

An Austrian Perspective on the History of Economic Thought

Tony Endres

Murray N. Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought Vol I* and *Classical Economics: An Austrian Perspective on the History of Economic Thought Vol II*, Edward Elgar Publishing 1995 (pp. xvi, 528, ISBN 185278 962)

These two volumes run to over one thousand pages in total and would, on the face of it, make any reviewer's task difficult. However, the themes developed in Rothbard's version of the history of economic thought from the ancient Greeks to the decline of classical economics in the 1860s are straightforward and made explicit from the outset. Rothbard's history produces some radical interpretations of economic theory and economic theorists - interpretations which are reached with the aid of a modern Austrian perspective on economics. It bears repeating that Rothbard's perspective of Austrian economics is one of several that have been taken by those sympathetic to modern Austrian economics. And as we shall see, Rothbard's version is an extreme one which turns out to be quite damaging when it is turned to account for the history of economic thought.

Rothbard expressly parades his perspective unashamedly from the outset: "this perspective is grounded in what is currently the least fashionable though not the least numerous variant of the Austrian School: the 'Misesian' or 'praxeologic'" (I, vii). Rothbard's contribution might, unfortunately, be seen as a substantial Austrian response to surveys of the history of economic thought from a 'surplus' or Italo-Cambridge perspective (e.g., Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, (CUP, 1973) or from a neoclassical, general equilibrium perspective (e.g., Samuel Hollander, *Classical Economics*, Blackwell, 1987). There are now available numerous histories of economic thought on specialised topics, and specific contributors or episodes from surplus and neoclassical standpoints, but the Austrians have been slow to reinterpret the whole gamut of the history of economic theory. The modern Austro-American market process theorists have instead been busy writing and reassessing the history of Austrian economics in the light of their current theoretical preoccupations (e.g., Kirzner 1994, Vaughn 1994).

In executing his task Rothbard has produced two volumes which are highly jaundiced and purblind. His penchant is to treat the personal, historical, religious and philosophical background to any past writer's work, as well as its economic-theoretic content. Deep analytic insights into the history of theory using the tools of modern economics *à la* Blaug, Niehans, Negishi or Samuelson are avoided, probably because these so-called insights are informed and structured by "the reigning Walrasian-Keynesian neoclassical formalist paradigm" (I, x) in modern orthodox economics from which Rothbard wishes to distance himself. He rails against the "Great Man" approach to writing the history of economics, although this complaint is now rather stale and trite because this practice is now rare. What is offered, by contrast, in these volumes is a survey of "the cut-and-thrust of history itself, the context of ideas and movements, how people influenced each other, and how they reacted to and against one another" (I, vii-ix). There is purportedly "more human drama" (xiii) to be reported in these volumes than might be found in other, drier, histories of economic theory.

In the first volume which discusses economic thought from the ancient Greeks to Adam Smith, Rothbard wishes to pay tribute to those writers who seemed to have contributed to two mandatory themes:

- (i) ideas which were supportive of laissez-faire and
- (ii) ideas which could in some way be considered proto-Austrian on Rothbard's terms.

Both (i) and (ii) are, for Rothbard, universal "economic truths". Conversely, "a history of economic thought cannot confine itself to the growth and development of economic truths. It must also treat influential error, that is, error that unfortunately influences later developments in the discipline." (I, 9). Rothbard subsequently fumigates against *any* figure in the history of economics who is suspected of departing from his universal economic truths. For example, on Rothbard's terms, good Austrian economics is not mathematical and has no place for quantification. So Pythagoras of Samos has his contribution to economic thought dismissed because it pointed to the quantification of economic phenomena; in Pythagoras's work we have "the embryo of the burgeoning and overwhelmingly arrogant mathematical economics and econometrics of the present day" (I, 10). Later William Petty's attempts at quantification are interpreted as "an arrogant frenzy of enthusiasm for quantitative and mathematical study" (302). There follows some bizarre judgements on the pioneering work of King and Davenant on the relationship between the demand and price of wheat in the seventeenth century: these pioneers are viewed as precursors to the "quantophrenic folly of modern economics" (312). Furthermore, Bernoulli's mathematical formulation of the diminishing marginal utility of money is denounced because his use of mathematics necessarily leads to the distortion of reality (380).

