

EPISTEMOLOGICAL
PROBLEMS

OF ECONOMICS



Ludwig von Mises

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OF ECONOMICS

THIRD EDITION

Ludwig von Mises

Translated by George Reisman

Introduction to the Third Edition by Jörg Guido Hülsmann



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INTRODUCTION TO THE THIRD EDITION: FROM VALUE THEORY TO PRAXEOLOGY

Ludwig von Mises (1881–1973) is arguably the most important economist of the twentieth century, and one of the greatest social philosophers ever. He made a large number of lasting contributions to economic theory, yet his main achievement is in the elaboration of a comprehensive system of social analysis. Mises had started his career as a student of economic and social history and then became a top policy analyst and government advisor in his native Austria. He continued to pursue scientific research in his spare time, though, and increasingly turned to deal with problems of economic theory. When he became a full-time professor at the age of 53, he finally had the opportunity to put his various works together. At the end of his life, he had developed a general science of human action that today inspires a thriving school of followers.¹

The present book features the first outline of this general science of human action and, in particular, of Mises's views on the logical and epistemological features of social interpretation. Unique among his works and a milestone in the history of science, it contains those essays in which Mises refuted the theories of the thinkers to whom he felt the closest intellectual affinity, in particular, Carl Menger, Eugen von Böhm-Bawerk, and Max Weber. Mises

¹For an introduction to Mises's life and work see his autobiographical essay *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978). See also Margit von Mises, *My Years With Ludwig von Mises*, 2nd ed. (Cedar Falls, Iowa: Center for Futures Education, 1984); Murray N. Rothbard, *Ludwig von Mises: Scholar, Creator, Hero* (Auburn, Ala.: Mises Institute, 1988); Israel M. Kirzner, *Ludwig von Mises* (Wilmington, Del.: ISI Books, 2001).

here cleared the ground for later works, in which he further developed his theoretical system. It might therefore be especially interesting and useful for readers with a background in sociology or philosophy looking for a suitable initiation to Mises's thought.

Epistemological Problems of Economics was first published in German in 1933 and eventually appeared in an English translation in 1960. Most of its chapters had been published as journal articles between 1928 and 1931. In 1933, Mises added chapters one and seven and published the whole collection. The book focuses on two problems:

First, Mises argues that the Austrian theory of value, which had been developed by Carl Menger and his followers, is the core element of a general theory of human behavior that transcends the traditional confines of economic science. Value theory applies to human action at all times and places, whereas economic theory only applies to a special subset of human action, namely, to human action guided by economic calculation. In *Epistemological Problems of Economics*, Mises not only explains these fundamental distinctions and stresses that economics is just one part of a general theory of human action. He also ventures into the elaboration of this general theory, in particular, through the analysis of its central component—value theory. Mises contributes a thorough critique of the value theories of Carl Menger and Eugen von Böhm-Bawerk, and in several chapters of the book carefully refines and restates value theory.

Second, Mises argues that the general social science of which economics is the best-developed part has a rather unique logical and epistemological nature. In distinct contrast to the natural sciences it is not based on observation or any other information gathered through the human senses. It relies on insights about certain structural features of human action, such as the fact that human beings make choices or that they use self-chosen means to attain self-chosen ends. The validity of economic theory does therefore not stand and fall with empirical investigations. Rather, economic laws are a priori laws that cannot be confirmed or refuted by the methods predominant in the natural sciences. They exist independent of the

particular conditions of time and place, and the social scientist comes to know them through pure deductive reasoning.

These are the two central theses of the *Epistemological Problems of Economics*. In the next sections of the introduction, there will be a more detailed discussion to put them into their historical and doctrinal context. At this point, let us emphasize that the book is not, strictly speaking, a monograph on the epistemology of economics. Mises here deals with the two fields in which he felt the general theory of human action needed elaboration most, and only one of these two fields is epistemology, the other being value theory. The two-pronged orientation of the book was also reflected in the original German title: *Grundprobleme der Nationalökonomie*, which literally translates into “fundamental problems of economics” as well as in the original subtitle, which announced a work on the methods, tasks, and contents of both economic science and the general theory of society.² It is less well expressed in the title of the present English translation, which insinuates a somewhat one-sided focus on epistemology.³ Yet Mises did not object to the new title or any other parts of the translation, which first appeared in 1960⁴—reason enough to republish the book without any alterations except for the correction of orthographic errors.

²See Ludwig von Mises, *Grundprobleme der Nationalökonomie—Untersuchungen über Verfahren, Aufgaben und Inhalt der Wirtschafts- und Gesellschaftslehre* (Vienna: Julius Springer, 1933).

³The first draft of the translation was the work of an outstanding young student of Mises’s by the name of George Reisman. Mises then had Arthur Goddard revise the manuscript. Funding for the whole project came from the William Volker Fund. The publisher of the first edition was Van Nostrand. In 1981, New York University Press published a second edition, with a preface by Ludwig Lachmann.

⁴In fact he wrote in the “Preface to the English-Language Edition”: “The translator and the editor carried on their work independently. I myself did not supply any suggestions concerning the translation nor any deviations from the original German text” (p. lxix). George Reisman told the present writer that he suggested *Foundations of Economics* as the title of the English version. Thus we must assume the definitive title came from Goddard.

ECONOMICS—SOCIOLOGY—PRAXEOLOGY

Mises is probably best known to the broader public as the author of *Human Action*, the treatise in which he deals with the natural laws of human action. He pointed out that the science dealing with the laws of human action was first developed in a relatively narrow field, namely, in the field of human action guided by economic calculation based on money prices. The name of the new science was “political economy” and later “economics.” Whereas the writers of all previous ages had approached social reality from a normative point of view—asking how things *should* be—the economists had pioneered the causal explanation of social reality as it *was*, leaving aside the question how it should be. The economists were the first true social scientists because they knew how to deal with social affairs as matters of fact, just as the natural scientists studying the facts of nature.

In the second half of the nineteenth century, then, economic science began to be transformed into a general science of human action. The decisive event in this process was a breakthrough in the development of value theory. The classical economists—in particular the British labor-value school of Smith and Ricardo—had acknowledged that and the price of any given thing somehow depended on its utility; but they had been unable to determine the precise nature of this dependency and therefore insisted on labor-value as the proximate cause of market prices. Things changed radically with the development of price theories built on the principle of marginal utility. In the 1870s, a breakthrough came for these new theories when Carl Menger, Léon Walras, and William Stanley Jevons, working independently from one another, developed theories that traced back market prices to the relative utility of particular units of goods.⁵

⁵For predecessors of Menger, see the papers contained in *Wert, Meinung, Bedeutung: die Tradition der subjektiven Wertlehre in der deutschen Nationalökonomie vor Menger*, Birger P. Priddat, ed. (Marburg: Metropolis, 1997); for predecessors of Walras, see Robert Ekelund and Robert Hébert, *Secret Origins of Modern Microeconomics: Dupuit and the Engineers* (Chicago: University of Chicago Press, 1999).

The breakthrough had become possible because the three pioneers abandoned the aggregate approach of the classical school. Smith, Ricardo, and their followers could not tie up utility with market prices because they conceived of utility as a quality of an entire class of goods, for example, the “utility of water” or the “utility of coal.” By contrast, the pioneers of the marginalist approach emphasized that the utility of a good was always the utility of some individual unit of this good—the “marginal” unit—rather than the utility of the entire class. In other words, there was no such thing as the “utility of water” or the “utility of coal,” but only the “utility of one gallon of water at place x and time y” or the “utility of one ton of coal at place a and time b.”⁶

The discovery that economic goods were evaluated at the margin, rather than in one blob, went hand-in-hand with the discovery of another important principle, namely, the principle of subjectivism. Evaluation at the margin meant in fact nothing else but that there was some individual who did the evaluation. In other words, the marginal utility of an economic good depended essentially on the individual person *for whom* the marginal unit under consideration was useful.

Finally, the new theoreticians also discovered that the utility of the marginal unit depended on the available supply of the good in question, such that the marginal utility of a unit of a larger supply is smaller than the marginal utility of a unit of a smaller supply. This was the law of diminishing marginal utility.

The immediate significance of these discoveries was that market prices could now be explained in a more consistent way than on the basis of the British labor-value theory. But there were two more far-reaching implications that at first escaped the attention of the pioneers of the new approach.

