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Is the Austrian School of Economics a Victim of “Economic Correctness?”

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In order to answer this question, it will first be necessary to distinguish between political and economic correctness on the one hand, and then between Austrian and mainstream economics on the other.

I. Economic Correctness

If by “economic correctness” we mean that what now occurs within the dismal science can serve as an analogue to the “political correctness” which now plagues modern society, then my short answer to this question is “Yes.” That is to say, just as the latter malady makes it difficult if not impossible to ask certain questions regarding race, sex, I.Q., the wage gap between men and women, harassment, the intellectual disparity between the races, let alone to come to unpopular conclusions on such matters, then, yes, a similar proscription now operates within the realm of economics.

Of course, it must be mentioned at the outset that the neglect and denigration of Austrianism, or the praxeological school, within economics, has nothing at all to do with political correctness, which I associate with issues of race, gender, sexual orientation, etc. Both mainstream economists, and Austrians, are, overwhelmingly, straight white males. So we are not discussing political correctness. What, then, is economic correctness?

It is, in a word, the unfair marginalization of schools of political economy; that is, it is the unfair marginalization of schools of political economy (North, 1988). In contrast, I have nothing against the fair or justified exclusion of schools of political economy, or of other academic disciplines, schools of thought, lines of procedure.

For example, the treatment by the scientific community of phlogiston or ether theory in chemistry, or the flat earth perspective in geography, or astrology in psychology, constitute proper rejections. They have been found wanting on their merits, or rather lack of merits. Similarly, I have no difficulty with the marginalization of Marxist or feminist or black or queer studies “economics” (Block and Murphy, 2003a, 512). In my view, they make no positive contribution either, and also deserve the back of our hands, intellectually speaking.

However, it is my claim that Austrianism has been improperly excluded. Evidence for the contention abounds! The job experiences of Mises, Hayek and Rothbard are a case in point. Although Mises had a distinguished career in pre war Europe, and many of his students from Austria were able to land academic posts in some of the most prestigious universities in the U.S., when he fled Nazism and came to this country during World War II, no such offer was made to him. Instead, although he taught at New York University (Mises, 1976), he was not a member of that school’s economics department, nor paid a salary by them. Rather, he was supported by private funds from the business community. Hayek was in 1974 to win the Nobel Prize in economics, but in the 1960s...
was turned down for a faculty position by the University of Chicago economics department. He was instead relegated to the Committee on Social Thought, surely a slap in the face against one of the world's preeminent economists. Similarly, Murray Rothbard languished for many years on the faculty of Brooklyn Polytechnic Institute, where he taught engineering students introductory economics. It was not until late in his career that he accepted the position as Endowed Chair of Economics at the University of Nevada Las Vegas (Raimondo, 1993), surely not one of the most prestigious in the land.

II. Austrian School.

What is it?

First, what is it not? It has nothing to do with the Economics of the country Austria. It was named in that way since the leading originators of this economic perspective all came from that country: Carl Menger, Eugen von Bohm-Bawerk, Friedrich von Wieser, Ludwig von Mises, Friedrich Hayek.

The situation is similar to that of the Chicago School. In like manner, this is completely unrelated to the economics of that city. Indeed, the “Chicago School” is widely located throughout the country. So truly dominant is it in the economics profession that UCLA should really be called the University of Chicago at Los Angeles. The University of Rochester? No, the University of Chicago at Rochester. And so on, for the University of Chicago at Virginia, Washington, Arizona, and many other places.

The Austrian school of economics is distinguished from all others by its unique methodology and the extreme nature of the public policy recommendations of its adherents.

A. Methodology

Praxeology is the key methodological perspective of Austrian economics. In order to portray a flavor of this way of arguing, consider the following:

1. Man acts purposefully. It is impossible to deny this, since the very act of denial is itself a purposeful action. Teleological thinking may be illicit anthropomorphism in the hard sciences such as physics and chemistry, but not in economics, the practice of neoclassical economics to the contrary notwithstanding.

