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Two Twists in Economic Methodology: Positivism and Subjectivism

By WILLIAM M. DUGGER*

For being right, one may perhaps conclude, it is better to have the support of events than of the higher scholarship.—JOHN KENNETH GALBRAITH.

ABSTRACT. As the contradictory evidence gathered by other social scientists has continued to accumulate, two new twists have been added to the *methodology* of *neoclassical economics*. From *Milton Friedman's positivism* came the twist that "unrealistic" assumptions can be ignored, prediction is all that really matters. From the *Austrian School's subjectivism* came the twist that since economic theory is the *a priori* logic of subjective individual choice, the theory cannot be tested in the scientific sense at all. Neither qualitative historical evidence nor quantitative prediction can yield a scientific test of theory. At least Friedman's positivism allows for predictive testing, even though decisive tests are seldom found in *social science*. But Austrian subjectivism insulates economic theory completely from scientific testing. Neither methodology is conducive to scientific progress.

I
Introduction

ALTHOUGH ECONOMICS and other social sciences are composed of a rich diversity of schools, economists in the United States have been predominantly members of one school for some time: the neoclassical school. Of course, widespread disagreement is found among neoclassical economists about particulars and many neoclassicals prefer to call themselves something else. Nevertheless, a neoclassical core of agreement does exist and a unity can be found among most U.S. economists who consider themselves to be in the mainstream of contemporary theory. The neoclassical core is a faith in non-intervention by government in the economic process as a general principle and in only limited intervention in practice.[1]

That faith is supported by a set of assumptions. Not all neoclassical economists believe in all of the assumptions and their non-intervention implications, but most believe in most of them. The core assumptions and policy implications are: If Say's Law holds, Keynesian demand management is not necessary to maintain full employment. If prices and wages are flexible, then

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wage-price controls are not necessary. If independent entrepreneurs maximize their profits in perfect competition without externalities, then market pressure controls their behavior, with little need for formal social control. If consumers behave as "rational," non-manipulated possessors of *free will* in a perfect market in which they have perfect information, then, as in most cases, the need for formal social control, for government intervention in the economic process, is very small.[2]

As early as the turn of this century some U.S. economists argued that the core assumptions and their non-intervention implications were not true. That is, men like John R. Commons, Thorstein Veblen, and a long line of other institutional economists argued that neoclassical policy just does not work because it does not fit modern conditions. But, by and large, their critique has been deflected away from the core so that the basic faith in neoclassical theory was weakened only slightly by their sometimes furious attacks.[3] In addition to surviving the institutionalist attack, faith in neoclassical teachings also survived, in attenuated form, the Keynesian revolution. Keynes questioned the faith in Say's Law by introducing macro-analysis into economic theory. Nevertheless, this Keynesian macro heresy merely was grafted onto the old neoclassical core, sans Say's Law of course. But the Keynesian graft and the neoclassical core simply were incompatible from the beginning. Now with memory of the Great Depression fading (the crash occurred more than half a century ago) and with a rebirth of political conservatism, the neoclassical core is giving rise to an anti-Keynesian counterrevolution. The counterrevolution is a revival of the faith, a return to belief in non-intervention by government in the economic process. The resurrected neoclassical core is now the new economics and Keynesianism the old.

Nevertheless, doubts persist about this shift in economics. Is it progressive or regressive? If, as C. E. Ayres argued, progress ". . . consists in finding out how to do things, finding out how to do more things, and finding out how to do all things better,"[4] then progress in economics would mean finding out how to make our economy produce, produce more, and produce everything more efficiently.[5] But in the U.S. economy, with which our economics deals, progress has come to a virtual halt. In particular, economists seem unable to make our economy produce more, or to maintain full employment, without rampant inflation crippling the effort. Economists, at least those listened to by decision makers, do not seem to be finding out how to beat inflation and unemployment at the same time. As a result, our economy wobbles along from one crisis to another. And yet the revival of faith in the neoclassical core of U.S. economic theory gathers momentum, unaffected by

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the lack of progress in economic policy. Why?

The reason for the incredible durability of this neoclassical core is the subject of my paper. My explanation is straightforward: The assumptions supporting the core are projected from the conflicting empirical evidence regarding the nature and significance of social control in the modern economy and society used by the institutionalists and others to criticize the neoclassical core. When the empirical evidence began to cut too deeply, new twists were given to neoclassical methodology. The new twists were positivism and subjectivism, both of which turned the empirical thrust away from the traditional assumptions and away from the corresponding policy implications of the neoclassical core.

The remainder of the paper is organized as follows: 1) In section two the empirical thrust at the core is discussed; 2) In section three the protective responses are explained; 3) and in section four are my conclusions.