⁶Notice that Carl Menger did not speak of utility, but of value. The concept of value has in his price theory more or less the same function as the concept of utility in the price theories of Jevons and Walras. Below, Mises’s very original concept of value will be discussed in more detail.

First, the old theory had not actually been a positive theory of observed market prices, but a theory of equilibrium prices. It was not so much an explanation of things that observably existed, but of things that *would* come to exist under special conditions. By contrast, the marginalist approach delivered an explanation of human behavior as it could be observed at any place and any time. It was in the full sense of the word a positive science of human action rather than a merely hypothetical science; and it was certainly no longer a normative science.

Second, the new marginal-utility theory explained human behavior in general; that is, both within and outside of a market context. The character of economic science had therefore completely changed. Before, it had by and large been a theory of the market economy—a theory of quantities exchanged on the market. The new marginal-utility theory turned it into a science that dealt quite generally with acting man.

It took a while until the champions of the new approach noticed these fundamental implications. Menger, Jevons, and Walras had at first more or less exclusively dealt with value, economic goods, and market prices. And the great majority of their immediate followers—among them Böhm-Bawerk, Wieser, Clark, and Wicksell—also concentrated more or less on the same issues. But some of these men and their students eventually saw the implications and started applying their science to problems outside the traditional confines of a more or less narrowly defined economic science. Most members of the Austrian School of economics ventured into more broadly conceived “sociological” studies, the only exception being Eugen von Böhm-Bawerk, who died in 1914, before the sociological wave had reached its peak.⁷ But Carl Menger dedicated

⁷Arguably Böhm-Bawerk’s economic analysis of legal rights is an exception. See his *Rechte und Verhältnisse vom Standpunkt der volkswirtschaftlichen Güterlehre* (Innsbruck: Wagner, 1881); reprinted in *Gesammelte Schriften*, F.X. Weiss, ed. (Vienna: Hölder, Pichler, Tempsky, 1924), pp. 1–126; translated as “Whether Legal Rights and Relationships are Economic Goods,” *Shorter Classics of Eugen von Böhm-Bawerk* (South Holland, Ill.: Libertarian Press, 1962), pp. 25–138.

the last 20 years of his life to extended sociological studies, although he never published any results.⁸ His disciple Friedrich von Wieser delved into the sociology of law, power, and leadership.⁹ And the two most prominent members of the third generation of the Austrian School, Ludwig von Mises and Joseph Schumpeter, followed in these footsteps.

Hence, Mises was one of the early economists in Austria who realized that Menger's marginal-value theory had a much wider range of applicability than mere "economic" phenomena such as market prices. He conceived of economics as a part of a more encompassing sociological theory at least from 1922, the year in which he published the first edition of *Gemeinwirtschaft*. There he distinguished the theoretical approach to social analysis from non-theoretical approaches, arguing that the former had been unduly neglected. Mises insisted that

the sociological-economical treatment of the problems must precede the cultural-historical-psychological. For Socialism is a programme for transforming the economic life and constitution of society according to a defined ideal. To understand its effects in other fields of mental and cultural life one must first have seen clearly its social and economic significance. As long as one is still in doubt about this it is unwise to risk a cultural-historical-psychological interpretation.¹⁰

In the first German edition from 1922, the introduction contained two additional sections that were dropped in subsequent editions, but which are particularly interesting in that they give us a clue to Mises's methodological and epistemological views of the early 1920s. Here he said:

⁸See Felix Somary, *The Raven of Zurich* (London: Hurst, 1960), p. 13.

⁹See in particular Friedrich von Wieser, *Recht und Macht* (Leipzig: Duncker and Humblot, 1910); idem, *Das Gesetz der Macht* (Vienna: Julius Springer, 1926).

¹⁰Ludwig von Mises, *Socialism* (Indianapolis: Liberty Fund, [1936] 1981), p. 22. This is the translation of the second German edition, which was published in 1932.

One cannot deal with the general sociological and the particular economic problems of Socialism without relating to the most important questions of sociology and economics. Our enquiry therefore willy-nilly extends into an essay on the main problems of our science. This concerns not so much any questions pertaining to economics—for which the catallactics of the modern subjectivist theory of value lends a firm point of departure—as it concerns the sociological questions. For the treatment of the latter there are no foundations as useful as those on which we can rely in the treatment of specifically economic questions. Sociology has not yet reached such a systematic comprehensiveness and such a methodological certainty that he who only deals with a special field could neglect the duty of trying to grapple with the basic questions.¹¹

Thus, Mises justified the rather general first part of his book, which dealt with such fundamentals as property, law, politics, democracy, and the family. More importantly for our present concerns, the quote also indicates how Mises conceived of the relationship between sociology and economics. It was in his eyes a hierarchical relationship between a more general discipline (sociology) and a more narrow part thereof (economics), which deals with particular cases of human action.

Mises would maintain this basic distinction for the rest of his life, and changed his views only in regard to terminology. During the early 1920s, Mises called the wider social science of which economics is a part “sociology” and only much later switched to “praxeology.”

In the early twentieth century, Germany had the most developed academic system in the world, but even in Germany there were not yet any positions for sociologists.¹² The very term “sociology” did

¹¹Ludwig von Mises, *Die Gemeinwirtschaft*, 1st ed. (Jena: Fischer, 1922), p. 11; my translation.

¹²The Austrian university system was even less developed. In particular, there was no program of courses dedicated to the study of economic science before 1919. All Austrian economists who graduated before 1919 were jurists who had chosen economics as their field of specialization.

not have any precise meaning. It had come into being in the mid-1800s as an invention of the French pioneer of positivism, Auguste Comte, who sought to displace the only existing social science—the “dismal science of economics” (Carlyle)—by an alternative framework of social analysis that would lead to more palatable political conclusions than the ones to which economics seemed to lead with inescapable stringency. After Comte, then, the term “sociology” became the rallying banner of a rather heterogeneous group of intellectuals who were merely united in the endeavor to displace economics.¹³ Among them were men such as Ferdinand Tönnies and Werner Sombart in Germany, and Emile Durkheim in France, who today are much celebrated. But there was also a sizable group of Austrian intellectuals who in 1907 established a Sociological Society in Vienna.¹⁴ In the interwar period, the most important Viennese sociologists of this anti-economist brand were Othmar Spann and Max Adler.

But as the case of Mises highlights, there were also other groups of intellectuals who, by the early 1920s, called themselves “sociologists.” By and large we can distinguish two such groups. The first one was composed of noneconomists who did not, however, reject the tenets of Cantillon, Hume, Turgot, Adam Smith, Ricardo, and Jean-Baptiste Say. What these men tried to do was to extend social analysis to other fields, and they excelled indeed in developing sociological theories of bureaucracy, religion, and art. Foremost in this group were Herbert Spencer, Georg Simmel, Max Weber, and Robert Michels.

The second group of non-Comtian sociologists was composed of economists who were convinced that their science was but one

¹³See Mises’s own judgment on these strands of sociology in the present book, chap. 1, sect. 3.

¹⁴Founding members of the Society were Max Adler, Rudolf Eisler, Rudolf Goldscheid, Michael Hainisch, Ludo Hartmann, Bertold Hatschek, Wilhelm Jerusalem, Josef Redlich, and Karl Renner. See Anton Amann, “Soziologie in Wien: Entstehung und Emigration bis 1938,” in *Vertriebene Verunft*, Friedrich Stadler, ed. (Vienna: Verlag Jugend und Volk, 1987), vol. 1, p. 219. Some of these men taught in Germany at the time. In 1910, a German sociological society was established under the leadership of Max Weber.

part of a more encompassing discipline. Although most nineteenth century economists were generalists of some sort, in that respect much different from their present-day followers, this orientation was especially common with the members of the French *laissez-faire* school, which had flourished in the mid-nineteenth century. Only his early death had prevented Frédéric Bastiat from writing a treatise on “social harmonies”—as a follow-up work on his *Economic Harmonies* (1850). But his follower Gustave de Molinari published a great number of monographs dealing with virtually all of the contemporary social and political problems of France, as well as with fundamental problems of social interpretation and with the sociology of religion.¹⁵ His writings had a decisive impact on one of the greatest champions of the new marginal-utility approach. The Italian economist Vilfredo Pareto was a disciple of Léon Walras and a great admirer of Gustave de Molinari. Right from his first systematic exposition of economic science in *Cours d’Economie Politique* (1896), Pareto applied Walrasian techniques of analysis to Molinarian themes. He applied marginal-utility theory and the theory of general equilibrium to explain spoliation, aristocracy and the circulation of elites, economic interests and class struggle, and the relationship between doctrines and social science. In later works, he amplified his investigation of these and other noneconomic phenomena.¹⁶

¹⁵For short biographies including lists of Molinari’s major publications, see Yves Guyot, “M.G. de Molinari,” *Journal des économistes*, new series, vol. 33 (Feb. 1912): 177–92; Ludwig Elster, “Molinari, Gustave de,” *Handwörterbuch der Staatswissenschaften*, 4th ed., 1925, vol. 6, pp. 615f. The more comprehensive biographical treatment is in David M. Hart, “Gustave de Molinari and the Anti-Statist Liberal Tradition,” published in 1981–82, in three parts in the *Journal of Libertarian Studies* 5, no. 3, pp. 263–90; 5, no. 4, pp. 399–434; and 6, no. 1, pp. 83–104.

