

What Austrian Economics Can Teach Historians

Thomas E. Woods Jr.

Published online: 22 November 2008
© Ludwig von Mises Institute 2008

Abstract Austrian economics is a valuable resource for historians. Scholars informed by Austrian insights can make better sense of historical phenomena, and can provide far better insight into economic history, than those who lack this background. It is impossible to understand events such as the Great Depression with the assistance of no theory at all, so it is essential that the historian adopt the correct one. Sound theory also prevents the historian from falling into a wide array of fallacies—about the stimulative effects of public works projects or the economic benefits of war, for instance—that have insinuated their way into so much scholarly and popular writing.

Keywords Economic history · Business cycles · War · Methodology

When in the early twentieth century history began to emerge in the United States as a professional discipline rather than merely an avocation to be pursued by amateurs and dilettantes, the ideal of objectivity was proposed as a central value of the historian's craft (Novick 1988). The historian, according to this ideal, should in assembling his narrative be committed above all to recording the objective truth, without allowing his own sympathies or allegiances to divert him from his solemn responsibility before the facts. He should be fair-minded and judicious, careful not to favor or unduly disparage any one side.

Eager to make history into a respectable science, some historians made explicit reference to the empiricism of Francis Bacon—who, they said, advocated approaching the object of study without any preconceived ideas, content to consult empirical data and observation as unmediated raw material. Some defenders of the ideal of objectivity went to the extreme of expressly disavowing *all* preconceived ideas in their approach to the past. Edward Cheyney criticized the practice of “beginning the examination of historical facts... with any theory of interpretation.”

T. E. Woods Jr. (✉)
Senior Fellow, Ludwig von Mises Institute, Auburn, Alabama
e-mail: woods@mises.org

Instead, he argued, the “simple but arduous task of the historian was to collect facts, view them objectively, and arrange them as the facts themselves demanded.” An honest and competent historian was capable of producing a record of facts that “when justly arranged interpret themselves” (Novick 1988, pp. 38–39).

But no record of facts, no matter how judiciously arranged, interprets itself. “History,” wrote Ludwig von Mises, “cannot be imagined without theory. The naïve belief that, unprejudiced by any theory, one can derive history directly from the sources is quite untenable.... No explanations reveal themselves directly from the facts” (2003, pp. 107–08).

An epistemological dualist, Mises denied that methods appropriate to the natural sciences could be employed in the social sciences, where man, rather than inanimate objects, was the object of study. For one thing, the historian did not have the natural scientist’s advantage of a laboratory in which he could observe the consequences of isolating a single factor. “Historical experience,” Mises wrote, “is always the experience of complex phenomena, of the joint effects brought about by the operation of a multiplicity of elements” (Mises 1957, p. 208; Mises 1949, p. 31). With laboratory methods unavailable to him, if he was to make sense of historical events the historian could not approach his subject with his mind a *tabula rasa* but instead needed some acquaintance with social theory, lest he be overwhelmed by data he was helpless to interpret. “The ‘pure fact’—let us set aside the epistemological question whether there is such a thing—is open to different interpretations. These interpretations require elucidation by theoretical insight” (Mises 1990, p. 10).

Against the German Historical School and all manner of positivists since, Mises held that there were laws of economics that transcended time and place, and that could be derived by deduction from the so-called action axiom (which holds that human beings act) along with certain subsidiary postulates. Although the laws thus derived were exact, Mises believed that economic analysis was necessarily qualitative rather than quantitative, and that it was a category mistake to expect from them the quantitative precision of physical laws. Because these laws were absolutely true, moreover, they were not subject to revision or rejection on the basis of historical data, which in any event involved the confluence of a multiplicity of events, some amplifying others and some working at cross-purposes with others.

Economic theory, said Mises, is “the indispensable tool for the grasp of economic history. Economic history can neither prove nor disprove the teachings of economic theory. It is on the contrary economic theory which makes it possible for us to conceive the economic facts of the past” (Mises 1990, pp. 11–12). To approach economic history in the absence of theory would surely not bear fruit:

Nowadays [1929] the economic historian seeks to emancipate himself from theory altogether. He disdains to approach his task with the logical tools of a developed scientific theory and prefers to content himself with the small measure of theoretical knowledge that today reaches everyone through the newspapers and daily conversation. The presuppositionlessness of which these historians boast consists, in reality, in the uncritical repetition of eclectic, contradictory, and logically untenable popular misconceptions, which have been a hundred times refuted by modern sciences. (Mises 2003, p. 110)

Mises suggested to his students the example of the comings and goings of people at New York's Grand Central Station (Mises 1957, p. xiv; 1990, pp. 48–49). A purely empirical analysis of this phenomenon would amount to a record of human movements hither and thither, a veritable crazy quilt of data that would shed no light whatever upon the events it studied. Yet if we understood that the human actors we were observing were purposeful beings who aimed at certain ends, we would discover in short order that this seemingly uncoordinated series of movements amounted in most cases to people traveling from their homes to work and back again.