II

The Empirical Thrust

THE MAJOR EMPIRICAL CONTRADICTIONS of the neoclassical core primarily come from outside the economics discipline. In particular, sociologists and anthropologists have worked for nearly a century in the broad area known as "social control," conducting numerous investigations into the complex relationships between man and society, society and man. These studies have focused on social control, what Joseph S. Roucek refers to as "all those processes by which society and its component groups influence the behavior of individual members toward conformity with group norms. . . ."[6] It is from these empirical investigations and from a few of their own that institutional economists, beginning with Veblen, have fashioned their attack on the neoclassical core of economic theory.[7]

In a sense, what Veblen and his successors (following 19th century precedent) have tried to do is bridge the distinction between economics and sociology. Hahn and Hollis define the difference, "The stock distinction between economic and sociological theories of social action has been one between men as rational egoists versus men obedient to norms." They continue explaining, "The pure [economic] theory characterizes the agent independently of his environment."[8] Which, the institutionalists argue, is not possible when the agent, to a significant degree, is a *product* of his environment.

Two crucial concepts bridge the gap between the abstract economic agent and his social environment: Institutions and Social Controls. But these two

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concepts also strip away the assumptions which uphold the neoclassical core of mainstream economics.

From the writings of anthropologists, sociologists, and others who have worked in the broad area of social control,[9] institutional economists have distilled the narrower concept of "economic institution." An economic institution is concerned with the production, reproduction, distribution, and consumption of the material means of life. It is also a duality: First, an institution is an organized pattern of roles. Second, it is the habits of thought people learn as they perform the prescribed roles.[10] In 20th century America the corporation is the most important economic institution. In the broader traditions of sociology and anthropology, an institution is only one form of social control and economic institutions are only one kind of institution. But, for our purposes, attention will be focused on economic institutions and on economic social controls.

Social control is all pervasive in the modern economy. Three kinds of social control are exercised: 1) institutional control of individual behavior, 2) corporate control of markets, and 3) nascent political control of the economy.

To Thorstein Veblen, control of individual behavior was exercised through habits of thought learned by individuals under the sway of pecuniary or industrial employments.[11] To John R. Commons, such control was exercised through the evolving working rules of going concerns.[12] Veblen and Commons were among the early founders of institutional economics. Later sociological works made further contributions to the theory of social control. Hans Gerth and C. Wright Mills wrote an outstanding treatise on social psychology in the early 1950s. Just recently Joseph S. Roucek assembled a comprehensive collection of studies on social control.[13]

These works show that although the isolated individual human organism (abstract economic man) has impulses and reacts to physical stimuli, the actual content or meaning of these impulses and the acceptable reactions to them are learned from other human beings and from the institutionally-determined role-demands they place on each other. In short, social controls—"the methods used to get people to conform to societal norms and to specific role expectations"—enter into even the most simple individual act.[14] But social control theory is not simple determinism. Roucek emphasizes, "social control does not imply total determination of the individual's behavior by the group, but only the confining of behavior within an approved range of variation."[15] When a person learns how various impulses should be turned to account or, as Gerth and Mills state, when a person learns how impulses can be "directed toward socially-approved objectives, they support and sustain

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the person in his roles. Then he wants to do what is expected of him."[16]

Furthermore, Gerth and Mills lay bare the crux of the social control of individual behavior when they state,

> How can a person be produced who wants or "wills," what is socially approved, demanded, or premiumed? How can impulse be trained to fit in with role-demands? The problem of social control is not merely one of coercing persons to act against their own wills, but rather to offer socially approved goals which will be incorporated as objectives of the will.[17]

Social control cannot be avoided for we are all members of institutions, voluntarily or involuntarily. We all must perform an institutional role and, as Gerth and Mills explain. ". . . persons who enact the institutional role, come to control themselves—to pattern and to enact their roles in accordance with the constraints thus built into their characters."[18] In other words, it is through performing institutionally-determined roles that we learn how to act and even why to act. As members of a family, as students in school, as corporate employees, as church members, as soldiers and as citizens, we learn what to do, how to do it, and why. As we do so, we internalize these norms, and we develop our own consciences.

In short, social control of individual behavior is exercised through extant institutions, whether or not these institutions are humane and consciously planned or inhumane and traditional. Yet this is only one kind of social control.

Another kind of social control is exercised by the market, yet not the "free" market envisioned by the 19th century theorists but the imperfect, monopolistic, administered market of 20th century reality. The institutionalist literature on administered markets has become massive, but a brief outline of the most recent work will suffice.[19]

John Kenneth Galbraith explains that our economy is now a dual economy.[20] One part still approximates the "free" market system; the other part is a planning system. In the planning system, markets are administered by the managerial cadres of mature corporations possessing the market power necessary to supplant or manipulate the "free" give and take of supply and demand. The result is, among other things, a serious imbalance. Too many resources are devoted to private production in the planning sector; too few resources devoted to the provision of public goods and to production in the unplanned sector.