¹⁶See, in particular, Vilfredo Pareto’s *Les Systèmes Socialistes*, 2 vols. (Paris, 1902); *Manuale di Economia Politica* (Milan, 1906); translated as *Manuel d’Economie Politique* (Paris, 1909); *Trattato di Sociologia Generale*, 3 vols. (Florence, 1916); translated as *The Mind and Society*, 4 vols. (New York and London, 1935); reprint in 2 vols., 1963. A good introduction to his sociology is in Pareto, *Sociological Writings*, selected and introduced by S.E. Finer (New York: Praeger, 1966).

Pareto is certainly the most spectacular case of an early marginal-utility economist-turned sociologist. But other marginal-utility thinkers also made notable contributions that helped to enlarge the scope of the new approach. This is the case in particular with two Anglo-Saxon economists: Frank A. Fetter in the United States and Philip Wicksteed in England.

In his *Principles of Economics* (1905), Fetter made a notable contribution in characterizing psychological gratification as a specific type of income, namely, “psychic income.”¹⁷ Fetter thereby generalized the hitherto economic-materialistic notion of income into a category pertaining to a much wider range of human behavior. He also clearly saw that economic analysis applied not only to a market context. Rather it was “the study of the material world and of the activities and mutual relations of men so far as all these are the objective conditions to gratifying desires.”¹⁸ But he did not make any further use of these insights and remained in his exposition of the theory strictly within the conventional limits.

Wicksteed learned his economics from Jevons and then became acquainted with the early writings of Pareto. Under their combined influence, he came to the conclusion that the new marginal-utility theory had transformed economics and turned it into a general theory that applied to all instances of human decision-making. Wicksteed first presented these views in his book *The Common Sense of Political Economy* (1910), which would eventually have a great impact on Lionel Robbins. It was from Wicksteed that Robbins learned to see in economics the science of economizing. Its proper subject was not prices and quantities, but human choice. Accordingly, Wicksteed agreed with Auguste Comte’s claim that economics should be developed as a part of sociology, the general science of human behavior.¹⁹ The point was that

¹⁷See Fetter, *Principles of Economics* (New York: Century, 1905), pp. 43 ff. See also his later work *Economic Principles* (New York: Century, 1915), vol. 1, pp. 22 ff.

¹⁸Fetter, *Principles of Economics*, p. 3.

¹⁹He actually prefaced his magnum opus, *The Common Sense of Political Economy* (1910), with the following quote from Auguste Comte: “L’analyse

the principle laid down by Jevons is not exclusively applicable to industrial or commercial affairs, but runs as a universal and vital force through the administration of all our resources. It follows that the general principles which regulate our conduct in business are identical with those which regulate our deliberations, our selections between alternatives, and our decisions, in all other branches of life.²⁰

Wicksteed succeeded better than Fetter in driving this point home in his analysis of nonmarket behavior, in particular, in his explanation of household planning and economizing. But like Fetter, he was primarily interested in the clarification of technical questions, not so much in the application of the theory to a wider range of issues.

The Austrian economists-sociologists occupied some sort of a middle ground between Pareto and the Anglo-Saxons. They published on sociological questions, but always in strict separation from their economic analyses. In the last 20 years of his life, Wieser was a dedicated student of the sociology of leadership. Yet in his treatise on economic science, while stressing the universal validity of marginal-utility analysis, he applied this approach only to more narrowly economic problems.²¹ And the views he propagated in his sociological works were not visibly derived from his economic theories. The same thing holds true for Wieser's disciple Joseph

économique proprement dite ne me semble pas devoir finalement être conçue ni cultivée, soit dogmatiquement, soit historiquement, à part de l'ensemble de l'analyse sociologique, soit statique, soit dynamique."

²⁰Philip Wicksteed, *The Common Sense of Political Economy*, edited with an introduction by Lionel Robbins (London: Routledge and Kegan Paul, [1910] 1932); reprint (New York: Augustus M. Kelley, 1967), p. 3. In his 1932 introduction to the book, Robbins called it "the most exhaustive non-mathematical exposition of the technical and philosophical complications of the so-called *marginal* theory of pure Economics" (ibid., p. xii) and said it could only be compared with Wieser's *Theorie der Gesellschaftlichen Wirtschaft*.

²¹See Friedrich von Wieser, *Theorie der Gesellschaftlichen Wirtschaft*, 1st ed., 1914; 2nd ed. (Tübingen: Mohr, 1924).

Schumpeter, who strictly separated his economics from his sociological essays. In his economic books he dealt with general equilibrium and its antipode, innovation and development.²² In sociology, he dealt for example with imperialism and social classes, but always without any visible connection to his economic analyses.²³

These examples illustrate that, at the beginning of the 1920s, the term “sociology” had no precise meaning other than “general social science.” There certainly was no such thing as a coherent body of tenets taught under this epithet. But after the death of Max Weber in 1920, German sociology slowly but steadily came under the influence of anti-theorists and of anti-economists in particular. Rather than analyzing human action in nonmarket contexts and thereby closing the gaps that economic science could not fill, sociologists increasingly saw the essence of their task in displacing economics through some other account of market phenomena. The word “sociology” thus became shorthand for anti-economics. It was this event that eventually prompted Mises to draw terminological consequences.

In “Sociology and History,” which he first published in 1929 as an article in the *Archiv für Sozialwissenschaften und Sozialpolitik*, he still clung to the old terms. Shortly thereafter he must have changed his mind and found that the word “sociology” was no longer acceptable. But he abhorred terminological innovations and refused to just make up some label of his own device. For several years he avoided using a label for the general theory of human action. In 1933, he called this theory simply “the science of human action.”²⁴ In 1940, in his German-language treatise on human

²²See, in particular, Joseph Schumpeter, *Wesen und Hauptinhalt der theoretischen Nationalökonomie* (Munich and Leipzig: Duncker and Humblot, 1908); idem, *Theorie der wirtschaftlichen Entwicklung* (Munich and Leipzig: Duncker and Humblot, 1911).

²³See Joseph Schumpeter, *Aufsätze zur Soziologie* (Tübingen: Mohr, 1953).

²⁴See chapter one of the present book, which was first published in *Grundprobleme der Nationalökonomie*. Interestingly, up until the early 1930s, Mises chose the category “sociologist” in which classify himself for the standard professional listing of German scholars, the *Kürschner’s Deutscher*

action, he called it “praxeology”—a term he had adopted from the French philosopher Alfred Espinas (1844–1922).²⁵ But so reluctant was Mises to deviate from established terminology that he published this treatise under the title “economics—theory of action and economizing.” Nine years later, when he published *Human Action*, he again avoided using the word “praxeology” in the title.

ECONOMIC CALCULATION AND PRAXEOLOGY

Above we have classified Mises as belonging to a broad group of “economists-sociologists” that distinguished itself from other groups of sociologists in the early twentieth century. Now we will proceed to dehomogenize Mises from the other members of this

Gelehrtenkalender. This category had been first listed in the 1928/29 edition. See Christian Fleck, “Rückkehr unerwünscht. Der Weg der österreichischen Sozialforschung ins Exil,” Friedrich Stadler, ed., *Vertriebene Vernunft*, vol. 1, pp. 194 f.

