

Economic Categorization

I. Introduction.

Classification is the essence of the sciences of biology and chemistry. Without the genus and species concepts of the former, and the periodical table of elements of the latter, these disciplines would be very different enterprises. While it is of course a wild exaggeration to say that biological and chemical science consists of *no more* than cataloging, even contemplating this notion is a dramatic way of underscoring the crucial centrality of this mode of analysis to those bodies of learning.

In economics, matters are different. There is relatively little emphasis on sorting the various elements of the dismal science. However, it is our contention that taxonomy is important in this realm as well.¹ The present paper is devoted to a sorting out of the different elements of the dismal science. In section II we tackle the question of how the disciplines, and the schools of thought are to be characterized. Section III is devoted to a deconstruction of Austrian economics. In sec-

tion IV we deal with an objection to our thesis. We conclude in section V.

II. Classification schemes.

1. *The Journal of Economic Literature.*

Perhaps we do best to start with the mainstream *JEL* categorization in this regard. Here, the disciplines of economics are broken down as follows:

A - General Economics and Teaching
B - Schools of Economic Thought and Methodology
C - Mathematical and Quantitative Methods
D - Microeconomics
E - Macroeconomics and Monetary Economics
F - International Economics
G - Financial Economics
H - Public Economics
I - Health, Education, and Welfare
J - Labor and Demographic Economics
K - Law and Economics
L - Industrial Organization
M - Business Administration and Business Economics; Marketing; Accounting

¹Rothbard (2004, Ch. 13) places great emphasis on classification with regard to taxation and other violent interventions into the market. See also Lavoie (1982, pp. 169-83) and Ikeda (1997, pp. 245-47) in this regard. For another classificationist approach see Block and Cwik (2007).

William Barnett II is Chase Distinguished Professor of International Business and Professor of Economics, and Walter Block is Harold E. Wirth Eminent Scholar and Professor of Economics, both at the College of Business Administration, Loyola University, New Orleans.

N - Economic History
O - Economic Development, Technological Change, and Growth
P - Economic Systems
Q - Agricultural and Natural Resource Economics
R - Urban, Rural, and Regional Economics
Z - Other Special Topics

There is no controversy within the neoclassical economics world over this breakdown. This is remarkable, in that argument and debate are part and parcel of the dismal science.² However, Austrian economists³ have more misgivings about this than others. Not, we hasten to say, about the very idea of breaking down the larger world of economics into its constituent elements. If there is any chance of successfully wrestling complexity, it can only be done through a “divide and conquer” procedure: taking things a small bit at a time.

However, the *JEL* categorization ignores several Austrian insights. There are several leading theoreticians of this school of thought who have weighed in on this matter. Consider the following.

According to Mises (1998, p. 874):⁴

²There being none, let us offer several: this schema does not make comfortable room for experimental economics, behavioral economics, and the interdisciplinary overlap between economics and several other subject matters, such as biology (bio-economics) and psychology (psychological economics).

³To be intensively discussed below. At this point let us content ourselves by saying that the Austrian school features the contributions of Menger (1950), Bohm Bawerk (1959), Mises (1998) and Rothbard (2004).

⁴We owe this cite to Gérard Dréan.

Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. The catallactic problems cannot become visible if one deals with each branch of production separately. It is impossible to study labor and wages without studying implicitly commodity prices, interest rates, profit and loss, money and credit, and all the other major problems. The real problems of the determination of wage rates cannot even be touched in a course on labor. There are no such things as “economics of labor” or “economics of agriculture.” There is only one coherent body of economics.

In the view of Rothbard:⁵

... economics has become appallingly fragmented, dissociated to such a degree that there hardly *is* an *economics* any more; instead, we find myriad bits and pieces of uncoordinated analysis. Economics has, first, been fragmented into “applied” fields—“urban land economics,” “agricultural economics,” “labor economics,” “public finance economics,” etc., each division largely heedless of the others. More grievous still has been the disintegration of what has been confined to the category of “economic theory.” Utility theory, monopoly theory, international trade theory, etc., down to linear programming and games theory—each moves in its sharply isolated compartment, with its own hyperrefined literature. Recently, growing awareness of this fragmentation has led to vague “interdisciplinary” admixtures with all the other “social sciences.” Confusion has been worse confounded, with resulting invasive forays of numerous other disciplines into economics, rather than the diffusion of economics elsewhere. At any rate, it is somewhat foolhardy to attempt to inte-

⁵<http://www.mises.org/rothbard/mes/preface.asp> (preface to the revised edition, 1993). We are indebted to David Gordon for this quote.

grate economics with everything else before economics has *itself* been made whole. Only then will the proper place of economics among the other disciplines become manifest.