Alfred Eichner explains, very carefully and analytically, how huge corporations, "the megacorps," actually administer markets in such a way as to maintain a high "corporate levy." The unintended result of this private corporate planning is stagflation—high unemployment and high inflation.

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Eichner's analytics are intended

> . . . to provide a valid micro foundation for Keynesian—and post-Keynesian—macroeconomic theory. The aim is to make it unnecessary to rely on the neo-classical model for microeconomic analysis, thereby removing a major source of the resistance to Keynesian ideas.[21]

The political implications of Galbraith and Eichner are quite apparent. The modern economy is in need of democratically coordinated economic planning within the market system so that the actions of corporate power centers (the megacorps) in the private planning system are directed toward the public purpose. Since much of the economy is already planned privately, it is essential that public planning bring the activities and interests of the small competitive sector into the democratic planning process. Furthermore, the private interests and plans of geographical regions, industrial sectors, and individual firms all need to be coordinated by the public planning process where attention can be constantly focused, democratically, on the general public interest. In this way, the existing private planning process can be raised above the disparate private interests they now serve to the service of the general public interest.

So in addition to the institutional control of individual behavior and the megacorps' control of markets, a third kind of social control is needed and is painfully being born—the political control of the economy. Federal, state, and local government regulation is now ubiquitous, but it is also unplanned. That is, political controls are largely uncoordinated. Different federal programs and agencies often contradict each other and contradictions between levels of government also occur. J. Ron Stanfield refers to the chaotic nature of contemporary political controls as "interventionist drift."[22]

This interventionist drift must develop into democratic, coordinated planning if the modern economy is to serve the public purpose. At least that is the conclusion of those economists, most of whom call themselves institutional economists, who have become disenchanted with the neoclassical core and who have taken seriously the progress made by sociologists and anthropologists working in the broad area of social control.

Institutionalists begin with the instrumentalist view that people can and should democratically determine their own fate. Next they add two facts: first, extensive social control of individuals already is exerted through the institutionalized roles they must play in the modern economy; second, extensive control of markets already is exerted in the planning sector through the power of megacorps. Then they draw the *institutionalist planning imperative*—democratic, coordinated planning must be the next evolutionary stage

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of our economy if we are to bend the private purpose of the megacorps to the public purpose of democratic society.[23]

Of course, this conclusion is very controversial and the debate continues unabated. The debate has been described in the following terms:

> Sometimes it yields more heat than light. But it is now clear that it is leading to new breakthroughs in the development of the social sciences like those which, in an earlier generation, transformed sociology through the work of such scholars as Emile Durkheim, Max Weber, Franz Oppenheimer and Karl Mannheim.[24]

Like Durkheim, Weber, Oppenheimer, and Mannheim in sociology, pioneers in economics are forging new insights into the nature of the modern economic process. A notable example is Adolph Lowe, recent recipient of the Veblen-Commons Award. Lowe has made significant contributions to the fundamental question, "Can society achieve freedom by learning to internalize its inescapable need for discipline?"[25] Lowe addresses himself squarely to the question by proposing,

> . . . to substitute for the irrational constraints of an anonymous environment the rational constraints of an effective welfare State—constraints that are themselves subject to the checks and balances of the democratic process.[26]

Yet this new thrust in economics runs counter to the neoclassical core of mainstream economics. The institutionalist's view even runs counter to the half-hearted Keynesian revolution. Institutionalists and Keynesians agree that Say's Law does not hold. But from there the two schools of thought begin to part company. Most Keynesians argue that aggregate demand management by the State is sufficient to remedy the unemployment flaw of modern capitalism. Some Keynesians go a bit further and suggest the need for antitrust policy; a few "wayward institutionalists" even agree. But Keynesian demand management never gets at the entrenched power of the megacorps to administer markets and prices, so more aggregate demand usually means more inflation, less aggregate demand means less employment. The Keynesian "trust-busters" mean well but will cost the industrial economy dearly by reducing economies of scale *and* economies of planning if they succeed in dispersing corporate power by breaking up our planned industrial system. The institutionalists would keep the industrial plant intact but turn it to account; they would make it serve the public purpose through democratic comprehensive planning—not the centralized command planning so bankrupt in the Marxian dictatorships but the type that arises out of democratic needs.

With the shortcomings of Keynesian aggregate demand management becoming increasingly evident, more and more citizens and economists are taking the institutionalist planning imperative seriously. In short, the need

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for comprehensive democratic planning has become obvious. And the old belief that planning and its required social control would interfere with the exercise of man's "free will" has become very difficult to hold in view of two empirical conclusions: Man's "will" is shaped by institutionally-determined roles he plays in the first place, and most of his markets now are administered or dominated by Eichner's megacorps.