²⁵See Ludwig von Mises, *Nationalökonomie* (Geneva: Union, 1940), p. 3; *Human Action* (Auburn, Ala.: Mises Institute, [1949] 1998), p. 3. Mises here asserts that Espinas had first used the term *praxéologie* in “Les origines de la Technologie,” *Revue philosophique* 15 (July to December 1890): 113–35, in part pp. 114f.; and then also in his book *Les origines de la Technologie* (Paris: Félix Alcan, 1897), pp. 7 f. In light of more recent scholarship, however, it appears that Espinas was but one member of a whole group of early praxeologists and that his use of the term praxeology was predated by his contemporary Louis Bourdeau, *Théorie des sciences* (Paris: Librairie Germer Baillière, 1882), vol. 2. Another important member of this group was Maurice Blondel, see in particular his *L’Action—Essai d’une critique de la vie et d’une science de la pratique* (Paris: Félix Alcan, 1893). Although space limitations prevent going into any detail, it should be emphasized that these early praxeological studies have only faint resemblance to Misesian praxeology. Properly speaking there are therefore two praxeological traditions. Present-day followers of the early French school call themselves “praxiologists” and their discipline “praxiology.” These scholars, most of whom are academics from France and Poland, publish the series *Praxiology: The International Annual of Practical Philosophy and Methodology* (New Brunswick, N.J.: Transaction Publishers, 1992 ongoing); see in particular vol. 7, *The Roots of Praxiology: French Action Theory from Bourdeau and Espinas to Present Days*, V. Alexandre and W.W. Gasparski, eds., 2000.

group, arguing that what set Mises apart from his contemporaries and what, to the present day, sets his followers apart from virtually all other economists, is the issue of economic calculation.

Mises believed that economics was only a subdiscipline of praxeology dealing with the laws of human action in a system of private property of the means of production. What were these laws of human action that operated only in a private-property system? The characteristic feature of capitalism, Mises held, was that it enabled acting man to base his actions on a profitability calculus. Businessmen can compute the money prices they expect to receive for a product and divide these expected proceeds by the expected money expenditure related to the production of this product. And they can compare the expected profit rate of any investment project to the expected profit rate of all alternative projects. The selection of the projects that will bind the available resources, and prevent the alternative projects from being financed, can therefore be based on an evaluation of all alternatives in common quantitative terms.²⁶ In short, the money calculus of the businessman makes it possible for him to compare all conceivable choice alternatives in common terms. Thus he—or whomever adopts his point of view—is in a position to pass summary judgments on states of affairs involving physically heterogeneous goods.²⁷ One now can define “income”

²⁶Let us emphasize that the actual selection process *can* merely be based on the profitability calculus, without precluding any other decisions. Nothing prevents a businessman from building a social hall for his friends rather than a factory for his customers. Yet the benefit of the money calculus remains even in this case. For this calculus tells the businessman exactly how many of his resources were spent on his personal consumption—here: unpaid catering for his friends—rather than on the maintenance or increase of his capital.

²⁷It is not possible to say whether 1,000,000 gallons of milk are somehow more (or less) than the 1,000 cows that produce this milk, just as it is impossible to say whether a castle park is more (or less) than the 100 gardeners that brought it into shape. The reason is that all these things are heterogeneous and cannot therefore be compared quantitatively—the problem of adding up apples and oranges. For the same reason it is also impossible to tell whether using the cows to produce the milk is *more efficient* than using the gardeners to bring the garden into shape. But once all these things are

as “selling proceeds minus costs,” one can define “savings” as “income minus consumption,” and one can give exact and meaningful definitions of profit and loss, capital, etc.

Economic calculation thus produced a good number of phenomena that did not exist in other systems of social organization. To deal with these phenomena was the task of economic science. The discipline of economics dealt with human action to the extent that the acting person could base his decisions on personal value judgments *and* economic calculations, whereas praxeology dealt with human choices guided by personal value judgments alone.

By contrast, the characteristic feature of the non-Misesian economists-sociologists was their belief that economic calculation was possible even outside the framework of a market economy. Following herein the school of Smith they assumed that calculation in terms of market prices was nothing but a particular form of economic calculation. They disagreed with Smith only on the terms of calculation. Whereas the Scotsman had championed the idea that the most fundamental type of economic calculation relied on units of labor time, his neoclassical followers believed that the members of society could perform some sort of calculation in terms of value (utility). Thus they implicitly or explicitly assumed that subjective value (subjective utility) was quantifiable. And since subjective value was a universal element of human action, it followed that *all* theorems of economic science—the science of calculated “rational” action—had the same general applicability as marginal value theory. Categories such as saving, consumption, capital, profit, loss, efficiency, etc. were not just categories of the market, but of human action in general.

exchanged for money, we can make such quantitative comparisons, namely, by comparing their money prices. Depending on what these prices are, we can say that the milk exchanges for more (or less) money than the cows, and that the garden exchanges for more (or less) money than the services of the gardeners. And depending on the ratios of selling and buying prices (the profitability) we can assert that our money is more (or less) efficiently used in producing milk than in producing a castle garden.

It is not necessary to dwell long on the entirely fictitious nature of this approach. No human being actually performs a value calculus or a utility calculus. The imaginary “util” that is still presented in certain economics textbooks as the basic unit of the utility calculus is just that—a figment of the imagination. Consider however the implications of this approach for the general character of economic science. Any theory of economic calculation has to cope with the fundamental fact that the calculus (in terms, of money, or utils, or whatever else) does not in any way determine human behavior. The acting person *might* choose to consider the calculus the only criterion of his decision-making, but he might just as well not do so. How does Mises’s praxeology cope with this fact, and how is the fact handled by the non-Misesian approaches?

Praxeology handles it by a division of labor between the theory of value and the theory of the market economy. The latter deals with phenomena such as profit and loss that can only come into being in a context in which economic calculation is possible. The former deals with human decision-making in general, whether aided or unaided by calculus. Now, the important feature of praxeological value theory is that it is a *subjectivist* value theory. Its purpose is not to causally explain values, but to study the real-world repercussions of *given* values. It recognizes that human decisions are made under the impact of the subjective values cherished by the decision-maker, and that these values may be “rational” (reflecting objectively the best interest of the decision-maker) from some point of view, but may also appear emotive, irrational, short-sighted, etc. from other points of view.

Taking values as ultimate givens has certain scientific costs and benefits. The costs are obvious: the subjectivist perspective stops short of explaining the values themselves. Why does Joe Smith buy this book for 10 dollars? Because he buys it, we know that he values the book more than the money (and we also know various things about the repercussions of his subjective values on the system of market prices), but we ignore the origin of his values.²⁸ On

²⁸This does not mean that Mises held that the causal explanation of values was outside the scope of legitimate scientific inquiry. Rather, he held that

the other hand, the benefits are patent too. The subjectivist approach is a truly general and realist approach that applies to every single human action. It does not merely deal with “rational” choices reflecting “rational” values, but with all choices and values.

Now contrast this with the perspective of those economists who believe that economic calculation can be made in terms of utils. They too cannot get around the fact that the calculus does not in any sense determine human action. What is the significance then of marginal-utility theory, understood as a theory of calculated action? It means that this theory does not apply to just any human behavior, but only to those actions that would be observed if the acting person strictly followed the results of the utility calculus. From this point of view, therefore, economic science does not deal with human action *per se*, but only with *one aspect* of human action—“rational” action or “logical” action.