Not surprisingly, given Rothbard's "truths", Plato is criticised for his collectivist leanings, but Aristotle's fragmentary remarks on money are exemplary because they are viewed as "predating parts of the economics of the Austrian School" (17). For more dispassionate discussion of Greek thought the work of Barry Gordon and Todd Lowry is to be preferred to Rothbard's survey which is obsessed with a search for Austrian precursors. Rothbard's (1976) earlier work on the pre-history of Austrian economics is elaborated at great length in subsequent chapters on economic thought during the Middle Ages and the Renaissance, including a careful exposition of late Spanish scholasticism. Here Rothbard updates Emil Kauder's *A History of Marginal Utility Theory* (Princeton 1965). Rothbard's sketches of the religious background to economic thought are a strength of this first volume, one which is carried over into the second volume on classical economics.

Chapter's eight and nine on seventeenth century French mercantilism and the French liberals present some important new material especially on Colbertism in France and on the work of many 'minor' thinkers (de Laffemas 236, Montchretien 240, du Noyer 241, C. July 257, du Chastelet 258, Vanban 262, Fleury 263). The work of "laissez-faire utilitarian", Seigneur de Belesbat is given much discussion because of his "sensitive appreciation of the role of individual entrepreneurs" and his "libertarianism" (both modern Austrian economic 'truths' in Rothbard's schema, 270-77). Richard Cantillon becomes Rothbard's Great Man. His is dubbed the "founding father of modern economics" (344). In fact, the French liberal economists pre-dating Cantillon "despite their diversity, must be set down not as pre-Ricardian, but as 'proto-Austrian', that is, as forerunners of the individualistic, micro, deductive, and subjective value approach that originated in Vienna in the 1870s" (345). Cantillon apparently employed the Misesian method which made thought experiments central to the economist's reasoning (348); "foreshadowing the Austrians, Cantillon was largely interested in price formation in the real world" (349); he emphasised the role of the entrepreneur under conditions of uncertainty, thereby avoiding the "Ricardian, Walrasian and neoclassical trap of assuming that the market is characterised by perfect knowledge" (351).

Further, Cantillon "provides the first hints of the later Austrian theory of the business cycle" simply because he understood that "expanding credit lower[s] the rate of interest" (357). For Rothbard, Cantillon's greatest claim to fame is his work on free trade because it had a "laissez-faire direction" (359).

Rothbard continues *ad nauseam* throughout both volumes in the same vein: any writer who gives a hint of concentrating on "the proper individualistic, micro and subjective value" (361, emphasis added) aspects of economic theory is given disproportionate space and fawning attention. Now, as regards the contribution of Cantillon, and later in the text, "the brilliance of Turgot" (387), this reviewer remains unconvinced that Cantillon and Turgot articulated a doctrine which must be claimed as proto-Austrian. In an important article on the methodology of the history of ideas, Quentin Skinner (1969:10) described the enterprise on which Rothbard seems to have embarked as "the mythology of doctrines": "As the historian duly sets out in quest of the idea he has characterised, he is very readily led to speak as if the fully developed form of the doctrine was always in some sense immanent in history". In the history of economic thought according to Rothbard's version, many figures failed to articulate elements of the true or proper doctrine (according to his mandatory themes) because of ignorance or deliberate suppression. Thus "Adam Smith deflected economics, the economics of the Continental tradition beginning with the medieval and later scholastics and continuing through French and Italian writers of the eighteenth century, from a correct path, and on to a very different fallacious one" (361, emphasis added). There is much in the chapters on the Physiocrats and the Scottish enlightenment to admire as far as detailed consideration of 'minor' figures is concerned, but the material is organised and judged too rigidly in terms of whether or not there was support for laissez-faire or a proto-Austrian element.