III

The Protective Response

BUT AT THE SAME TIME that the need for comprehensive democratic planning and the need for an instrumental economics to carry it out are becoming increasingly urgent, many economists are adhering to government non-intervention even more doggedly. In fact, a rebirth of faith in "laissez-faire" is occurring in economics departments and journals across the nation. Along with and in support of this new conservative tone, the quantity theory of money has been restructured as the Monetarist School and subjective utilitarianism has been reborn as the New Austrian School. These developments have served to further insulate the neoclassical core of mainstream theory from criticism. Each "new" school, both the Austrian and the Monetarist, proposes a major change in economic methodology, the effect of which is to protect the core of neoclassical theory from empirical attack.

The attack has to do with assumptions, but it centers around the issue of social control. To the critic, the following assumptions are crucial. Along with their policy implications, they represent the core of neoclassical theory. They bear repeating: If we assume that Say's Law holds, then Keynesian control of aggregate demand is not necessary to maintain full employment. If we assume that prices are freely determined by competitive supply and demand, then price controls are not necessary. If we assume that production is conducted by independent entrepreneurs maximizing their profits in perfect competition without externalities, then market competition controls their behavior and the need for formal social control is minimized. If we assume that consumption is done according to the spontaneous needs of "rational," non-manipulated consumers exercising their own *free wills* in a perfect marketplace in which they have perfect information, then again, the need for formal social control is minimized. But the need for such social control is minimized only to the extent that the assumptions hold. Furthermore, the fact that observations show that the opposite of the assumptions is the rule is becoming more evident every year as empirical research in the social sciences continues its inexorable advance.

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But the positivists in economics, led by Milton Friedman's methodological innovation, tell us that "unrealistic" assumptions can be ignored. Comparison of predictions with empirical observations is all that really matters.[27] On the other hand, the New Austrians go even further. They support a methodology which asserts that economic principles cannot be refuted by empirical observations.[28]

The methodology of the resurgent Austrians is straightforward. Economic agents make choices based on their *subjective*, individual evaluations of alternatives. Furthermore, due to the pervasiveness of ignorance and error in the real world of human action, the economic logic of choice cannot generate determinate individual choices in concrete situations. Economics simply cannot produce predictions to compare with historical or empirical observations. Hence, economic theory is the logic of subjective choice and cannot be tested by comparing predictions with observations. This subjectivist position will be referred to as the S-twist.

The methodology of the resurgent Monetarists is equally straightforward even though it is diametrically opposed to that of the Austrians. Instead of the S-twist, the Monetarist use the F-twist, so named by Paul Samuelson.[29] According to the F-twist, a theory can only be tested by comparing its "predictions" with observations. A theory's unrealistic assumptions about perfect competition, profit-maximization, economic rationality, *ad infinitum*, are irrelevant.

First, let us look in more detail at the F-twist. A detailed analysis of the S-twist will follow.

Friedman, in support of his F-twist, argues, ". . . the only relevant test of the validity of a hypothesis is comparison of its predictions with experience."[30] Friedman does admit that empirical evidence is useful for formulating hypotheses, but the criticism of economic theory for its unrealistic assumptions, he argues,

> . . . is fundamentally wrong and productive of much mischief. Far from providing an easier means for sifting valid from invalid hypotheses, it only confuses the issue, promotes misunderstanding about the significance of empirical evidence for economic theory, produces a misdirection of much intellectual effort . . . and impedes the attainment of consensus on tentative hypotheses in positive economics.[31]

Lest there remain any confusion about the "proper" methodology, Friedman adds, "The theory of monopolistic and imperfect competition is one example of the neglect in economic theory of these propositions." In short, according to Friedman, ". . . a theory cannot be tested by the 'realism' of its 'assumptions'. . . ."[32]

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Of course, it took Friedman some time to formulate this methodological position. Its roots can be traced to his 1946 review of a Keynesian treatise by Oskar Lange, *Price Flexibility and Employment*.[33] In his book, Lange criticized faith in government non-intervention because he believed that the conditions favoring it had passed. In particular, Lange argued that a lower price for a factor of production would increase the use of that factor only under special conditions. He also contended that such conditions were not met under 20th century capitalism. In other words, Lange concluded that our present economy would not generate full employment without State action. At least a modicum of political control was necessary because Say's Law no longer holds.

Friedman strongly objected to Lange's book, labeling it mere "taxonomic theorizing" because Lange generated no formal predictions. Friedman's disdain for Lange's "taxonomic theorizing" is faintly reminiscent of Veblen. Yet Veblen and evolutionary economists (institutionalists), though critical of mere taxonomy, appreciate the fact that Linnaeus' taxonomic work laid the empirical foundation of Darwin's evolutionary theory.