2. There is a tendency for the rates of return on invested capital profits to equalize in all industries, assuming away differential risk. This, too, is impossible to deny, and thus cannot be negated by empirical experience, the main tool of mainstream economists.

3. All voluntary trade attains mutual benefit in the ex ante sense. Again we are faced with a claim that is impossible to deny, and hence needs no, and cannot benefit from any, empirical support, the sine qua non of neoclassical economists.

4. People act so as to render the future more desirable to them than had they not so acted. Once one is a competent speaker of the English language, one knows that this, too, is impossible to deny.
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The Chicago School and, indeed, the entire mainstream profession of economics, in contrast, are followers of the Vienna Circle of logical positivists. They would reject the previous claims on the view that if a claim is pertinent to the real world, then must be falsifiable, at least in principle. That is, we must be able to mention a state of the world in which it is false. On the other hand, if a statement is truly impossible to deny, then it cannot be concerned with reality. It is only a “tautology,” like all bachelors are unmarried males; informative as to how we choose to use words, but totally incapable of making sense of causation, how the world works, etc. Namely, they deny the existence of any synthetic apriori claim, one that applies to reality, and yet is necessary, not contingent.

But their objection is open to a simple yet effective refutation. This can be seen by asking what kind of claim are they making? It cannot be empirically testable; for one thing, they never provide any empirical tests which establish the non existence of the synthetic apriori: for another, empirical tests are supposed to be contingent: just because something works or does not work in one case does not have any strong implication for the future. In any case, this is hardly compatible with the vociferousness with which they reject claims of this sort. They claim either a statement is empirically testable, and applies to reality, or is absolutely certain and undeniable, but then is a tautology, with no relevance to the world. When called upon to determine, precisely, into which of their only two possible categories that statement fits, they are rendered speechless and apoplectic. It really will not do, particularly for a group of people who consider Austrians to be religious dogmatists and cultists; as the economic equivalent of flat earthers.

5. That the minimum wage causes unemployment for unskilled workers with productivity levels below that stipulated by the law is a praxeological, e.g., logically necessary fact, as claimed by the Austrians. It is not a contingent claim, true if the empirical evidence bears this out, and false if it does not, as asserted by the mainstream of professional economists.

This, at least, is their professed methodological stance. However, when push comes to shove, the neoclassicals, to their credit, jettison all this empirical nonsense, and take on the roles of the true economists that they are. In other words, scratch a good Chicagoan economist, and you’ll find a praxeologist. A case in point was Card and Krueger’s (1994) econometric “finding” that the minimum wage law in New Jersey actually led to greater employment for low skilled workers than would otherwise have obtained. One would have thought, knowing only mainstream methodology, that its practitioners might have treated this “discovery” in a very different manner than they, in fact, did.

They might have posited that economic law works differently in New Jersey and Pennsylvania. Or, that economic law only works some times, but not at other times. Or, that since only about 99% of empirical studies shows that this law has the effects taught by virtually all economists to freshman students in econ 101, that perhaps this was an example of the 1% where the law does not work in that way.

Instead, these economists responded with real fire in their eyes. They knew (knew) that the Card and Krueger study was not worth the paper it was printed on. They knew (knew) that this article was mistaken to its core, and they were determined to show this, come what may.
For Austrians, economic theory is correct if and only if it starts with correct (axiomatic) principles, and utilizes a logical chain of reasoning. Statistics can illustrate economic axioms, but can never test them. The mainstream view on rent control, minimum wage, free trade, stand or fall on the basis of their logic. Econometric findings, seemingly to the contrary, must be dismissed.

In the Austrian perspective, economics is not akin to the empirical or hard sciences. Rather, it is similar to mathematics, or geometry. No one goes out and tests the Pythagorean theorem, or measures triangles to see if they really have 180 degrees. This is known beforehand. Examples can only illustrate these basic axioms. Neoclassicals suffer from physics envy.