Some level of rudimentary theory—even if at times only a basic understanding of cause-and-effect relationships—is unavoidably present whenever any historian practices his craft. Technically, history comprises anything that has happened in the past—that is to say, its raw data consists of everything that has ever occurred. It is only based on a level of understanding that transcends the raw data that the historian may sensibly discriminate between events that belong in his narrative and those that do not, or whose exclusion would not affect the coherence or accuracy of his account.

A sound theoretical grounding is all the more critical in the study of economic history, for this is a case in which two disciplines meet. Economic historians are typically more knowledgeable about economics than are historians with other specialties, but it is usually the latter who write textbooks for classroom use. Lacking any grounding in economic theory, when such historians inevitably reach those parts of their narratives that require them to delve into economic history they typically adopt whatever appears to be the consensus view of the episode in question, or even whatever view is most in accord with their own political prejudices.

By bringing theoretical knowledge to his study of the past the historian is not approaching his field in a spirit of partisanship that might prejudice his scholarly work. He is merely equipping himself with the kind of intellectual apparatus without which historical scholarship can become either a sterile catalogue of discrete occurrences or—in the hands of an incorrect theory—a misleading record of the past whose poor analysis may encourage unwise policies in the future. No scholar can shed light on economic history if, in a discussion of events A and B, he believes A causes B when A actually inhibits B, or if he does not know the relationship that exists between A and B when in fact a relationship does exist between them. Lacking the proper knowledge in a case like this is sure to lead the historian, and the reader, to erroneous conclusions. One Austrian economist argues that “the benefits to be gained from the study of political economy and philosophy by the historian” include the knowledge he gains “of pure—*a priori*—social theory, which enables him to avoid otherwise unavoidable errors in the interpretation of sequences of complex historical data and present a theoretically corrected and ‘reconstructed,’ and a decidedly critical or ‘revisionist’ account of history” (Hoppe 2001, p. xix). This is how knowledge of Austrian economics can assist the historian.

A monetary history of the United States not informed by sound economics, for instance, would be perfectly useless. The colonial period alone, in which countless newspaper editorials and men of prominence repeatedly urged that a “scarcity of money” in the colonies be resolved by the introduction of paper money (Rothbard 2002, pp. 52–53), is perilous ground for a scholar lacking economic knowledge. The argument in favor of government-issued paper currency as a remedy for a purported

scarcity of money appears with such frequency in colonial times that modern historians, lacking any theoretical reason to hold a position to the contrary, have often accepted it at face value.

The Austrian School holds that since the purpose of money is to facilitate exchange, a process that is neither enhanced nor inhibited by its greater or lesser supply, any supply of money above a certain threshold is optimal. Increasing the supply of money serves only to dilute the value of the monetary unit. Its consequences are only negative: distribution effects, calculation problems, even the erosion of traditional moral norms (Woods 2005, pp. 94–97). The historian informed by Austrian economics will therefore be skeptical of historical claims of “shortages of money,” as well as of the effectiveness or wisdom of paper money as an appropriate remedy for that alleged problem.

The Austrian historian also possesses his school’s theory of the business cycle. No historian worth reading would discuss, say, the Great Depression without so much as a word about what may have caused it. But he can scarcely expect to accomplish that task without the assistance of theory. Murray Rothbard (1983, p. 11), speaking about the historical study of business cycles, wisely cautioned: “Study of business cycles must be based on a satisfactory cycle theory. Gazing at sheafs of statistics without ‘pre-judgment’ is futile.”

Thus the Austrian historian knows that artificially low interest rates created by the central bank’s injections of new money into credit markets deform the economy’s capital structure and interfere with the interest rate’s normal function of coordinating production across time. The artificially low rates, by artificially stimulating earlier or higher-order stages of production, create an unsustainable mismatch between future-oriented investment plans on the part of entrepreneurs and present-oriented consumption plans on the part of consumers. When confronted in history with an economy-wide downturn, therefore, the Austrian historian knows to turn his attention to monetary factors.