An empirical foundation is essential to a science, but Friedman's insistence that the realism of assumptions is irrelevant cuts off economic science from its empirical foundation. That empirical foundation has to do with the nature of actual competition (administered markets are replacing "free" ones) and the nature of the social controls, that is, institutionally-determined roles, that shape people's behavior. The F-twist insulates economics from the empirical observations which should form its empirical foundation and then it focuses attention on prediction, when institutionalists and other critical economists have a long tradition of refusing any claim to the powers of positivist predictions. The F-twist also protects the faith in government non-intervention from Keynesian attack and institutionalist criticism by labeling institutionalists and Keynesians (Lange) as unscientific because they do not test predictions.

Adolph Lowe argues that economics, if it is to be useful, should reverse the prediction test entirely. That is, rather than predicting a future or unknown condition and then testing the prediction, economists should *first* decide on a desired future outcome and *then* devise ways and means of achieving it.[34]

If the F-twist is not sufficient to protect faith in government non-intervention based on unrealistic assumptions, a much older methodology is available. The S-twist of the Austrian School is a remarkably effective defense. Karen Vaughn, in a recent article entitled "Does It Matter That Costs Are Subjective?" provides an excellent sample of the revival of Austrian economics.

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She argues, "cost can only be understood to be a personal subjective evaluation of the consequences of choice." Emphasizing the implications of Austrian subjectivism pointed out earlier by James Buchanan, she states, "Cost cannot be measured by someone other than the chooser since there is no way that subjective mental experience can be directly observed."[35] *If* costs are purely subjective and unobservable, then public social control of individual behavior probably is irrational and inefficient, for public authorities can never know the real costs of any action. Vaughn concludes:

> In fact, the subjectivist interpretation of cost suggests that there is no way of knowing if society is better or worse off with even supposedly theoretically sound regulatory pricing policies based on some measure of cost.[36]

Although Friedrich A. von Hayek is the best known Austrian economist, Ludwig von Mises has provided the clearest methodological statement of Austrian subjectivism. Mises prefers the phrase "methodological individualism" to subjectivism. He defines methodological individualism as the fundamental thesis that ". . . it is the ideas held by individuals that determine their group allegiance. . . ."[37] Furthermore, it is the belief that

> . . . all actions can be traced back to individuals and that no scientific method can succeed in determining how definite external events . . . produce within the human mind definite ideas, value judgements, and volitions.[38]

Mises is highly critical of those who disagree with his methodological individualism. He states, "The rejection of methodological individualism implies the assumption that the behavior of men is directed by some mysterious forces that defy any analysis and description."[39]

Nevertheless, those "mysterious forces" that defy analysis and description to which Mises refers are the institutions of institutional economists and the general social control mechanisms of sociologists and anthropologists. Mises flatly denies that these "collectives," as he calls them, have an existence independent of the individuals that comprise or practice them. According to Mises, such things exist only in the thinking and acting of individuals, so when individuals decide to change their minds, the institution or social control is no longer significant. Mises concludes that the economic study of institutions or social controls, as such, just is not possible. He states, "Even the most fanatical advocates of collectivism deal with the actions of individuals while they pretend to deal with the actions of collectives. Statistics does not register events that are happening in or to collectives."[40] Taken to its logical conclusion, this position means that dividends, sales, profit margins, tax receipts, and public outlays, virtually all corporate and government data used even by econometricians, let alone sociologists, are not the proper grist for

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the economist's mill. Furthermore, not only are most econometric type data of little value to economists, but the reliance on history as the economist's laboratory is referred to by Mises as the "research fable." He states,

> Economics is a branch of praxeology, the aprioristic theory of human action. The economist does not base his theories upon historical research . . . he does not learn directly from history. It is, on the contrary economic history that needs to be interpreted with the aid of theories developed by economics.[41]

The recent rise in cliometry or the "new" economic history is evidence that many economic historians are taking the Austrian approach.[42] The "new economic historians" tend more to reinterpret history in the light of neoclassical economic theory than they reinterpret received theory in the light of history. But then economics, a branch of "praxeology," according to Mises and the other Austrians, is not historical. It is *not* derived from man's experience through time because, again according to Mises, we cannot ". . . interpret our concept of action as a precipitate of experience." As viewed through the lens of the S-twist, economic concepts ". . . describe conditions that can never be presented in the reality of action. Yet they are indispensable for conceiving what is going on in this reality."[43] Mises states his case for his economic "praxeology" very clearly by first asking,

> The question with which we are now concerned is no longer whether a prevailing regularity can be discerned in human action, but whether the observation of facts without any reference to a system of a prioristic knowledge of human action can be considered a method capable of leading us to the cognition of such a regularity.[44]

Then he answers this crucial question with a flat "no." And, of course, he is correct. The experience of man through time does not organize *itself* into categories and principles or general trends. Rather, "history" is organized by the concepts, principles, and theories brought to bear upon it by the mind of the historian. Mises then argues that his economic "praxeology" is the appropriate source of these unavoidable, *a priori* concepts, principles, and theories.[45]

Now, critics of the neoclassical core who argue that no a priori knowledge need be brought to bear upon the study of economic history are simply wrong, as Mises clearly explains. Nevertheless, the a priori concepts, principles, and theories that the investigator brings to bear upon economic questions do not have to come from the Mises economic "praxeology;" nor do they have to come from the neoclassical core of mainstream economics. Instead, they can come from the general theory of social control as formulated by sociologists and anthropologists. But social control theory and the empirical-historical findings of social control theorists *negate* the neoclassical core. That is the rub!