Milton Friedman once said, “If two Austrian disagree, and cannot resort to the evidence to settle their dispute, they can only fight.” But this is erroneous. The praxeologists who find themselves on the opposite side of a debate about economics cannot, of course, resort to empirical evidence. But two disputatious mathematicians, or geometers, or symbolic logicians, are in exactly the same situation as the two Austrians. None of these pairs of disputants can rely on statistical data, or anything of the sort, because their enterprises are exercises in pure logic. Friedman thus misconstrues the essence of economics.

Other attributes of Austrian economics include opposition to the concept of indifference (and thereby also to indifference curves, a mainstay of the profession at large) on the ground that it is incompatible with human action, which consists, solely of choosing one thing and setting aside another; indifference yields no choices. Then there is rejection of macro economic variables, such as “the” price level or G.D.P. as being incompatible with methodological individualism, that is, human choice which can only be undertaken by individuals. A further mainstay of this philosophy is market process: an appreciation of the fact that equilibrium is at best a heuristically helpful fiction. The actual economy is never at rest; in contrast, the economics profession as a whole devotes an inordinate amount of time and energy depicting just what is true and what is not in the fictional world of equilibrium.

B. Public Policy Recommendations

Austrians, differ, too, from their more traditional brethren, with regard to public policy recommendations. They are virtually without exception extreme advocates of laissez faire capitalism. Many are philosophical anarchists, maintaining that not only would it be appropriate for government not to regulate, and that functions such as money creation, roads and highways, health education and welfare be turned over to the private sector, but that this applies, also, to armies, police and courts.

This is not to say that economists, qua economists, can make any public policy recommendations whatsoever, whether Austrians or non-Austrians. There is such a thing, after all, as the distinction between normative and positive economics. Economists in their professional capacities are necessarily limited to the latter, while the realm of public policy recommendations must of necessity be counted in the former. That is, economists, as such, cannot advocate any policies at all, and remain faithful to the value free principles.
However, economists as ordinary citizens can and do advocate policies of all sorts, and it is the Austrians who are most noted as extreme advocates of economic freedom, free enterprise, private property rights, etc. This, too, is a source of dispute within the profession, and of mainstream resentment. This is especially true for members of the Chicago School of economics (see Block, 2002, DiLorenzo, 2002, North, 2002, Rothbard, 2002, Stromberg, 2002), who are widely noted for their adherence to these principles, and who do not at all appreciate being outflanked on this issue.

What are the specifics?

1. Highway and roadway privatization.

Austrians tend to favor the privatization of highways and streets, mainstream economists, even those with ostensible reputations for free market advocacy, tend to favor our present system of road socialism. Austrians argue that about 30,000 - 35,000 people die on our nation's roadways, and that this is due to speed, drunken driving and vehicle malfunction, but rather to the failure of a profit and loss system to bring to bear the proper incentives on management; that traffic congestion is to highways as long queues were to Soviet groceries: at zero prices, the tragedy of the commons comes into play. Chicagoans are horrified by such arguments, but intellectual diversity should stretch beyond moderate defenders of markets such as they.

2. Anti trust.

Very few are the mainstream economists who advocate a complete cessation of all anti trust legislation; very few, if any, are the Austrians who do not. At the extreme right of the profession are those, mainly aligned with the Chicago School (Bork, 1978; Stigler, 1968; Telser, 1987), who are willing to make this a matter of empirical evidence: if the so-called dead weight loss of imperfect competition is greater than the costs of anti trust, then this sort of government regulation is justified; if not, not.

For the Austrians, in sharp contrast, there is no monopoly “market failure,” and thus the dead weight loss is a figment of the imaginations of the trust-busters. This is not the time nor place to go into a full analysis of the errors of the non Austrians on this matter (see High, 1984-1985; Anderson, et.al. 2001; Armentano, 1991; Block, 1994); a simple humorous demonstration of the utter mindlessness of the case will have to suffice.

There were three Soviet prisoners in the Gulag, comparing stories as to why they were incarcerated. The first said: “I came to work late, and was accused of cheating the State out of my labor services. Said the second, “I came to work early, and was condemned for brown-nosing.” Whereupon piped up the third: “I arrived on the job exactly on time, … wait for it … and was imprisoned for owning a western wrist watch.”