In addition to understanding the *causes* of the initial downturn, the Austrian historian is also better equipped to think about the recession or depression itself. The recession or depression, he understands, is not the problem *per se*, but rather the necessary if unfortunate correction process by which the malinvestments of the boom period, having at last been brought to light, are liquidated. Unpleasant as it is, the recession is in fact the period in which the economy restores itself to health, sloughing off and redirecting (where possible) the misdirected capital of the boom. The diversion of resources into unsustainable investments that are out of conformity with consumer desires and resource availability swiftly ceases as unsound investment projects are abandoned.

The Great Depression presents the historian with two truly fundamental questions: what caused the initial downturn, and why did that downturn last as long as it did? For the first of these, as we have seen, the Austrian historian benefits from his knowledge of the Austrian business cycle theory. For the second, he has the advantage of still other insights, each of which leads him to ask the right questions about the historical data. An especially important such insight is that for prosperity to be restored, prices and wages must be permitted to fluctuate freely. Interference with either one of these will hamper the adjustment process, which consists of the reallocation of capital and labor into those lines that most correspond to consumer desires.

The Austrian understands the market's tendency to clear, and thus when it fails to do so, and (among other things) surpluses of labor sit idle for years at a time, he becomes interested to uncover any exogenous impediments to the natural adjustment he expects from the unhampered market. This is not the place to recount in detail all the ways in which government inhibited recovery from the Great Depression, a task that has been ably performed elsewhere (Powell 2003; Rothbard 1983; Vedder and Gallaway 1993, pp. 74–149; DiLorenzo 2005, pp. 156–205; Higgs 2006). In brief: prices and wages, far from being left free to fluctuate, were frozen or otherwise manipulated by government or (later) by the trade associations established under the aegis of the National Recovery Administration. The unmistakably antibusiness posture of Franklin Roosevelt and his advisers also appears to have delayed the recovery, as few entrepreneurs were willing to risk their capital in a radically uncertain environment. Still other policies—sweeping tax increases, special privileges for labor unions, the increased labor costs created by Social Security—likewise inhibited recovery.

Each of these factors is a datum of history, but connecting them to the persistence of the Depression requires knowledge of economics. It likewise requires that the historian understand the nature of wages, and that increasing them through threats of state violence is not a way to provide laborers with more “purchasing power” and thus restore economic prosperity—as indeed just about every mainstream historian takes for granted. Artificial wage increases lead to less employment than otherwise, as simple demand-curve analysis makes clear; and as Jacob Viner put it, “An unemployed laborer has no purchasing power at all, however high may be the wage rate he would get if he had a job” (Phillips et al. 1937, p. 225). (“It would be very nice,” said another critic, “if simply by doubling or tripling all wage rates overnight, we could end the depression, but its effect would be rather to make unemployment complete rather than partial” [Phillips et al. 1937, p. 229].)¹

Still another Austrian insight—or, at least, a point particularly emphasized by Austrians—that can inform sound historical judgments involves the importance of evaluating contrary-to-fact scenarios. Such scenarios involve consideration of what events might have occurred had a particular action not been taken. Had someone not spent his money on a turkey sandwich, for instance, he might have spent it on a ham sandwich, a salad, or on nothing at all, preferring to save his money instead.

More to our purpose would be a case such as this, drawn from the popular press (and even, in some cases, from the professional economics literature): the government institutes minimum-wage legislation, or increases an already-existing minimum wage and, contrary to the warnings of the economists, employment does not fall, and either remains stable or increases. Such employment data, it is alleged, refutes the claim that the minimum wage causes unemployment.

Again, much has been written about the epistemological status of economic laws from an Austrian point of view, and whether or not the data of history can overturn them. Our point here, while not unrelated to that larger question, is more modest: employment under the minimum-wage regime, even if higher than it had been before the legislation was imposed, was still lower than it would

¹ Vedder and Gallaway (1993) discuss the purchasing-power theory of wages in considerable detail.

have been in a contrary-to-fact scenario in which no increase in the minimum wage had taken place.