Here is Rogge's (1979, pp. 211-12) take on the matter:⁶

I would be prepared to argue that the practice of breaking up this useful discipline into agricultural economics, transportation economics, development economics, labor economics, urban economics, etc., has been productive of much mischief. Behind the shield of special circumstances and special knowledge, theories have been developed and given wide acceptance that would be regarded as patently absurd if they were put as a general model; policies have been developed and urged upon society that would be recognizably catastrophic if applied generally.

Now consider some specifics. First, macroeconomics, proper macroeconomics that is, is but a branch or an implication or application of microeconomics. Austrian Business Cycle Theory (ABCT) is based on disaggregated (or at least far more disaggregated) considerations, ideally on the choices of *individuals*, in sharp contrast to the Keynesian and monetarist schools, which sever micro from macro. The *JEL* system works well, then, for these schools of thought,⁷ but not for the Austrians.

⁶We thank Rich Wilcke for pointing us in the direction of this quote.

⁷According to Milton Friedman (Ebeling, 1974, p. 3) "... there was no such thing as 'Austrian Economics,' only good economics and bad economics." Continues Ebeling: "(This is) ... a rather unusual statement, because just a few weeks before he had been on public television and spent several minutes explaining the special characteristics of 'Chi-

Second, this applies too, to the severing of international trade from the domestic variety. For traditional economists, there is all the world of difference between the two. For the Austrians, apart from obvious institutional differences (different currencies),⁸ there are none.

Third, there are other sub-disciplines that do not deserve a category of their own. They constitute, merely, implications of basic economic principles. Included here would be

H - Public Economics
I - Health, Education, and Welfare
J - Labor and Demographic Economics
K - Law and Economics
L - Industrial Organization
M - Business Administration and Business Economics; Marketing; Accounting
O - Economic Development, Technological Change, and Growth
Q - Agricultural and Natural Resource Economics
R - Urban, Rural, and Regional Economics

What might an Austrian breakdown of this subject matter look like? This can only be speculative, since no survey of economists representative of this tradition has ever been done, but here is our estimate:

A - General Economics and Teaching
B - Schools of Economic Thought and Methodology

cago Economics.' Another argument against this view of Friedman: the widely accepted *JEL* categorization lists "B - *Schools of Economic Thought* and Methodology."

⁸But not trade barriers. There are numerous intra-national trade barriers: licenses, geographical limitations in countries such as Canada, etc.

C - Mathematical and Quantitative Methods

D - Microeconomics

- Macroeconomics and Monetary Economics

- International Economics

- Financial Economics

- Public Economics

- Health, Education, and Welfare

- Labor and Demographic Economics

- Law and Economics

- Industrial Organization

- Business Administration and Business Economics; Marketing; Accounting

E - Economic History

F - Economic Systems

It should be emphasized that we are not claiming that Austrians would object to the *JEL* classification *per se*. Economics must be broken down in some way for librarian purposes, and that seems as good a way as any. The objection to this way of categorizing things lies in that academic disciplines in universities are broken down roughly in accord with this categorization, and this isolates the fields far too much.

Of course, even for purposes of presenting material to students economic science must be broken down in *some* way. Not every course should be called plain old “economics.” Specialization and division of labor must be served here as elsewhere. Thus we offer the six way categorization, A to F, that appears above.

It is an interesting question as to how a purely Austrian graduate school would organize its courses. One reason for adhering to traditional breakdowns would be to render its graduates more acceptable on the job market. But suppose for some reason this was *not* a consideration. Thus, our suggestion.

2. *Schools of thought.*

Here are the schools of thought that together might be considered to comprise economics:

Austrian; Behaviorist; Cambridge, England; Cambridge, Massachusetts; Chicagoan; Classical;⁹ George-ists; German Historical School; Experimental; Feminist; Fiscalist;¹⁰ Game theory; Institutionalists; Keynesian; Lausanne; Manchester; Marxist (socialist); Mercantilist; Monetarist; Neo-Austrian; New Keynesians; Neo-Keynesian; Physiocrats; Post Keynesian; Pragmatists; Public Choice; Rational Expectations, Salamanca; Supply Side; Utilitarians; Walrasians.¹¹

Note, these are listed in alphabetical order. On what basis, apart from the present alphabetical organization, can these be organized?