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The positivist F-twist of Friedman and the Monetarists means that the realism of assumptions is irrelevant.[46] But at least Friedman will accept observations about the empirical validity of predictions. The subjectivist S-twist of Mises and the Austrians, however, means that empirical observation of human behavior cannot contradict or refute propositions of economics. Experience, Mises argues, ". . . can never falsify any theorem. . . ."[47] He is correct *if* economics is the pure logic of subjectively interpreted individual action in the economic sphere (economic "praxeology").

The F-twist of Friedman may save assumptions from the charge that they are unrealistic but the S-twist makes them impregnable. For Mises draws a barrier between the objective world of experience and the subjective world of mind. He insists that no connection can be made between the objective and the subjective, for all human action originates in the free will of the sovereign individual. He states,

> What the term "freedom of the will" refers to is to the fact that the ideas that induce a man to make a decision (a choice) are, like all other ideas, not "produced" by external "facts," do not "mirror" the conditions of reality, and are not "uniquely determined" by any ascertainable external factor to which we could impute them . . . There is nothing else that could be said about a definite instance of a man's acting and choosing than to ascribe it to this man's individuality.[48]

People who disagree with his position, Mises says, ". . . are driven by the dictatorial complex."[49] Such people, Mises believes, want to substitute their own personal desires for the personal desires of everyone else. Mises, clearly, has a point: The temptation is very strong for highly educated intellectuals and academics to tell others what to do. Intellectual, social, political, and financial elites have been far more influential than their numbers would justify in our democratic society. Nevertheless, even though the Mises distaste for elitism and paternalism is justifiable as a defense of freedom and democracy, the use of that distaste to deflect empirical criticism away from the neoclassical core of economic theory is not. The first use is supportive of freedom and free inquiry. But the second use stops free inquiry at a wall labeled "subjective individuality." Bush explains,

> But when the "radical individualist" is confronted at the level of assumptions, what is the nature of the test of verification to which he is willing to submit his assumptions? It turns out not to be an empirical test at all; it is rather, by his own definition, a highly personal, "subjective" test. The "test" is merely introspection; that is, we are invited to contemplate our own capacity for rational choice.[50]

Such a test is not a test at all, not in any empirico-scientific sense.

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IV

Conclusion

FROM THE SOCIOLOGICAL-ANTHROPOLOGICAL WORK in social control and from the economic work in imperfect competition, monopolistic competition, and oligopoly, institutional economists and others have forged a devastating empirical attack on the assumptions supporting the neoclassical core of mainstream economics. Yet in spite of the growing empirical evidence, the core holds. More than that, it expands. Protected by the F-twist and the S-twist, an ultra-orthodox neoclassical revival is taking place.

In the Monetarist School, the revival has gone far beyond the positivist's license to predict. The School's leading spokesman, Milton Friedman, is no longer satisfied with testing predictions. In his latest work with his wife Rose Friedman, he makes prescriptions, not predictions.[51] The Friedmans prescribe no less than seven constitutional amendments to limit either the federal or state government's ability to tax imports and exports, to regulate prices, wages, and occupations, to levy progressive income taxes, to finance deficits, and to issue nominal-interest rate securities. In short, in a book entitled *Free to Choose*, the leading proponent of pure positive economics in the United States proposes to reduce dramatically the freedom of the public—acting through government—to choose to regulate its economy.

The Friedmans are no longer positivists. They have become social activists. Taking the neoclassical core of mainstream theory to its practical conclusions, they have become advocates of government non-intervention.[52] But as such, they can no longer retreat into pure positive economics to protect that neoclassical core when its assumptions come under empirical attack.

The S-twist of the Austrians, on the other hand, leads to a know-nothing position in economics. If all phenomena of importance are purely subjective individual feelings, then economics has no handle on the external world of objective events. At least with the positivist F-twist, there exists a connection, albeit only a partial one, between theory and observation. But with the subjectivist S-twist, even that partial connection (testing predictions) is severed.

Serving economic science so poorly, why are these methodological positions gaining more and more adherents? One is tempted to conclude that the reason has more to do with economic ideology than with economic science.