Or suppose we read that at some moment in the nineteenth century half of the New England textile industry had been destroyed in a horrific natural disaster, but we also read that the price of textile products was unchanged in the aftermath of this catastrophe, we would not be justified in concluding from this experience that supply has no effect on price. It is precisely because we possess a theoretical grasp of economic concepts that we know how to interpret—or at least how not to interpret—a case like this. Some other factor must have offset the supply cut in order to keep prices stable. And we know that the price of textile products was nevertheless higher than it would have been had this disaster not occurred (here again the counterfactual scenario aids in analysis).

Guido Hülsmann (2003, p. 93) has proposed that “economic science, as a science, begins with Frédéric Bastiat, who stressed the counterfactual relationship between what is seen and what is not seen in human action.” Bastiat has himself been described as an Austrian or proto-Austrian on a variety of grounds, not least for his emphasis on counterfactuals. Thus a scholar of Bastiat sums up his major methodological point: “In their trade, economists must rely on deductive theoretical analysis (the unseen) and must not rely on history and statistics (the seen)” (Thornton 2001, p. 393).

Anyone, Austrian or not, can of course evaluate contrary-to-fact scenarios. But the central importance of the contrary-to-fact scenario in the conduct of economic inquiry is fundamental to the theoretical apparatus that informs the Austrian’s thought. Economics, said Mises, was the best-developed branch of praxeology, the science of human action. Praxeology begins with the incontestable axiom that human beings act, and develops economic concepts in light of the implications of human action. One such implication of human action is the concept of cost, which in turn is intimately bound to counterfactual analysis (Woods 2005, p. 17). Since the human body is as subject to the constraints of scarcity as any other economic good, and since those constraints limit an actor’s ability to pursue more than one course of action at a time, all human action involves cost—namely, the action that is necessarily foregone when the actor chooses a particular course of action. In other words, when an actor performs *a*, he does so at the expense of performing *b*. According to Mises, cost “is an element in any kind of human action, whatever the particular features of the individual case may be. Cost is the value of those things the actor renounces in order to attain what he wants to attain; it is the value he attaches to the most urgently desired satisfaction among those satisfactions which he cannot have because he preferred another to it” (Mises 1949, pp. 209–10). From a very early point in praxeological analysis, then, we come face to face with the seemingly obvious but easily overlooked fact that the act of choice always carries some cost: the next-most-valued end that was not taken because the most-valued end was. Because one thing was done, another thing that *might have been done* was not.

Particular historical episodes, and their evaluation by historians, demonstrate the value of economic counterfactuals in the study of history. One of the New Deal policies that historians have most consistently supported—objecting only that it did not go far enough—is the public-works projects that were designed to provide employment for the jobless. Here, the implication goes, is a program on which all

people of good will can agree. In addition to creating jobs, these programs provided important economic stimulus both in their mobilization of resources and in the money they made available to previously unemployed working men, who could now stimulate the economy through the spending that was now possible for them thanks to the income they received from these government-provided jobs.

Here is where the importance of contrary-to-fact scenarios is especially clear. If people are taxed \$10 million to fund some government project, they now have \$10 million less to spend on things they need. That decline in spending will cost other people *their* jobs, since taxpayers are now less able, to the tune of the \$10 million taken from them, to carry on their previous consumption patterns. Economists John Joseph Wallis and Daniel K. Benjamin (1981, p. 97) have estimated that the public-sector jobs “created” by the New Deal’s make-work programs either simply displaced or actually destroyed private-sector jobs.

Henry Hazlitt invited his readers to imagine a bridge project. We can see the bridge being built, and we can see the people doing the building. “The employment argument of the government spenders becomes vivid, and probably for most people convincing,” he wrote. “But there are other things that we do not see, because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the \$10 million taken from the taxpayers. All that has happened, at best, is that there has been a diversion of jobs because of the project. More bridge builders; fewer automobile workers, television technicians, clothing workers, farmers” (Hazlitt 1946, p. 33).²

The very existence of the bridge, says Hazlitt, is usually enough to win the argument “with all those who cannot see beyond the immediate range of their physical eyes.” They can see the bridge, the direct consequence of the program, but they cannot see the indirect consequences: all the things that were never able to come into existence because the necessary resources were diverted to the bridge, like “the unbuilt homes, the unmade cars and washing machines, the unmade dresses and coats, perhaps the ungrown and unsold foodstuffs.” Someone who understands how to assess both the direct and the indirect consequences of government programs—the seen and the unseen, the action that was taken and the actions that might have been taken instead—can see these things in the eye of his imagination, but “to see these uncreated things requires a kind of imagination that not many people have” (Hazlitt 1946, p. 34).