Several possibilities spring to mind. One is political ideology: adherence to, or opposition against, laissez-faire capitalism and private property rights. Let us offer three choices: pro, neutral, con. Here is how we would place each of these schools of thought into these three options:

Pro:

Austrian; Chicagoan; Classical; George-ists; Lausanne; Manchester; Monetarist; Neo-Austrian; Physiocrats; Public Choice;

⁹Adam Smith, Adam Ferguson, David Hume, John Stuart Mill, Marshall.

¹⁰We are nothing if not inclusive.

¹¹For different but overlapping schemas, see <http://cepa.newschool.edu/het/thought.htm>; http://dmoz.org/Science/Social_Sciences/Economics/Schools_of_Thought/

Rational Expectations, Salamanca; Supply Side.

Neutral:

Experimental; Game theory; Utilitarians; Walrasians.

Con:

Behaviorist; Cambridge, England; Cambridge, Massachusetts; German Historical School; Feminist; Fiscalist; Institutionalists; Keynesian; Marxist (socialist); Mercantilist; New Keynesians; Neo-Keynesian; Post-Keynesian; Pragmatists.

We are in this section attempting to be reportorial, not confrontational. It is our expectation that adherents of these various schools of thought would agree with our assessment as to whether or not they support laissez-faire capitalism with very little state participation in the economy, or prefer an economic system with a significant amount of government intervention to cure so called “market failures.”¹²

Another way of organizing the economic schools of thought is on the basis of methodology. Here, there are again three options: praxeology, obscurantism and empiricism.

Praxeology:

Austrian; Game theory; Neo-Austrian; Salamanca.

Obscurantism:

Feminist; Marxist (socialist).

Empiricism:

Behaviorist; Cambridge, England; Cambridge, Massachusetts; Chicagoan; Classical; George-ists; German Historical School; Experimental; Fiscalist; Institutionalists; Keynesian; Lasuane; Manchester; Mercantilist; Monetarist; New-Keynesians; Neo-Keynesian; Physiocrats; Post Keynesian; Pragmatists; Public Choice; Rational Expectations, Supply Side; Utilitarians; Walrasians.

Here, we have in mind the question of which is prior; which wags which: the dog or the tail. In the empirical listing we include those schools of thought in which we see experiments, or “reality,” as the determinative factor. If for example, an econometric regression indicates that a price floor does not create a surplus, nor a price ceiling a shortage, then economists in this category would be willing to jettison basic supply and demand analysis. In the praxeological category we find dismal scientists who would tend to distrust any such empirical findings to a far greater degree than they would the economic logic underlying the analytics of supply and demand. For want of better terminology, we characterize as “obscurantist” those perspectives which admit neither logic nor empirical evidence.

III. Praxeological science, or Austrian economics.

The essence of Austrianism, its most distinctive characteristic by far, is its methodology. It is not for nothing that the best synonym for this school of thought is the Praxeological School, since praxeology is

¹²See this literature critical of the concept of “market failure”: Barnett and Block (forthcoming), Block (1983, 2003), Cowen (1988), De Jasay (1989), Hoppe (1989), Hummel (1990), Osterfeld (1989), Pasour (1981), Schmidt (1991), Sechrest (2004).

the method of the Austrians.

There are four elements to Austrian methodology. Each is essential in that each is a necessary part, but no one, two, or even three of them is sufficient; it takes all four to be sufficient. These are, in alphabetical order: 1) deduction; 2) methodological individualism; 3) methodological singularism (to uses Mises' less than felicitous term); and, 4) methodological subjectivism (in all its aspects). These four are so closely interconnected with one another, it is impossible to tease them apart. They logically imply, and are logically implied by, each other.

Of course, there is more to Austrianism than praxeology. There are also its implications and applications. Among these are its distinctively Austrian Business Cycle Theory, its emphasis on market process, its contribution to the debate over central planning (the socialist calculation debate), its divergent (from the mainstream of the profession) perspective on monopoly, its emphasis on entrepreneurship, and its pure time-preference theory of interest. But praxeology is, in effect, the centerpiece of the philosophy, the bull's eye of the target. These other (albeit very important) elements constitute, only, the surrounding areas. If the latter, somehow, vanished, the core of Austrianism would remain; it would be weakened, mightily, but it would still exist. In sharp contrast, if the core disappeared, but the periphery remained, it would no longer be Austrianism, even though it would still make a signal contribution to economics.