The treatment of Adam Smith at the end of the first volume is a travesty. Here Rothbard trumps Schumpeter's harsh treatment of Smith in *History of Economic Analysis* (New York, 1954). Rothbard's target is the "complacent miasma of Smith-worship" in late twentieth century scholarship; in setting his objective Rothbard strays from providing a systematic analysis of the contents of the *Wealth of Nations* in conjunction with Smith's early writings on moral philosophy, rhetoric and jurisprudence. Instead we are treated to a lengthy biographical statement which begins by suggesting that Smith suffered from "amnesia"; Smith forgets to cite the influence of his mentor Francis Hutcheson (435). Smith was an "inveterate plagiarist" and he "had a Columbus complex" (437). Moreover, "Smith was oblivious to important economic events around him: much of his analysis was wrong, and many of the facts he did include in the *Wealth of Nations* were obsolete and gathered from books 30 years old" (444). Smith is accused of the fantastic crime of being "able to blind all men, economists and laymen alike, to the very knowledge that other economists, let alone better ones, had existed and written before 1776" (436). Rothbard evidently did not read as far as Book IV of the *Wealth*: the contributions of the Physiocrats and Mercantilists are discussed at length there.

Smith's value theory is approached from the vantage point that it "led to Marxism", therefore it was "an unmitigated disaster" (448, 501). Smith's theory of distribution was "as disastrous as his theory of value" (458) and his theory of capital and the determinants of savings is criticised because it does not incorporate a concept of time preference - a notion which was, of course, provided much later by the Austrians (458). The implausible argument that Smith had no idea of the functions of entrepreneurs is repeated indefatigably throughout these volumes (I, 459-60; II xi, 86, and 430). Rothbard should read Pesciarelli (1989). On taxation Smith was apparently an advocate of "the soak-the-rich policy of progressive income taxation" (467). I find no textual evidence in support of this claim. As for Smith's celebrated canons of taxation in Book IV of the *Wealth* these are summarily dismissed as "banal" and "fallacious" because they entail a level of public finance above zero! For the only trenchant 'Austrian' studies of Adam Smith, historians of economics, and historians of social and

political thought must resort to reading the superb contributions of Friedrich Hayek; there is precious little by Austrians on Smith, though Laurence Moss (1976) comes close to offering an 'Austrian' perspective in his review of Samuel Hollander's *Economics of Adam Smith* (Toronto, 1973).

In the second volume on classical economics Rothbard continues as before; he searches for approximations to his mandatory themes, and as before he must dig deep to bring to the fore many 'minor' theorists. Adam Smith's "errors and wilful neglect of his own forbears" (II, 3) did not mislead Jean Baptiste Say. While he was a populariser of Smith, Say becomes, in Rothbard's hands, a "praxeologist" (12, 42) who exposed "the fallacies of the mathematical method in economics" (17) and who expressed "laissez-faire and libertarian" views (40). Compared with his study of Smith's contribution, Rothbard writes with an easy limpidity on Say. Like many of his heroes in the history of economics, Rothbard expresses disappointment that Say slips on some crucial points. For instance, "Say proceeds to fall prey to [the]... Galbraithian trap by attacking luxury and ostentation, and by maintaining that 'real wants' are more important to the community than 'artificial wants'" (21). Now this a very un-Austrian attitude for J.B. Say! As Skinner (1969: 10) maintained, and as this reviewer is bound to repeat, this (Rothbard's) method of writing the history of economics produces a mythology: to paraphrase Skinner, if J.B. Say meant to articulate everything that is constitutive of Austrian doctrine (with which he is being credited by Rothbard) why is it that he is so signally failed to do so on some fundamental points (such as consumer sovereignty)? As Skinner argues "the only plausible answer is of course fatal to the claim itself; that the author [J.B. Say in this case] did not (or even could not) have meant after all to enunciate such a doctrine."

There is a brief discussion of Malthus's ideas on population - nothing on his political economy, and the chapter on Bentham is subtitled "the utilitarian as big brother". David Ricardo's theory of distribution was aggregative (80); he ignored entrepreneurship (82); his attention was on long-run equilibrium and macro-income distribution (81); and his methodology was "essentially 'verbal mathematics'". On all these points Ricardo does not fare well in Rothbard's history. If only Ricardo had made "use of mathematics [since this would] have revealed the fallacious assumptions of the model" (79). Any other economists who used mathematics was previously denounced by Rothbard. Rothbard does not have one kind word for the economics of Ricardo, Marx or J.S. Mill. The chapters on Marx and Marxism are for the most part light reading on political history and political theory; there is little formal economic analysis, even verbal analysis.