The Austrian historian likewise knows that on net these programs impoverished society, and did not, in a zero-sum game, simply divert jobs from some people to others, or capital from some projects to others. In the private sector, resources must be employed in line with consumer preferences if entrepreneurs wish to see a profit. Otherwise they make losses and must either change their business plans or see their capital slip out of their possession and into the more capable hands of those who are more adept at forecasting consumer demand and allocating capital accordingly. Government lacks this crucial feedback mechanism, since its revenue comes not by satisfying consumers but by the coercive means of taxation. Without having to pass the profit-and-loss test to which the private sector is always exposed, it can never know how relatively efficient or destructively uneconomic its projects are. How much of something is needed, if indeed it is needed at all? Where should it go? What materials should be used? Government cannot answer even these most basic questions

² Thanks to Joe Salerno for reminding me of Hazlitt’s chapter on make-work programs.

of resource allocation in anything but an arbitrary manner, as Mises argued in *Bureaucracy* (1944). Transferring resources from the private to the public sector, therefore, necessarily involves taking capital out of the hands of those who have shown themselves capable of satisfying demonstrated consumer preferences most efficiently, and placing it in the hands of an institution that has no way of knowing consumer preferences in the first place, much less how to satisfy them at the lowest cost.

Although its importance to historians may not be as immediately clear as that of Austrian monetary or business cycle theory, or some of the other examples raised here, the arguments in Rothbard's (1956) important article "Toward a Reconstruction of Utility and Welfare Economics" are still relevant to their discipline. Rothbard begins by emphasizing the subjective nature of value, and that utility cannot be measured, or compared across individuals. It makes no sense for someone to say that he likes his iPod 524.7 times as much as he likes moo goo gai pan, or that he enjoys talking a walk 3.1 times as much as another person does. Now if value is purely subjective, how can we know objectively whether an economic exchange has improved its participants' well-being? According to Rothbard, we are justified in concluding that an exchange has made people better off when both parties voluntarily enter into the exchange. The exchange would not occur in the first place unless each participant believed the exchange would make him better off. An exchange between persons A and B will take place if A prefers B's orange to his own apple, while B prefers A's apple to his own orange. We know that each person valued the other one's good more than his own because we see their preferences demonstrated in action, in the form of their voluntary exchange of the goods. This is Rothbard's concept of "demonstrated preference."³

This insight carries weighty consequences for national income accounting (Rothbard 1983, Batemarco 1987). The Gross Domestic Product is determined for a given year by adding the dollar amounts of private consumption, investment, government spending, and net exports. GDP figures are typically cited as a kind of shorthand for a country's economic well-being, even if they are admittedly not a measurement of national prosperity. But if voluntary exchanges are the only ones in which we can say for certain that the participants' well-being has increased, the inclusion of government expenditures, which being financed by taxation involve not voluntary exchange but coercion, calls GDP into question as a reliable proxy for a country's prosperity, defined as the well-being of the consumers who comprise it.

Rothbard suggested that government expenditures be altogether excluded from national income accounting, on the grounds that government spending constituted a depredation upon, rather than an addition to, national product. ("Any person who believes that there is more than 50% waste in government will have to grant that our assumption is more realistic than the standard one" [Rothbard 1983, p. 296].) In place of GDP figures, Rothbard proposed instead what he called private product remaining (PPR), which he arrived at by first "deducting 'product' or 'income' originating in government and 'government enterprise'—i.e., the payment of

³ Strictly speaking, we mean to say that in an *ex ante* sense the exchange has improved someone's well-being. It is possible that with the passage of time he may come to regret the exchange; it is also possible that he made a means-ends miscalculation, incorrectly believing that the good or service he acquired in the exchange would help him attain some end when in fact he later discovered that it was not suitable for that purpose.

government salaries—from Gross National Product.” This figure is the Gross Private Product, from which Rothbard then deducted the resources that government activity drained from the private sector—namely the larger of either government expenditures or receipts—to get the private product remaining in private hands, or PPR (Rothbard 1983, pp. 296–97).