Rothbard (1976, p. 19) uses the word "praxeology" to wit: "Praxeology is the distinctive methodology of the Austrian School." This author understands that to mean the deductive or *a priori* method;

i.e., praxeology: deduction from apodictic truth. On the other hand, to Mises (1998, pp. 8, 3) praxeology is not a methodology, but rather the "general theory of human action," in which "economic or catallactic problems are embedded." What Rothbard means by praxeology is what Mises (1998, p. 35) refers to as "methodological apriorism," and that we in this paper refer to as deduction. Previously, we listed the four essential elements of Austrian methodology, one of which was deduction. We would have been more in keeping with Mises had we referred to the four essential elements of the method of praxeology, or of praxeological methodology, and listed them as: methodological apriorism, methodological individualism, methodological singularism, and methodological subjectivism.

IV. An Objection.

Boettke (2002) is of the opinion that what is unique about Austrian economics are none of these things, but, rather, "Information and Knowledge." However, his reasoning in this regard leaves something to be desired. He starts off his thoughts on this matter in a manner very congruent with that of the present authors (since we are in great sympathy with Rothbard on this issue): "Murray Rothbard (1962) emphasized the rejection of mathematical modeling and statistical inference as the basic tools of economic analysis. Rothbard, instead, focused on the consistent application of methodological individualism and methodological subjectivism. The defining characteristic, in other words, to Rothbard was the praxeological method—including a firm commitment to apriorism" (Boettke, 2002, p. 264).

But then, instead of showing why Rothbard was in error, Boettke cavalierly

dismisses him without any criticism whatsoever: “While not disputing the arguments put forth by Rothbard I want to suggest that perhaps Austrians ought to ground their argument for uniqueness not along methodological grounds, but instead in their analytical contributions to our understanding of the epistemic-cognitive properties of alternative institutional arrangements. It is this recognition of the contextual nature of the relevant economic knowledge that actors must work with within an economic system that represents the unique contribution of the modern Austrian school to our understanding of the price system and the market economy” (Boettke, 2002, p. 265). In other words, Rothbard sees the uniqueness of Austrianism in praxeology. Boettke, in contrast, looks to information and knowledge for this role. But, instead of saying why Rothbard is incorrect, he contents himself with noting Rothbard’s view to the contrary, and then goes on to discuss information and knowledge in this regard. We find this a most unsatisfactory state of affairs. We could follow Boettke’s path; here, we would note that he sees information and knowledge as at the core of Austrian economics, and then go on to wax eloquent about praxeology. We shall not do that. Instead, we will consider why information and knowledge are *not* the central characteristics of Austrianism.

But first, a clarification. We do not at all disagree with Boettke that a particular perspective on information and knowledge are *unique* to Austrianism. We only decline to follow him in his view that the Austrian analysis of these matters is *central* to this school of thought.

The views of Kirzner (1973) and Hayek (1937, 1945) in particular, who are the Austrian point-men on information

and knowledge, are not only unique to Austrians, but clearly preferable to alternative expositions.

Let us now return to our main criticism of Boettke; that even though the Austrian analysis of information and knowledge is unique to this school of thought, and even (vastly) preferable to all alternatives, it is still not *central*; it does not lie at the very core of Austrian economics.¹³ In order to demonstrate this, we offer the following two-part mental experiment: take Austrian economics as it is, whatever you think it is,¹⁴ and delete two different things from it in succession.

First, eradicate our unique perspective on information and knowledge, and along with it other elements of Austrianism associated with these phenomena, such as market process, the insight that markets are never ever in full equilibrium, etc. No doubt what remains after this radical surgery would render Austrianism a very different philosophy than before, and a much inferior product. However, it is our contention that at least with the praxeology left in, what remained would still be quintessentially *Austrian*.

Second, start again with basic Austrianism, whatever that is, and this time remove 1) deduction; 2) methodological individualism; 3) methodological singularism 4) methodological subjectivism, which together constitute the praxeological aspect of Austrianism. What would this school of thought be like absent these characteristics? There is no doubt that what would remain would still be prefer-

¹³For support of this contention, see Murphy (2003) and Rockwell (1995).

¹⁴Given subjectivism, it might well be at least slightly different for different practitioners.

able to mainstream neo-classical economic analysis (it would still retain our unique perspective on information and knowledge, and along with it other elements of Austrianism associated with these phenomena, such as market process, the insight that markets are never ever in full equilibrium, etc.) but it would no longer be *Austrian*. Now it would be an empirical economic science, acquiescing in the philosophy of logical positivism, along with every other school of thought in the dismal science. Its findings would no longer be a matter of apodictic certainty; rather, they would be held only tentatively, subject to alteration when the product of the next econometric regression analysis becomes available.

V. Conclusion.

We have argued that classification is very important, not only in the physical sciences, but also in economics. We rest our case.