This was exactly the position espoused by Friedrich von Wieser, who was also consistent enough to advocate, in one of his rare

the causal explanation of values could never rely on praxeological laws, but must always rely on an historical understanding of the contingent features of the case under consideration. Praxeology and economics deal with constant (time-invariant) relationships between observed human behavior and other events; the specific cognitive act of learning about these laws is “conception.” By contrast, historical research seeks to give an account of the unique or contingent (that is, time-variant) features of any given case of action; the specific cognitive act on which it relies is “understanding.” Mises presents this distinction in chapter three of the present book. Later he elaborated it in much more detail in *Theory and History* (New Haven, Conn.: Yale University Press, 1957; 3rd ed., Auburn, Ala.: Mises Institute, 1985). Here he finally integrates and combines his work on the epistemology of economics with the works of Windelband, Rickert, and Weber, who had elaborated the concept of “understanding” to characterize the epistemological nature of historical analysis; see Wilhelm Windelband, *Präudien*, 8th ed. (Tübingen: Mohr, 1922), vol. 2, pp. 136ff.; Heinrich Rickert, *Kulturwissenschaft und Naturwissenschaft*, 3rd ed. (Tübingen: Mohr, 1915); Max Weber, *Gesammelte Aufsätze zur Wissenschaftslehre*, reprint (Tübingen: Mohr, [1992] 1988). For an excellent introduction to Mises’s views on the interaction between conception and understanding in social analysis, see Joseph T. Salerno, “Introduction,” Murray N. Rothbard, *A History of Money and Banking in the United States* (Auburn, Ala.: Mises Institute, 2002), pp. 7–43.

methodological statements, the use of fictional “idealizing abstractions” such as the *homo oeconomicus*.²⁹ Pareto too was quite explicit in championing this view. In his eyes, the theoretical social sciences deal mainly with “logical actions” rather than with human action in general.³⁰ And although he placed a little less emphasis than Wieser on the central idea of utility calculus, he was quite explicit in stating that market prices are just helpful “auxiliary variables” used to solve fundamental economic equations. These equations are the same in each economic system—they do not depend on the political organization of society—and their ultimate elements are individual tastes and obstacles.³¹ Similarly, Philip Wicksteed presented economic theory as dealing, not with exact economic laws, but with only one aspect of human behavior. Marginal-utility theory, he held, was only concerned with “economic facts” and “economic relations” that “perpetually played into” other factors determining human behavior, namely, what Wicksteed called the “non-economic relations.”³² Marginal-utility theory determined human behavior only to the extent that the person under consideration acted in “an impersonal capacity.”³³

²⁹See Friedrich von Wieser, “Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie—kritische Glossen,” in *Gesammelte Abhandlungen*, F.A. Hayek, ed. (Tübingen: Mohr, [1911] 1929).

³⁰See Vilfredo Pareto, *Manuel d'économie politique*, reprint (Geneva: Librairie Droz, 1966), chap. 2, §§1–18. Pareto is a subjectivist only in the sense that he recognizes the subjectivist character of the *goals* of human action (see *ibid.*, chap. 3, §29 f.), which is why he strictly distinguished between (objective) utility and (subjective) “ophelimity.” Yet Pareto’s subjectivism stops short when it comes to dealing with the *means* of action because here he professes to consider only the case of “logical action.”

³¹See *ibid.*, chap. 3, §152.

³²See Wicksteed, *Common Sense*, pp. 4 f. This was also the position of Böhm-Bawerk. See Mises’s critique in the present volume, pp. 185ff.

³³Wicksteed, *Common Sense*, p. 5. From Pareto, he took over the abortive notion that individual utilities (“ophelimities”) were quantifiable and that, in general equilibrium, the utilities of all goods coincided—that is, that they then were the same (see, for example, *ibid.*, pp. 6 f., 37). Clearly this presupposes some sort of measurability or quantification. Also, along the lines of Jevons and Wieser, Wicksteed continually shifted in his presentation of economic science as a positive theory and a normative theory. One expression of

To sum up, Mises recognized that subjective value (utility) theory could explain every single instance of conscious behavior; in particular, it also explained noncalculated action. Thus it had generalized economics in the sense of transforming the former theory of *homo oeconomicus* into a theory of *homo agens*. By contrast, the other economists-sociologists believed that utility theory only explained calculated (logical, rational) behavior. They believed it was a “general” theory of human action because utility was a factor determining every single human action; but still it was just one factor next to several other factors, and thus utility theory explained human behavior only from one (pervasive) point of view. In short, economics was still the theory of *homo oeconomicus* it had already been in the hands of the classical economists. Only the habitat of its protagonist was not confined to the market place—*homo oeconomicus* now lived in all places.

This has remained the dividing line in the present day between the Misesians on the one hand, and a distinguished group of thinkers in the Paretian lineage, in particular Gary Becker and the present-day movement he has inspired. It also accounts for the fact that Misesians markedly deviate from the present-day mainstream when it comes to explaining phenomena such as growth, monopoly, welfare, the relationship between law and economics, money, conflict, etc. It is their different take on the nature and scope of economic calculation that makes Misesians reluctant to use social utility functions, or to conceive of money as a *numéraire*.

TOWARD A GENERAL THEORY OF ECONOMIC CALCULATION: THE CONTINGENCY OF ECONOMIC CALCULATION

We have seen that Mises’s vision of praxeology was squarely rooted in his views about the scope and nature of economic calculation. Accordingly, the theory of economic calculation was from his

this confusion is his claim that scales of preferences can be inconsistent (see pp. 33 f.). Today this is called the problem of transitivity or the problem of the rationality of choice.

point of view not just some chapter in better economics textbooks, but a centerpiece of the social sciences. In *Epistemological Problems of Economics*, he highlights for the first time this significance of economic calculation for the architecture of economic science. In the 1940s, then, he would present his *general theory of economic calculation* as one of the main building blocks of praxeology.

The general theory of economic calculation was the result of several decades of research. It is the one red thread running through all of Mises's important theoretical contributions starting in 1912. In what follows we will trace back the milestones of this development. First, we will deal with Mises's analysis of the problems of economic calculation in socialist regimes, and in particular with the *scientific* (rather than the political) implications of this analysis. Then we will take a somewhat closer look at Mises's contribution to value theory, through which he provided the underpinnings for his general theory of economic calculation.

The best-known element of Mises's theory of economic calculation is without any doubt the socialist-calculation argument. Mises presented it in a 1920 paper on "Economic Calculation in the Socialist Commonwealth,"³⁴ in which he defended two propositions:

One, socialist societies could not rely on an economic calculus of the sort known from market economies, because entrepreneurial calculations are based on money prices for factors of production.

³⁴See Ludwig von Mises, "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen," *Archiv für Sozialwissenschaft und Sozialpolitik* 47 (1920): 86–121; translated as *Economic Calculation in the Socialist Commonwealth* (Auburn, Ala.: Mises Institute, 1990). The literature on Mises's argument, on the ensuing debate, and on the later modification of the argument through F.A. Hayek and Lionel Robbins is considerable. For an overview and some discussion, see David Ramsey Steele, *From Marx to Mises* (La Salle, Ill.: Open Court, 1992); Joseph T. Salerno, "Why Socialist Calculation is 'Impossible,'" Postscript to Mises, *Economic Calculation in the Socialist Commonwealth*; Hans-Hermann Hoppe, "Socialism: A Property or Knowledge Problem?" *Review of Austrian Economics* 9, no. 1 (1996); Jörg Guido Hülsmann, "Knowledge, Judgment, and the Use of Property," *Review of Austrian Economics* 10, no. 1 (1997); Peter Boettke, ed., *Socialism and the Market: The Socialist Calculation Debate Revisited*, 9 vols. (London: Routledge, 2000).

But money prices for factors of production cannot exist in socialism because prices can only come into existence in exchanges, and exchanges presuppose the existence of at least two owners. Now, the very nature of socialism—and, as it were, its usual definition—is that all means of production are under a unified control. They all belong to one economic entity: to the collective, or the socialist commonwealth, or the state, or however else this entity might be called. The crucial fact is that, from the economic point of view, there is in any socialist regime only one owner of all factors of production. Consequently, no factor of production can here be exchanged. Further, there can be no money prices for factors of production in such regimes. And therefore no socialist community can allocate its factors of production on the basis of an economic calculus, such as is known from capitalism.

Two, there were no other means of performing an economic calculus. Economic calculation required money prices for factors of production, and it could therefore only come into existence where factors of production were privately owned.

The *political* implications of Mises's case for the impossibility of economic calculation in a socialist regime were more or less obvious. If Mises were right, all-out socialism would not be a viable political option. Only capitalism or some mixed economy that accommodated the free market remained on the political menu. However, Mises's socialist-calculation argument also had a much greater *theoretical* significance than was apparent to most economists in the 1920s and 1930s, and unfortunately even today. It was a first and decisive step toward building economic science on completely different foundations than those dominant in the economic mainstream.