If economists want an idea of the American standard of living today, therefore, or if historians want to uncover its fluctuations over time, both groups are therefore much better served by calculating PPR per capita rather than following the Department of Commerce and its figures for per capita GDP (Batemarco 1987, p. 185).⁴

Once again, insights like these can help the Austrian historian to avoid just the kind of error that historians lacking such training have been so prone to commit. Among the most egregious is the view that World War II was responsible for economic prosperity, and even for lifting the U.S. out of the Great Depression—a position that, if anything, is even more widespread than the conviction that public-works projects during the New Deal were an economic boon. Seymour Melman summed up the conventional view of World War II: “The economy was producing more guns and more butter... Americans never had it so good” (quoted in Higgs 2006, p. 68).

Insights from the Austrian School are especially helpful in this case, where carelessness and fallacy have combined to yield a conclusion—war makes us prosperous—as absurd as it is widespread. As we have seen, the Austrian has a particular interest in contrary-to-fact scenarios—in this case, what would have happened in the absence of the war? To what purposes might the pertinent resources have been employed? Second, equipped with Rothbard’s PPR concept, the Austrian places special emphasis on the health of the private economy, and wants to disaggregate the national accounting figures in order to discover the degree to which the alleged prosperity was actually felt by the ordinary person rather than simply by those with connections to government and who benefited directly from its expenditures.

The best and most systematic work in this area belongs to Robert Higgs (2006). Higgs argues that even prior to any acquaintance with theory, simple common sense should have warned us that something was seriously wrong with official GDP data during the war years.

Consider that between 1940 and 1944, real GDP increased at an average annual rate of 13 percent—a growth spurt wholly out of line with any experienced before or since. Moreover, that extraordinary growth took place notwithstanding the movement of some 16 million men (equivalent to 28.6 percent of the total labor force of 1940) into the armed forces at some time during the war and the replacement of those prime workers mainly by teenagers, women with little or no previous experience in the labor market, and elderly men. Is it plausible that an economy subject to such severe and abruptly imposed human-resource constraints could generate a growth spurt far greater than any other in its entire history? Further, is it plausible that when the great majority of the servicemen returned to the civilian labor force—some 9 million of them in the year following V-J Day—while millions of their relatively unproductive wartime replacements

⁴ The argument that government services, even if coercively funded, may still possess *some* value, is both raised and answered in Batemarco (1987, p. 185).

left the labor force, the economy's real output would fall by 22 percent from 1945 to 1947? (Higgs 2006, p. 105)

There cannot be meaningful national-product accounting without market prices, for only market prices reflect voluntary exchanges aimed at improving the well-being of each party. During World War II, on the other hand, the U.S. had a command economy full of distorted prices. "In a command economy," writes Higgs, "the fundamental accounting difficulty is that the authorities suppress and replace the only genuinely meaningful manifestation of people's valuations, namely, free market prices" (Higgs 2006, p. 68). The prices the U.S. government paid for the goods and services it bought were essentially arbitrary in that they had no foundation in consumer choice, as all other prices do. Recalling Rothbard's point about voluntary transactions as the only ones we can be sure improve consumers' well-being, we may conclude that the greater the government's coercive power over the economy, the less meaningful in terms of consumer welfare its output statistics become.

Additionally, the more of the economy that the government places into the command system, the more tainted by arbitrariness do the output figures become. During World War II, at least two-fifths of national output was part of the war economy, and large classes of the remainder were controlled in one way or another (and thus arbitrarily priced). The sum of a great many arbitrary, nonsense numbers yields only a gigantic, arbitrary, nonsense number. And yet professional economic historians have relied on nonsense numbers like wartime GDP figures in painting their picture of wartime prosperity. Higgs contends that "the apparent super-trend wartime boom in output was nothing but an artifact of an unjustifiable accounting system" (Higgs 2006, p. 105).

Those figures also obscure the performance of the private economy, which suffered a severe setback during the war and recovered only in 1946. Of course, the official data, for reasons related to our analysis above, tell us that the economy did very poorly in 1946, a time when we know there was great economic prosperity: private output increased by 30 percent that year alone—by far the most extraordinary single-year jump in private output in American history. That, an Austrian knows, is a much better indicator of prosperity: not how much the government is spending, but how much the civilian economy is producing.