Notes

1. As Eric Roll shows, Alfred Marshall developed the concept of "consumer's surplus" to demonstrate the effects of taxes on commodities with elastic and inelastic demands. "With it he

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tried to show which kind of government intervention was desirable." *A History of Economic Thought* (New York: Prentice-Hall, 2nd ed., 1942), pp. 439–440. John Bates Clark, who, like Marshall, was a bridge between the laissez-faire economists of the classical school and modern economics, extolled in his major work, *The Distribution of Wealth* (1899), the virtues of the competitive process as tending to provide each contributor to it his "natural share of the product." For the slogan of the French economists he offered an anglicized version: "Hinder not the grand dynamics of nature but lay hands on whatever perverse agent may now presume to offer hindrances." State intervention of this kind, he held, produced "a new and higher type of laissez-faire." Sidney Fine, *Laissez-Faire and the General Welfare State* (Ann Arbor: University of Michigan Press, 1956), pp. 249–250. For the sources of the above quotations in Clark's work, *ibid.*, p. 250n.

2. For a slightly differentiated and more rigorously stated list see Frank Hahn and Martin Hollis, "Introduction" in Hahn and Hollis, eds., *Philosophy and Economic Theory* (Oxford: Oxford Univ. Press, 1979), pp. 3–7.

3. See, for example, Thorstein Veblen, *The Place of Science in Modern Civilization and Other Essays* (New York: B. W. Huebsch, 1919).

4. Clarence E. Ayres, *The Theory of Economic Progress*, 3rd ed. (Kalamazoo: New Issues Press, 1978), p. xiii.

5. This is also the thrust of Adolph Lowe's recent work. For a discussion see Will Lissner, "Adolph Lowe's Methodological Alternative for Economic Research and Policy," *American Journal of Economics and Sociology*, 40 (July, 1981), pp. 277–86.

6. Joseph S. Roucek, "The Concept of Social Control in American Sociology," in Roucek, ed., *Social Control for the 1980s* (Westport, Conn.: Greenwood Press, 1978), p. 11.

7. A more recent continuation of what, perhaps, has become a kind of institutionalist tradition of critique is William M. Dugger, "Power: An Institutional Framework of Analysis," *Journal of Economic Isuues*, 14 (December, 1980), pp. 897–907.

8. Hahn and Hollis, *op. cit.*, p. 3.

9. An excellent collection of recent studies is in Roucek, ed., *Social Control for the 1980s*, cited above.

10. See William M. Dugger, "Power: An Institutional Framework of Analysis," *op. cit.*

11. Veblen, *op. cit.* pp. 279–323.

12. John R. Commons, *The Economics of Collective Action*, ed. by Kenneth H. Parsons (Madison: Univ. of Wisconsin Press, 1950).

13. Hans Gerth and C. Wright Mills, *Character and Social Structure* (New York: Harcourt, Brace and World, 1953), Joseph S. Roucek, ed., *Social Control for the 1980s*.

14. Joseph S. Roucek, "The Concept of Social Control in American Sociology," *op. cit.*, p. 4.

15. *Ibid.*, p. 11.

16. Gerth and Mills, *Character and Social Structure*, p. 44.

17. *Ibid.*, p. 44.

18. *Ibid.*, p. 173.

19. See Alfred S. Eichner, *The Megacorp and Oligopoly* (White Plains, N.Y.: M. E. Sharpe, 1980); John Kenneth Galbraith, *Economics and the Public Purpose* (Boston: Houghton Mifflin, 1973) and "Symposium on Price Formation," *Journal of Post Keynesian Economics*, 4 (Fall, 1981), pp. 81–116.

20. Also see Robert T. Averitt, *The Dual Economy* (New York: W. W. Norton, 1968) and Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: Harvard Univ. Press, 1977).

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21. Eichner, *The Megacorp,* p. 2.

22. J. Ron Stanfield, *Economic Thought and Social Change* (Carbondale: Southern Illinois Univ. Press, 1979).

23. See Allan G. Gruchy, *Contemporary Economic Thought* (Clifton, New Jersey: Augustus M. Kelley, 1972). It is important to differentiate between three kinds of planning: 1) The rigid command planning of the Soviet type, 2) The private, managerial planning of the firm as now studied in treatises on business management, and 3) The democratic or "indicative" planning suggested in this article, which elevates to the national level the second type of managerial planning already occurring within the large corporation.

24. Lissner, *op. cit.*, p. 278.

25. Robert L. Heilbroner, "The Veblen-Commons Award: Adolph Lowe," *Journal of Economic Issues*, 14 (June, 1980), p. 244.

26. Adolph Lowe, "What Is Evolutionary Economics?" *Journal of Economic Issues*, 14 (June, 1980), p. 253. See also his classic, *On Economic Knowledge*; 2nd ed., (White Plains, N.Y.:

27. Milton Friedman, *Essays in Positive Economics* (Chicago: Univ. of Chicago Press, 1953), pp. 3–43.

28. Ludwig von Mises, *The Ultimate Foundation of Economic Science*; 2nd ed., (Kansas City: Sheed Andrews and McMeel, 1978).