REFERENCES

- Barnett, William and Walter Block (forthcoming). "Coase and Van Zandt on Lighthouses," *Public Finance Review*.
- Block, Walter. 1983. "Public Goods and Externalities: The Case of Roads," *Journal of Libertarian Studies*, 7 (Spring): 1-34.
- Block, Walter. 2003. "National Defense and the Theory of Externalities, Public Goods and Clubs," in Hans-Hermann Hoppe, ed., *The Myth of National Defense: Essays on the Theory and History of Security Production*, pp. 301-34. Auburn, AL: Ludwig von Mises Institute.
- Block, Walter and Paul Cwik. 2007. "Teaching Business Ethics: A Classificationist Approach," *Business Ethics: A European Review*, 16 (April): 98-107.
- Boettke, Peter J. 2002. "Information and Knowledge: Austrian Economics in Search of its Uniqueness," *Review of Austrian Economics*, 15 (4): 263-74.
- Bohm-Bawerk, Eugen. 1959 [1884]. *Capital and Interest*, George D. Huncke and Hans F. Sennholz, trans. South Holland, IL: Libertarian Press.
- Cowen, Tyler, ed. 1988. *The Theory of Market Failure: A Critical Examination*, Fairfax, VA: George Mason University Press.
- De Jasay, Anthony. 1989. *Social Contract, Free Ride: A Study of the Public Goods Problem*. Oxford University Press.
- Ebeling, Richard M. 1974. "Austrian Economics on the Rise," *The Libertarian Forum*, 6 (October): 3-6.
- Hayek, Friedrich A. 1937. "Economics and Knowledge," *Economica*, N.S., 4 (Feb): 33-54.

-
- Hayek, Friedrich A. 1945. "The Use of Knowledge in Society," *American Economic Review*, 35 (Sept): 519-30.
- Hoppe, Hans-Hermann. 1989. "Fallacies of the Public Goods Theory and the Production of Security," *Journal of Libertarian Studies*, 9 (Winter): 27-46.
- Hummel, Jeffrey. 1990. "National Goods vs. Public Goods: Defense, Disarmament and Free Riders," *Review of Austrian Economics*, 4 (1): 88-122.
- Ikeda, Sanford. 1997. *Dynamics of the Mixed Economy: Toward a Theory of Interventionism*. London and New York: Routledge.
- JEL Classification System: http://www.aeaweb.org/journal/jel_class_system.htm.
- Lavoie, Don. 1982. "The Development of the Misesian Theory of Interventionism," in Israel Kirzner, ed., *Method, Process and Austrian Economics: Essays in Honor of Ludwig von Mises*, pp. 169-83. Lexington, MA: D.C. Heath and Company.
- Kirzner, Israel M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press.
- Menger, Carl. 1950 [1871]. *Principles of Economics*, James Dingwall and Bert F. Hoselitz, trans. Glencoe, IL: Free Press.
- Mises, Ludwig von. 1998 [1949]. *Human Action*, Scholars' Edition. Auburn, AL: Ludwig von Mises Institute.
- Murphy, Robert P. 2003. "An Austrian in Grad School: Confronting the Mainstream," Ludwig von Mises Institute (July 28) (<http://www.mises.org/story/1285>).
- Osterfeld, David. 1989. "Anarchism and the Public Goods Issue: Law, Courts and the Police," *Journal of Libertarian Studies*, 9 (Winter): 47-68.
- Pasour, E. C. 1981. "The Free Rider as a Basis for Government Intervention," *Journal of Libertarian Studies*, 5 (Fall): 453-64.
- Rockwell, Llewellyn H. 1995. *Why Austrian Economics Matters*. Auburn, AL: Ludwig von Mises Institute.
- Rogge, Benjamin A. 1979. *Can Capitalism Survive?* Indianapolis: Liberty Fund.
- Rothbard, Murray N. 1976. "Praxeology: The Methodology of Austrian Economics," in E. Dolan, ed., *The Foundations of Modern Austrian Economics*, pp. 19-39. Kansas City: Sheed & Ward.
- Rothbard, Murray N. 2004 [1962]. *Man, Economy and State*, Scholar's Edition. Auburn, AL: Ludwig von Mises Institute.
- Schmidtz, David. 1991. *The Limits of Government: An Essay on the Public Goods Argument*. Boulder: Westview Press.
- Sechrest, Larry. 2004. "Public Goods and Private Solutions in Maritime History," *Quarterly Journal of Austrian Economics*, 7 (Summer): 3-27.
-