As horrible as was this scenario, the U.S. system of throwing people in jail for such white-collar crimes is equally illogical.

There were three American businessmen in jail for violations of anti trust provisions. Spoke the first: “I am in prison because I charged higher prices than anyone else, and I was found guilty of gouging and profiteering.” Said the second: “I was found guilty of charging lower prices than others, and castigated for being a cutthroat competitor, and a predatory pricer.” At the point the third prisoner complained bitterly: “I charged the
same prices as everyone else, and I was imprisoned for being a colluder, price fixer and cartelist."

The point is, not that this need be said for anyone other than the typical economist, if a law condemns a person no matter what he does, whether it be for coming to work early, late or on time, or for charging too much, too little, or the same as others, it is not a licit law at all, but rather an open condemnation of all enemies of the state. The verdict is in, "guilty," and all that need be determined is the precise charge.

3. Market failures

Other so-called "market failures" concern public goods, externalities, inequality. The left wing of the economics profession sees these as many and deeply serious. The Chicagoans, for the most part maintain that while they exist, and some misallocate resources to a great degree, they are not that prevalent and not as serious. Often, it costs more for the government to fix them than the problems they cause. Thus, the cure is often worse than the disease.

Let us consider but one case in point. Friedman (1962) sees inequality as a pervasive and horrendous problem, and advocates a "negative income tax" to address it. In Rothbard's (1971; 1973, ch. 12) view, poverty is created by government, the very institution relied upon by Friedman to alleviate it, and inequality is not a problem at all, but rather stems from unalterable, and natural, human differences. Further, from the Austrian Rothbard's perspective, all such welfare programs boomerang, and harm the poor, the very people supposedly intended to be helped by them, by instilling an attitude of dependency on their part (Murray, 1984).

4. Property rights

Respect for private property rights is surely a lynchpin of not only the free society, but prosperity (Gwartney, 1996) as well. Austrians are invariably staunch defenders of such institutions. In contrast, the so-called free enterprise Chicago school, while loudly taking credit for such views (Coase, 1960; Posner, 1992; Demsetz, 1966, 1967), actually undermines and opposes property rights.

The essential element of their system is not to protect property, but rather to maximize wealth. If there are two contending parties for a given object, the nod will be given by these economists not to the man who purchased the good in question, nor yet who homesteaded it, or received it as a gift or bequest. Very much to the contrary, the right to be will be awarded to the individual who, if ownership is vested in him, will most likely raise the GDP to the greatest extent. Ordinarily, if I break into your house and make off with your television set, and am caught, the judge will throw the book at me. But suppose I maintain that I will use this t.v. for good purposes: say, I will write screenplays based on my viewing of it which will entertain millions. You, on the other hand, are just a boorish clod, content to stare at your idiot box, beer in hand drooling as your watch. Little or no economic benefit will accrue to society under your (continued) ownership of it. Not only will a judge under the evil influence of Coase, Posner and Demsetz actually entertain my motion. he will even rule in my favor provided only that the facts are as I have stated them (e.g., we can somehow rule out the precedent such a decision will have on future criminal behavior).
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Such a thesis may interest the writers of the "Twilight Zone" series, but as a matter of public policy analysis it can only be considered absurd, and grotesque (see on this North, 1992, 2002; Cordato, 1992; Block, 1995, 1996).

III. Conclusion

Is there "economic correctness," the unjustified exclusion of an economic perspective by those in control of the power switches? Yes, there is. The mainstream in general, and the Chicago School in particular, has arranged matters in such a way so that the "other" free enterprise school of economic thought, the Austrian, cannot get a fair hearing.

Do praxeologists demand quotas, or "affirmative action?" Say, a proportional share of the pages of the prestigious American Economic Review? We do not. Instead, various Austrian journals (which are far more open to mainstream thought than the reverse) have been publishing. And for this instead of being congratulated, we are roundly condemned (Rosen, 1997). There is a sort of "Catch 22" situation in operation. The profession scandalously proscribes Austrian analysis from its pages, and then vociferously objects when the praxeologists set up their own journals. And Rosen's "reasoning?" The Austrians are wrong as can be shown by a nose count: there are more of us than of them, Q.E.D. Further, we Austrians are supposed to respect the market. Well, this democratic vote is in effect the academic market in operation. We disrespect it, by starting up alternative periodicals, in contradiction to our own professed beliefs.