29. Paul A. Samuelson, "Problems of Methodology-Discussion," *American Economic Review, Papers and Proceedings* (May, 1963), pp. 231–36.

30. Milton Friedman, *Essays in Positive Economics*, p. 9.

31. *Ibid.*, p. 14.

32. *Ibid.*, p. 23.

33. *Ibid.*, pp. 277–300.

34. Further explanation is in Adolph Lowe, "What Is Evolutionary Economics?"

35. Karen I. Vaughn, "Does It Matter That Costs Are Subjective?" *Southern Economic Journal*, 46 (January, 1980), p. 702. See also James M. Buchanan, *Cost and Choice* (Chicago: Markham, 1969).

36. Karen I. Vaughn, "Does It Matter That Costs Are Subjective?" p. 714.

37. Ludwig von Mises, *The Ultimate Foundation of Economic Science*, p. 82.

38. *Ibid.*, p. 82.

39. *Ibid.*, p. 82.

40. *Ibid.*, p. 81.

41. *Ibid.*, p. 73.

42. See, for example, Robert William Fogel and Stanley L. Engerman, *Time on the Cross* (Boston: Little, Brown, and Company, 1974).

43. Ludwig von Mises, *The Ultimate Foundations of Economic Science*, p. 41.

44. Ludwig von Mises, "The Science of Human Action," in Frank Hahn and Martin Hollis, eds., *Philosophy and Economic Theory*, p. 58.

45. *Ibid.*, pp. 58–64. Mises invented the term "economic praxeology" (the study of economic praxis?). And he uses it in a most eccentric fashion to refer to the logic of subjective thinking. "Praxeology" does not exist as a philosophical discipline. There are no recognized "praxeologists." Furthermore, praxis means activity and it means ability acquired through activity. Hence, praxis is the opposite of subjective knowing. Yet this is not the meaning of "economic praxeology" as used by Mises. In fact, his meaning is nearly opposite of the accepted philosophical meaning of the root word "praxis."

46. Further discussion of Friedman's methodology is in Eugene Rotwein, "On 'The Methodology of Positive Economics,'" *Quarterly Journal of Economics* (November, 1959), pp. 568–70.

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47. Ludwig von Mises, *The Ultimate Foundation of Economic Science*, p. 42.

48. *Ibid.*, pp. 57–58. Further discussion is in Paul D. Bush, "A 'Radical Individualist's' Critique of American Institutionalism," *American Journal of Economics and Sociology*, 40 (April, 1981), pp. 139–47 and Paul D. Bush, "'Radical Individualism's' Philosophical Dualisms as Apologetic Constructs," *American Journal of Economics and Sociology*, 40 (July, 1981), pp. 287–98

49. Ludwig von Mises, *The Ultimate Foundations of Economic Science*, p. 40.

50. Paul D. Bush, "'Radical Individualism's' Philosophical Dualisms as Apologetic Constructs," pp. 294–95

51. Milton Friedman and Rose Friedman, *Free To Choose* (New York: Avon Books, 1979).

52. The political implications of government non-intervention in 20th century capitalism are discussed in Rick Tilman, "Ideology and Utopia in Milton Friedman," *Dissent*, 26 (Winter, 1979), pp. 69–77.

Long Terms Needed for Violent Career Criminals

RESEARCH WHICH PROVIDES an improved means of identifying the relatively small number of criminals who commit an exceedingly large amount of violent offenses has been reported by Jan and Marcia Chaiken of the Rand Corporation, working for six years under a National Institute of Justice grant.

The Chaikens' latest two studies were based on interviews with and an analysis of the criminal histories of 2,190 prison and jail inmates in California, Texas, and Michigan. In "Varieties of Criminal Behavior: Summary and Policy Implications," they said the most serious category of offenders, the violent career criminal, "usually committed the three defining crimes (robbery, assault and drug-dealing) at high rates, and they often committed burglaries, thefts and other property crimes at high rates too—sometimes at higher rates than any other type of criminal, including those who specialized in such crimes."

The Chaikens said that the only effective way to deal with this "violent predator" was imprisonment. Sentimentalists will attack this as "warehousing" society's misfits but at the same time they will countenance the isolation of typhoid carriers and victims of Hansen's disease (leprosy). The analogy is the same.

In "Selective Incapacitation," Peter Greenwood of the Rand Corporation, using the same survey data, developed a scale to identify low, medium and high rate burglars or robbers. Some variables related to the two-year period preceding the current arrest: incarcerated more than half the time, heroin or barbiturate use, employed less than half the time. Others related to case history: a prior conviction for the same crime, juvenile conviction before age 16; commitment to a state or federal juvenile facility; heroin or barbiturate

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