These examples give the reader an idea of the advantages that a historian schooled in Austrian economics enjoys *vis-à-vis* scholars with no such background. They also reveal that objective history and history informed by theory are not mutually exclusive categories. Mises, who described history without theory as impossible, believed that history could be conducted objectively, arguing that "outstanding historians" had managed to "combine scientific aloofness in historical studies with partisanship in mundane interests" (Mises 1957, p. 301).⁵ It is not the case, therefore,

⁵ Still, Mises held it to be neither reprehensible nor a violation of the norm of objectivity for historians to exhibit sympathy with their own party or nation. "The postulate of scientific history's abstention from value judgments," he suggested, "is not infringed by occasional remarks expressing the preferences of the historian if the general purport of the study is not affected." Thus if a historian, speaking of an ill-prepared general from his own nation, says that the man was "unfortunately" not up to his task, the writer "has not failed in his duty as a historian." Likewise, the historian "is free to lament the destruction of the masterpieces of Greek art provided his regret does not influence his report of the events that brought about this destruction" (Mises 1949, p. 301).

that impartial scholars approach their subject armed with no theory at all, while those who wish to plead on behalf of a particular cause employ that theory most likely to vindicate their cause.

The use of theory in the study of history does not compromise the neutrality of the scholar in the face of historical testimony. To the contrary, no history worth reading can be written in the first place if the author divorces his work entirely from theory. Austrian economics in particular provides the historian with a theoretical apparatus that equips him with the ability to make disembodied statistics tell a coherent and accurate story.

References

- Batamarco, Robert. 1987. "GNP, PPR, and the Standard of Living." *Review of Austrian Economics* 1:181–86.
- DiLorenzo, Thomas J. 2005. *How Capitalism Saved America*. New York: Crown Forum.
- Hazlitt, Henry. 1946. *Economics in One Lesson*. New York: Crown. 1979.
- Higgs, Robert. 2006. *Depression, War, and Cold War: Studies in Political Economy*. New York: Oxford University Press.
- Hoppe, Hans-Hermann. 2001. *Democracy: The God that Failed*. New Brunswick, N.J.: Transaction.
- Hülsmann, Jörg Guido. 2003. "Facts and Counterfactuals in Economic Law." *Journal of Libertarian Studies* 17:57–102.
- Mises, Ludwig von. 1944. *Bureaucracy*. New Haven, Conn.: Yale University Press.
- Mises, Ludwig von. 2003. *Epistemological Problems of Economics*. Trans. George Reisman. Auburn, Ala.: Ludwig von Mises Institute.
- Mises, Ludwig von. 1949. *Human Action: A Treatise on Economics*, Scholar's Edition. Auburn, Ala.: Ludwig von Mises Institute, 1998.
- Mises, Ludwig von. 1990. *Money, Method, and the Market Process*. Ed. Richard M. Ebeling. Norwell, Mass.: Kluwer Academic Publishers.
- Mises, Ludwig von. 1957. *Theory and History: An Interpretation of Social and Economic Evolution*. Auburn, Ala.: Ludwig von Mises Institute, 1985.
- Novick, Peter. 1988. *That Noble Dream: The "Objectivity Question" and the American Historical Profession*. Cambridge: Cambridge University Press.
- Phillips, C.A., T.F. McManus and R.W. Nelson. 1937. *Banking and the Business Cycle: A Study of the Great Depression in the United States*. New York: Macmillan.
- Powell, Jim. 2003. *FDR's Folly*. New York: Crown Forum.
- Rothbard, Murray N. 2002. *A History of Money and Banking in the United States: The Colonial Era to World War II*. Auburn, Ala.: Ludwig von Mises Institute.
- Rothbard, Murray N. 1983. *America's Great Depression*. 4th ed. New York: Richardson & Snyder.
- Rothbard, Murray N. 1956. "Toward a Reconstruction of Utility and Welfare Economics". In *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises*. Ed. Mary Sennholz. Princeton, N.J.: D. Van Nostrand. Pp. 224–62.
- Thornton, Mark. 2001. "Frédéric Bastiat as an Austrian Economist." *Journal des Economistes et des Etudes Humaines* 11:387–98.
- Vedder, Richard K., and Lowell E. Gallaway. 1993. *Out of Work: Unemployment and Government in Twentieth-Century America*. New York: Holmes & Meier.
- Wallis, John Joseph, and Daniel K. Benjamin. 1981. "Public Relief and Private Employment in the Great Depression." *Journal of Economic History* 41(March): 97–102.
- Woods, Thomas E., Jr. 2005. *The Church and the Market: A Catholic Defense of the Free Economy*. Lanham, Md.: Lexington.