Economic correctness is a good match for political correctness in terms of faulty logic.
Endnotes

1. For the impropriety, we shall have to wait until section II, wherein we discuss the substantive merits of praxeology.

2. For example, Gottfried Haberler and Joseph Schumpeter at Harvard, Fritz Machlup at Princeton.


4. Austria is not without effect on both Austrian and anti Austrian economists. Austrian thinking stems from praxeology, while their opponents are intellectually indebted to the Vienna Circle of logical positivists.

5. Becker goes so far as to claim that Austrian economics is equivalent to a "cult." As well, mainstream professors at Auburn University publicly proclaim that Austrian Economics Seminars are akin to a "prayer meeting" (Anderson, 2000, 64). Blaug (1980, 92-93) does not call us a cult, but is rather harsh all the same: "...the essential ingredients of the methodology of this new brand of Austrian economics ... appear[s] to be (1) an absolute insistence on methodological individualism as an a priori postulate; (2) a deep suspicion of all macroeconomic aggregates such as national income or an index of prices in general; (3) a firm disavowal of quantitative testing of economic predictions and, in particular, the categorical rejection of anything that smacks of mathematical economics and econometrics ... (these features are) wholly alien to the very spirit of science." I owe this cite to Mike Ewens

6. Well, you have to scratch pretty deeply...

7. This is the present author's rough estimate of the econometric literature on this subject. Part of the reason for this is that whenever a study shows the wrong signs on the independent variable (indicating that minimum wages increase employment for the unskilled) the practitioner runs the regression again until he gets it right. To wit, if he is at all a competent economist, he knows (knows) the effects of such legislation. So. Is the empirical work testing the theory, or is it the theory that is testing the empirical work. Any economist worth his salt knows that it is the latter, not the former, that is the truth.

8. For an elaboration of this theme, with cites to the relevant literature, see Block, 2003b.

9. Paraphrase. Statement made to the present author, in private conversation, circa 1998. Ebenstein (2001, 273) cites Hayek quoting Friedman as saying, "We can yell, we can argue...but in the end we have no way to resolve it except by fighting, by saying you're wrong and I'm right" (p. 273). I owe this cite to Christopher Westley. Friedman (1991, 18) himself says of Mises: "...his fundamental idea was that we knew things about "human action" (the title of his famous book) because we are human beings. As a result, he argued, we have absolutely certain knowledge of the motivations of human actions [sic] and he maintained that we can derive substantive conclusions from that basic knowledge. Facts, statistical or other evidence cannot, he argued, be used to test those conclu-
sions. That philosophy converts an asserted body of substantive conclusions into a religion... Suppose two people who share von Mises’s praxeological view come to contradictory conclusions about anything. How can they reconcile their difference? The only way they can do so is by a purely logical argument. One has to say to the other, ‘You made a mistake in reasoning.’ And the other has to say, ‘No, you made a mistake in reasoning.’ Suppose neither believes he has made a mistake in reasoning. There’s only one thing left to do: fight.” I owe this cite to Ralph Raico.

10. There are some commentators who maintain that market process is the lynchpin of Austrian economics, not praxeology, as contended above. For a critique of this perspective, see Rothbard (1997).

11. There is only one economist known to the present author whose views can be characterized in such a fashion: David Friedman. See Friedman (1979, 1989).

12. See Block and Block, 1996 which makes the case for private roads; Tullock, 1996, which objects; Block, 1998, which responds to the objections.

13. These economists would even object to my characterization of this behavior of mine as “criminal.” This would depend, they would contend, on the judge’s ruling.

14. For rejoinders to this curious argument, see Anderson (2000), Yeager (1997), Block (2000).
References


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