do, and more power to them. If no one sought rents, or to increase them to the maximum level possible, the entire real estate market would soon fall apart. Then, too, there are economic rents, an amount of money not necessary to call forth additional effort. Stipulate that LeBron James earns \$40 million per year as a professional athlete, and that his next best option is as a talk show host, where he would earn, only, a paltry \$10 million annually. We then may say that his economic rent is \$30 million, assuming he is otherwise indifferent (ahem) between the two callings. Again, there is no objection to be launched from this corner to James’ earning of rent of this sort. He may seek all of it he wants, to his heart’s content, as far as we are concerned.

However, “rent seeking” pertains to none of these totally legitimate callings. Rather, it is used as a term of, what?, derision, loathing, disgust, rejection, dismissal, of a certain type of economic behavior. You may well ask, gentle reader, what type of commercial

conduct? Let us hear from Henderson (2008) who offers a definitive statement of the matter:

“Rent seeking” is one of the most important insights in the last fifty years of economics and, unfortunately, one of the most inappropriately labeled. Gordon Tullock originated the idea in 1967, and Anne Krueger introduced the label in 1974. The idea is simple but powerful. People are said to seek rents when they try to obtain benefits for themselves through the political arena. They typically do so by getting a subsidy for a good they produce or for being in a particular class of people, by getting a tariff on a good they produce, or by getting a special regulation that hampers their competitors. Elderly people, for example, often seek higher social security payments; steel producers often seek restrictions on imports of steel; and licensed electricians and doctors often lobby to keep regulations in place that restrict competition from unlicensed electricians or doctors.

“But why do economists use the term ‘rent’? Unfortunately, there is no good reason. David Ricardo introduced the term ‘rent’ in economics. It means the payment to a factor of production in excess of what is required to keep that factor in its present use. So, for example, if I am paid \$150,000 in my current job but I would stay in that job for any salary over \$130,000, I am making \$20,000 in rent. What is wrong with rent seeking? Absolutely nothing. I would be rent seeking if I asked for a raise. My employer would then be free to decide if my services are worth it. Even though I am seeking rents by asking for a raise, this is not what economists mean by ‘rent seeking.’ They use the term to describe people’s lobbying of government to give them special privileges. A much better term is ‘privilege seeking.’”

But Henderson does not go far enough. Yes, “privilege seeking” would be a far better term to describe such heinous behavior. But even more preferable, because fully, totally and completely accurate, would be “booty seeking” or “theft seeking” or “robbery seeking.” Another problem is that it is not “economists (who) (mis)use the term “rent” in this manner. It is only mainstream or neoclassical economists who do so, led, aided and abetted in the perverse language by the Public Choice school of thought. Certainly, no member in good standing of the Austrian school ever stooped so low. A third difficulty with the otherwise excellent Henderson rendition of this concept is that he does not probe deep enough. He does not ask why virtually entire profession of economics was led to this mischievous use of language.

And, the answer is not too difficult to see. These scholars do not make a sharp, clear, rigid, alright, rabid distinction between what acts violate the libertarian emphasis on the non aggression principle (NAP) and those that do not. For them, this distinction, if it occurs to them at all, is muted, colored pastel. For example, virtually all of them favor anti trust legislation (see supra) even though large size, high concentration, is hardly a per se violation of the NAP.

VII. Conclusion

Our conclusion is simple. To place microeconomic studies on a firmer footing, clearer definitions are a necessary condition. We have attempted to move in this direction on several dimensions, in the hope that this type of analysis can help achieve that goal.

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