Most economic theoreticians believe in the possibility of some sort of a utility calculus that informs human beings about the bottom-line impact of their action. These theoreticians admit that the industrial leaders of society *usually* base their decisions on some sort of profitability calculus in terms of money prices. But these calculations could be made equally well in other terms. In short, the political constitution of society has no impact on the ability of their

economic leaders to calculate the bottom-line of the various investment opportunities. Capitalist entrepreneurs and socialist planning boards can do this equally well. Problems of “economic” production are unrelated to problems of “political” distribution.

The first economist to clearly formulate the belief that production and distribution are two separate spheres of human life, which are therefore separable, both in economic analysis and in political practice, was John Stuart Mill. In Mill’s eyes, production was essentially a matter of technology, whereas distribution was essentially a matter of prevailing notions of distributive justice. And economic science dealt exclusively with one particular distributive system, namely, with the market economy. Says Mill:

It is . . . evident, that of the two great departments of Political Economy, the production of wealth and its distribution, the consideration of Value has to do with the latter alone; and with that, only so far as competition, and not usage or custom, is the distributing agency. The conditions and laws of Production would be the same as they are, if the arrangements of society did not depend on Exchange, or did not admit of it.³⁵

Accordingly, questions of ownership and of appropriation were deemed to be relevant only when it came to explaining distribution in a market economy. But they had no importance whatsoever, in any economic system, for the economic analysis of the production structure.³⁶

By the early twentieth century, Mill’s dogma of the separate domains of production and distribution had become widely accepted, and it had even survived all changes of opinion springing from the marginal-utility revolution. The latter had merely brought

³⁵John Stuart Mill, *Principles of Political Economy*, 2 vols. (London: Routledge, 1891), book 3, chap. 1, p. 298.

³⁶In chapter 8 of the present book, Mises deals with a crude variant of the Millian view that was very influential in the 1920s. According to this theory, the adjustment of the structure of production was entirely a matter of technology; in particular, the present structure of production plays no role in determining the optimal course of action.

about a certain modification of Mill's scheme, which concerned the significance of value theory. The new theoreticians accepted the Millian separation dogma, but they turned it upside-down. Against Mill, they claimed that, while value theory was by and large unimportant for distributive issues, it was crucially important for explaining production *in any kind of economic system*.

The greatest champion of the new orthodoxy was Friedrich von Wieser.³⁷ Starting from the premise that value is a quantity, Wieser developed a value theory that foreshadowed the way economic analysis would be practiced during the rest of the twentieth century. Wieser argued that the value of goods could by no means be neglected in decisions pertaining to production, lest a waste of resources would ensue. Modern (marginal-) value theory not only served to explain the value of all goods in all types of social organizations, but also could be applied in all conceivable societies to solve the problem of evaluating and allocating factors of production. Contrary to Mill, therefore, value theory was a truly universal theory. Capitalist calculation in terms of money prices was nothing but a particular application—and a rather deficient one—of the general principles of value calculus.³⁸

³⁷See Friedrich von Wieser, *Über den Ursprung und die Hauptgesetze des wirtschaftlichen Werthes* (Vienna: Hölder, Pichler, Tempsky, 1884), in particular pp. 180 ff., where Wieser discusses problems of value calculation; idem, *Der Natürliche Werth* (Vienna: Hölder, Pichler, Tempsky, 1889), chap. 3, pp. 67 ff.

³⁸We have already discussed the fictional character of the idea of a value calculus. Let us mention some of the other fictions underlying Wieser's approach in order to get the full flavor of its modernity—for Wieser is one of the apostles of present-day neoclassical economic theory, which to a large extent relies on fiction rather than on fact. His value theory was based on the fiction that one could meaningfully speak of value without respect to the wealth or income of the acting person. The value that is independent of income and wealth is "natural value." Of course the natural value of capital goods is derived from the natural value of consumers' goods. How the natural value of consumers' goods is imputed on capital goods is the subject matter of imputation theory. Moreover, Wieser held that natural value was objective in the sense that it is the same for all persons. For example, he claimed that an increase in the quantity of money entailed the same decrease of the

Already before World War I, Wieser's analytical framework had become orthodoxy in German-language theoretical economics.³⁹ It is true that the technical details of his imputation theory were challenged, and that it competed with Menger's and Böhm-Bawerk's approach.⁴⁰ But the general postulates and distinctions on which

value of money, and he also held that the marginal value of any given amount of money is lower for a rich than for a poor man. Thus, in spite of some statements in which he stressed that value was always related to an acting individual, in his theory of natural value Wieser completely disassociated the value of goods from any context given by concrete human action. This was the starting point for his theory of the shortcomings of capitalism and also for his policy recommendations. It is obvious that real-life monetary economies are not likely to bring about the same results as an economy in which natural value reigns. According to Wieser, only if all members of society are perfectly equal in their wealth and income position do the values of a monetary economy coincide with natural values. And since natural value is the economic ideal of all possible real economies, it follows that economic policy should make sure that all factors of production be treated according to their natural values. This might be achieved in a perfect communist state. But it might also be achieved through heavy government intervention in the market economy. For an enlightening analysis of the shortcomings of Wieser's value theory, see Sam Bostaph, "Wieser on Economic Calculation Under Socialism," *Quarterly Journal of Austrian Economics* 6, no.2 (2003).

³⁹The best illustration is the fact that Max Weber invited him to write a general treatise on economics for the prestigious *Grundriss der Sozialökonomik* series, which was supposed to portray the present state of the social sciences. The result was Wieser's *Theorie der gesellschaftlichen Wirtschaft*, which was first published in 1914 and remained the main work of reference in German-language economics until the early 1930s (a second edition appeared in 1924).

⁴⁰The solution Menger and Böhm-Bawerk gave to the imputation problem is quite different from Wieser's solution. But all three authors held that there was such a thing as value imputation. This is the crucial point that needs to be stressed here. Böhm-Bawerk clarified his position in the "Excursus VII" of his *Positive Theory of Capital*. Works on the technical problems of imputation theory abounded from the 1890s and proliferated until the 1930s, not surprisingly without leading to any solution. Among later works, see Leo Schönfeld-Illy, *Wirtschaftsrechnung*, reprint (Munich: Philosophia, [1924] 1982); Wilhelm Vleugels, *Die Lösungen des wirtschaftlichen Zurechnungsproblems bei Böhm-Bawerk und Wieser* (Halle: Niemeyer, 1930). See also Mises, *Nationalökonomie*, pp. 312–19.

value-imputation theory relied had not met with serious resistance from any major champion of theoretical economics.

It is before this background that Mises's socialist-calculation argument must be appreciated.⁴¹ Mises argued that there were no general principles of value calculation, because there was no such thing as value calculation in the first place. There was in fact only price calculation, and it could come into existence only at those times and places where the means of production were privately owned. It not only followed that the existence of economic calculation was a historically contingent event. It also followed that the specific categories of capitalism—capital, income, profit, loss, savings, etc.—could not be assumed to exist in other types of social organization. Most importantly, the dogma of the separate realms of production and distribution was untenable. Capitalist production processes were steered through the individual businessmen's calculations. But these calculations were conditioned by the existence of private property of the means of production. They could not be performed in systems lacking such property rights. Production did depend on distribution, as well as *vice versa*.

TOWARD A GENERAL THEORY OF ECONOMIC CALCULATION: THE PREFERENCE THEORY OF VALUE

Mises's 1920 paper on the impossibility of economic calculation in socialist regimes was a decisive step toward the formulation of a general theory of economic calculation—and thus, as we have seen, toward the proper definition of praxeology and the relationship

⁴¹A socialist contemporary of Mises's, Heimann clearly saw this implication; see Eduard Heimann, *History of Economic Doctrines: An Introduction to Economic Theory* (New York: New York University Press, 1945), p. 208. The only present-day historian of economic thought who seems to have noticed the anti-Wieser implications of the socialist-calculation argument is Mark Blaug. Blaug even suggests that the socialist calculation argument was primarily intended as a refutation of Wieser; see Mark Blaug, *Great Economists Before Keynes* (Cambridge, U.K.: Cambridge University Press, 1986), p. 280.

between praxeology and economics. When he eventually presented the general theory of economic calculation in *Nationalökonomie* and *Human Action*, Mises supplemented his argument of 1920 with a systematic discussion of the case for economic calculation in terms of value or utility (see the third parts of each of these treatises). Thus he would come full circle and make a watertight case against any sort of economic calculation that was not cast in terms of money prices. Yet this mature discussion, to a large extent, only spelled out all the implications that were already contained in his earlier statements of value theory, in particular, the statements contained in the present volume.