The biography of Marx, as expected, reduces to character assassination. Rothbard's misuse of biography exhibits all the pernicious consequences of employing biography to shed light (or otherwise) on why a certain figure adopted a particular line of economic thought. Rothbard would have done well to have read Stigler (1976), before proceeding down this path. The following examples from Rothbard should suffice: "Marx expresses both his megalomania and his enormous thirst for destruction" (738); Marx, who was "the self-proclaimed enemy of the exploitation of man by man, not only exploited his devoted friend Friedrich Engels financially, but also psychologically" (341). Marx was one of many "spongers and cadgers" who, throughout history "affected a hatred and contempt for the very material resource he was so anxious... to use so recklessly" (340). There follows a study of Marx's economic theory which cannot be taken seriously because it contains hasty dismissals and readily applies to Marx's propositions terms such as error, glaring holes, absurd, flawed. One illustration should suffice. Responding to hints of the notion of 'underconsumption' in Marx, Rothbard expresses the following view:

"underconsumption is a totally flawed theory, whether used to explain cyclical crises or permanent depression. In the first place, savings do not 'leak out' of the economy; they are spent on vitally important investments... More

importantly, as in the case of every crazy theory, the price system quietly drops out of the picture and we are left with such aggregate juggernauts as 'production' and 'consumption' facing each other" (340).

It would be misleading to suggest that the bulk of the second volume is made up of a diatribe against all leading classical economists to the exclusion of all else. For if there is any merit in this volume it takes the form of detailed studies of the ideas of many 'lesser' classicalists in the nineteenth century: Craig, Jefferson, Lloyd, Longfield, Lawson, Butt, Bastiat, Bailey, Banfield, Senior, Walker, Perry, Rau, Macleod, Hearn, Donisthorpe and Rae. On one point or another each one of these figures anticipated the subjective value revolution of the 1870's and the Austrian variant on that revolution in particular, or they favoured *laissez-faire*. The three chapters on monetary and banking thought in the nineteenth century constructed around the bullionist controversy, the *bullion Report* and the return to gold, and the currency school debates are Rothbard's crowning achievements. These chapters bring to light some important individuals who would not otherwise feature in shorter histories of monetary debates during this period. There is also important material on "monetary and banking thought on the continent" (216-221, 266-270).

At the close of the second volume on classical economics we are treated to a full blown study of the "French *laissez-faire* school". John Stuart Mill's work is treated brusquely much earlier in this volume; the summary treatment being justified on personal grounds since Mill was a "woolly minded man of mush" (277). There is no discussion of Mill's important *On Liberty* (1869), - a work which other Austrians, especially F.A. Hayek, regarded highly.

Overall these imposing volumes are disappointing; they are the outcome of an extreme version of Austrian economics. Historians of economics will balk at the virulent biographical sketches which are used to 'assassinate' many leading contributors to the discipline *before* their economic thought is expository. Usually these expositions are unsystematic except where the figure has made remarks which might be construed as having something in common with one or other of Rothbard's 'Austrian' themes. With much hyperbole Rothbard criticises Samuel Hollander for "absurdly attempt[ing] to torture Smith into the mould of a thoroughly consistent, formalistic, proto-Walrasian modern general equilibrium theorist". And he adds, inaccurately, that Andrew Skinner's and Tom Wilson's *Essays on Adam Smith* (Oxford, 1975) is full of contributions in the "new Hollanderian mould of hagiography" (I, 530). Would that Rothbard had recognised his own hagiographic practice in respect of Cantillon, Say, and the French *laissez-faire* theorists. Has Rothbard any sense of irony? For he tortures all the figures in the history of economics in a more barbarous manner than those historians of economics he criticises.

Rothbard establishes an ideal type economic doctrine from the outset of the first volume. The hallmark of his approach to the history of economic ideas is a remorseless search for approximations to the ideal type. The outcome is a form of non-history which is almost entirely given over to pointing out earlier 'anticipations' of later 'Austrian' doctrines, and to crediting each favoured writer in terms of this clairvoyance. Any figure who fails to produce a recognisable element of the doctrine conforming to Rothbard's ideal type, to the mandatory themes as presented earlier in this review, is then criticised for failing to do so.

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