The foundation of Mises's general theory of calculation is the insight that a value calculus is impossible. A calculus can only be performed with multiples of an extended unit—for example, one can add one apple to another apple or one grain of silver to another grain of silver. But one cannot add a telephone to a piano concerto and still less can one add a witty remark to a silent thought. These things are incommensurable and therefore cannot be linked through mathematical operations. And so it is with value. One cannot quantify the value of a thing because value is not extended and therefore not measurable.

Mises expressed this radical denial of the possibility of value calculation already in 1912, when he published his *Theory of Money and Credit*. Here he gave a short exposition of the theory of value, in which he expanded on crucial insights of previous authors.

The first of these insights originated from the works of Georg Simmel and Joseph Schumpeter who had characterized the essence of economic action as involving exchange; every human action so-to-say “exchanges” a supposedly superior state of affairs against an inferior one (today one would of course say “choose” rather than “exchange,” but the matter is the same).⁴² As Mises would argue, this essential feature of human action is also the foundation of the phenomenon of value.

⁴²See Georg Simmel, *Philosophie des Geldes*, reprint (Frankfurt/Main: Suhrkamp, [1901] 1991), p. 35; Joseph Schumpeter, *Wesen und Hauptinhalt der theoretischen Nationalökonomie* (Munich and Leipzig: Duncker and Humblot, 1908), p. 50.

In the few passages that he devotes to value theory in his money book, Mises decisively elaborates on Menger's somewhat vague definition of value as "the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs."⁴³ In Menger's definition, value was a *bilateral* relationship between one individual and one economic good. By contrast, in Mises's exposition, value was a *trilateral* relationship involving one individual and two economic goods.⁴⁴ Mises in fact discussed the value of one good always in explicit context with the value of another good with which it was compared, and he stressed that this "comparison" was based on choice insofar as it involved "acts of valuation." In his words:

Every economic transaction presupposes a comparison of values. But the necessity for such a comparison, as well as the possibility of it, is due only to the circumstance that the person concerned has to choose between several commodities.⁴⁵

Stressing that value was bound up with human choices, Mises implicitly provided an elegant explanation for the common characterization of value as "relative" or "ordinal" value. Value was ordinal, but not merely because no one had thus far succeeded to quantify it. Rather, value was ordinal value because it was a relationship that by its very nature defeated any attempts at quantification. In

⁴³Menger, *Principles of Economics* (New York: New York University Press, 1976), p. 115. Menger also defined value as "a judgement economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well being. Hence value does not exist outside the consciousness of men" (p. 121).

⁴⁴To some extent, Menger's definition of value as a bilateral relationship did not quite correspond to his actual analysis of how individual values cause the formation of market prices. In the latter, Menger relied on the feature of value that Mises would eventually express with great clarity, namely, its relativity not only to an acting subject, but also to other values. Menger's actual deduction of market prices from values was therefore certainly an inspiration for Mises; his definition of value was not.

⁴⁵Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis, Ind.: LibertyClassics, 1981), pp. 51–52.

the mainstream approach to value (utility) theory, which conceived of value as a *bilateral* relation between a human being and an economic good, the human psyche was the common denominator for the economic significance of all goods. “Satisfaction” or “utility” was the constant measuring rod for goods of all times and places. By contrast, in Mises’s value theory, which conceived of value as a *trilateral* relationship, there was no such common denominator. The “value” of a good was its being preferred or not being preferred to other goods subject to the same choice. Value was therefore not an entity independent of the specific circumstances of time and space; rather it was ever bound up with specific circumstances and meant different things in different economic settings. According to the mainstream approach, the amount of “utility” derived from a good could be different in different situations. According to Mises, the very meaning of the value of a good was different when the economic context changed—because the good would then be compared (preferred, not preferred) to different goods.⁴⁶ In his words:

Acts of valuation are not susceptible of any kind of measurement. It is true that everybody is able to say whether a certain piece of bread seems more valuable to him than a certain piece of iron or less valuable than a certain piece of meat. And it is therefore true that everybody is in a position to draw up an immense list of comparative values; a list which will hold good only for a given point of time, since it must assume a given combination of wants and commodities. ...

economic activity has no other basis than the value scales thus constructed by individuals. An exchange will take place when two commodity units are placed in a different order on the value scales of two different persons. In a market, exchanges will continue until it is no longer possible for reciprocal surrender of commodities by any two individuals to result in

⁴⁶Mises’s “preference theory” of value was in perfect harmony with Franz Cuhel’s insight that the values underlying individual decision-making could not be measured. In his *Zur Lehre von den Bedürfnissen* (Innsbruck: Wagner, 1907), Cuhel had stressed that value was a purely ordinal relationship between economic goods, and that this relationship was always bound up in a context given by a concrete person at a concrete time and a concrete place.

their each acquiring commodities that stand higher on their value scales than those surrendered. If an individual wishes to make an exchange on an economic basis, he has merely to consider the comparative significance in his own judgment of the quantities of commodities in question. Such an estimate of relative values in no way involves the idea of measurement.⁴⁷

In his monetary theory, Mises did not elaborate on these considerations. He did not openly attack his Austrian forebears—Menger, Böhm-Bawerk, Wieser—but calmly stated what he perceived to be the truth about value and in particular the value of money. He proceeded to the next step in the fall of 1919, when he wrote his paper on calculation in a socialist commonwealth. But only in 1928 did Mises for the first time criticize the value theory of the two predecessors he admired most: Carl Menger and Eugen von Böhm-Bawerk.⁴⁸ Here he restates his subjectivist preference theory of value:

The subjective theory of value traces the exchange ratios of the market back to the consumers' subjective valuations of economic goods. For catallactics the ultimate relevant cause of the exchange ratios of the market is the fact that the individual, in the act of exchange, prefers a definite quantity of good A to a definite quantity of good B.⁴⁹

⁴⁷Mises, *Theory of Money and Credit*, pp. 52–53.

⁴⁸See Ludwig von Mises, "Bemerkungen zum Grundproblem der subjektivistischen Wertlehre," *Archiv für Socialwissenschaften und Socialpolitik* 59, no. 1 (February 1928): 32–47; reprinted in *Epistemological Problems of Economics*, chap. 5.

⁴⁹Mises, *Epistemological Problems of Economics*, p. 178. Let us emphasize again that the importance of subjectivism in value theory is that it allows us to explain market prices in terms of an uncontroversial empirical fact: the choices of the market participants who prefer the commodities they buy to the prices they pay. Mises's theory was "subjectivist" in the sense that *it took its starting point in this matter of fact*, dealing with choices that were made rather than with choices that from some point of view should have been made, or that would have been made under other than present circumstances. In this precise sense, Mises held, the main contribution of the new marginal economics was its subjectivism. By adopting the point of view of real-world

Shortly after his critique of Menger and Böhm-Bawerk, Mises gave the first systematic exposition of his theory of value in “On the Development of the Subjective Theory of Value,” chapter four of the present book. This paper was first published in 1931 in a volume prepared for a meeting of the Verein für Sozialpolitik (social-policy association), but probably at least a first draft had already been written in 1929.⁵⁰ While the title of the paper suggests that Mises would simply be restating doctrinal opinions of the past, he in fact delivers here a review of the history of subjective

acting men, economists were finally in a position to deal with how things were rather than with how things should be. Mises admonishes that, unfortunately, other elements of the new theory had received undue attention, for example, the law of diminishing marginal utility or the law of psychological want satiation.

Economic action is always in accord only with the importance that acting man attaches to the limited quantities among which he must directly choose. It does not refer to the importance that the total supply at his disposal has for him nor to the altogether impractical judgment of the social philosopher concerning the importance for humanity of the total supply that men can obtain. The recognition of this fact is the essence of the modern theory. It is independent of all psychological and ethical considerations. However, it was advanced at the same time as the law of the satiation of wants and of the decrease in the marginal utility of the unit in an increasing supply. All attention was turned toward this law, and it was mistakenly regarded as the chief and basic law of the new theory. Indeed, the latter was more often called the theory of diminishing marginal utility than the doctrine of the subjectivist school, which would have been more suitable and would have avoided misunderstandings. (ibid., pp. 179–80)

⁵⁰See Mises, “Vom Weg der subjektivistischen Wertlehre,” Ludwig von Mises and A. Spiethoff, eds., *Probleme der Wertlehre* (Munich and Leipzig: Duncker and Humblot, 1931), pp. 73–93; reprinted in *Epistemological Problems of Economics*, chap. 4.

value theory *from the point of view of his own theory of value*.⁵¹ Mises first discusses the question how to define the sphere of application of economics, arguing that all past attempts had failed. Then he presents his solution—economic science deals with human action based on calculation—and this presentation proceeds, again, from a statement of his preference theory of value:

All conscious conduct on the part of men involves preferring an A to a B. It is an act of choice between two alternative possibilities that offer themselves. Only these acts of choice, these inner decisions that operate upon the external world, are our data. We comprehend their meaning by constructing the concept of importance. If an individual prefers A to B, we say that, at the moment of the act of choice, A appeared more important to him (more valuable, more desirable) than B.⁵²

The mere fact that Mises wrote a series of papers on value theory, always stressing that the trilateral value relationship was the fundamental element of economic analysis, highlights more than anything else the importance he attached to this matter. Value theory was in dire need of clarification and restatement. It needed to be purged of the errors of Carl Menger and Böhm-Bawerk, but it also needed to be defended against men such as Gustav Cassel, a very able writer, who championed the notion that economics was all about prices and quantities and could do without any value theory

⁵¹One anonymous reviewer noticed that, in the present book, Mises had significantly refined the Austrian value theory and that the book could therefore be considered a critique of all those schools of thought that deviated from his theory. In the original words of the reviewer: *“Die Arbeit ist eine energische Abrechnung mit den verschiedenen Schulen, welche nicht auf der Basis der Grenznutzenlehre oder, richtiger gesagt, der österreichischen, von Mises wesentlich verfeinerten Wertlehre stehen.”* W.W., “Grundprobleme der Nationalökonomie,” *Mitteleuropäische Wirtschaft—Wochenbeilage der “Neuen Freien Presse”* (Vienna, 23 September 1933).

⁵²Mises, *Epistemological Problems of Economics*, p. 158. He proceeds to give a short outline of the full picture of praxeology and economics, as it stood in the light of his theory of calculation. See pp. 166f., 191.

whatsoever.⁵³ Last but not least, value theory needed a restatement to guard it against criticisms leveled against it during the 1920s.⁵⁴

THE MEANING OF APRIORISM

After his restatement of value theory, Mises turned to the other area in which praxeology was most deficient: epistemology. While his views on value theory and in particular on economic calculation have given rise to heated discussion, refutation, defense, and re-interpretation that continues to the present day, this resistance pales in comparison to the outright rejection of his views on the epistemology of praxeology. Mises's claim that there is such a thing as an aprioristic theory of human action has been one of the most controversial aspects of his work.⁵⁵ It might therefore be in order to clarify a central issue that Mises does not address in any great detail in the present book, namely, the meaning of "experience" and the question to what extent praxeological propositions are derived from human experience.⁵⁶

⁵³See in particular Gustav Cassel's *Theoretische Sozialökonomik*, 4th ed., (Leipzig: Deichert, 1927).

⁵⁴In an earlier work, Mises had rebuked these criticisms as being exaggerated, yet without stating what he believed were the unassailable truths in the traditional theory of value. See Ludwig von Mises, "Interventionismus," in *Kritik des Interventionismus* (Jena: Fischer, [1926] 1929), pp. 25 f., 29 f., 41. In the chapters on value theory contained in the present volume he filled this gap.

⁵⁵It has been controversial even with some of his closest associates. See for example F.A. Hayek's statements in the introduction he wrote in 1977 for the German edition of Mises's autobiographical *Erinnerungen* (Stuttgart: Gustav Fischer, 1979, in particular p. xvi). Only after the 1940s could Mises present his students with the full picture of his system of thought, which by then had become embodied in his treatises *Nationalökonomie* (1940) and *Human Action* (1949). This had a decisive impact on the younger generations of his students, who were much more prone than his Vienna associates to accept his views on the *aprioristic* character of social theory. See on this Joseph T. Salerno, "The Place of Mises's *Human Action* in the Development of Modern Economic Thought," *Quarterly Journal of Austrian Economics* 2, no. 1 (1999).

⁵⁶This issue has been touched on in some of the writings of Murray N. Rothbard; see in particular the first six essays contained in his posthumous *Logic of Action I* (Cheltenham, U.K.: Edward Elgar, 1997). For other

Mises used the expressions “experience,” “empirical,” “empiricism,” etc. according to the understanding of these expressions that prevailed in western mainstream philosophy at the beginning of the twentieth century. The roots of this understanding go back to eighteenth-century philosophers such as David Hume in Scotland and Etienne de Condillac in France, who had radicalized the scholastic notions of empiricism. Western philosophy from Aristotle to John Locke had stressed the existence of two sources of human knowledge: reason and the information gathered through the human senses. Then Hume and Condillac eliminated reason from the menu, claiming that all scientific knowledge of all things was based on “experience;” that is, mediated through the senses. As usual, there were some ambiguities involved (especially in the case of Hume), but at any rate it was the radical sensualist interpretation of Hume’s and Condillac’s writings that provoked a rationalist reaction. The purpose of the new rationalists was to make the case for reason as a source of knowledge, thus redressing the one-sidedness of the empiricists. One of the best-known groups of these new rationalists was the so-called school of German Idealism, which comprised in particular Immanuel Kant, J.G. Fichte, G.F.W. Hegel, and Arthur Schopenhauer.

These philosophers distinguished themselves not only through their ideas, but also through terminological innovations. Kant in particular created a panoply of new expressions. For example, non-tautological propositions about the material world that were

informed discussions of the *a priori* nature of praxeological laws see in particular Hans-Hermann Hoppe, *Economic Science and the Austrian Method* (Auburn, Ala.: Mises Institute, 1995); Barry Smith, “Aristotle, Menger, and Mises: An Essay in the Metaphysics of Economics,” in *Carl Menger and His Economic Legacy*, Bruce Caldwell, ed. (Durham, N.C.: Duke University Press, 1990), pp. 263–88; idem, “Aristotelianism, Apriorism, Essentialism,” in *The Elgar Companion to Austrian Economics*, Peter Boettke, ed. (Cheltenham, U.K.: Edward Elgar, 1994), pp. 33–37; idem, “In Defence of Extreme (Fallibilistic) Apriorism,” *Journal of Libertarian Studies* 12, no. 1 (1996): 179–92; Gérard Bramoullé, “A-priorisme et faillibilisme: en défense de Rothbard contre Popper,” *Journal des Economistes et des Etudes Humaines* 6, no. (1995); Roderick Long, *Wittgenstein, Austrian Economics, and the Logic of Action* (London: Routledge, forthcoming).

derived from pure reasoning—such as “no extended object can be red and green all over at the same time”—were in Kant’s language “synthetic judgments a priori.”

As is often the case in the history of science, the works of these critics of exaggerated empiricism were not without flaws of their own, the only difference being that they tended toward exaggerated confidence in the power of pure reason. Accordingly, the German Idealists attracted counter-criticisms from the empiricist camp, which delighted in ridiculing seemingly absurd “idealist” claims. These critics pointed out, for example, that Kant seemed to believe that the human mind actually creates certain structural features of the material world (“impositionism”), or that Hegel held that all of world history was nothing but the history of some vaguely defined “spirit” coming to self-consciousness.

The pertinence of these claims and counter-claims is immaterial for our present purpose. We merely have to stress that, in mainstream philosophy of the early twentieth century, the expressions “empiricism” and “rationalism” had the above-mentioned meanings.⁵⁷ This context is crucial for the understanding of Mises’s position. When Mises claimed that economics was a science a priori, he did not mean to assert that there was no evidence whatsoever for the laws asserted by this science. He did not believe that economics was based on the more or less fictional assumptions of a community of scholars and that “apriorism” meant the loyalty of these scholars to their common faith. Neither did economic analysis rely on some arbitrary set of hypotheses that were not themselves subject to verification or falsification, so that economics would be “aprioristic” in the sense of a mere tautological wordplay. Economics definitely *was* about ascertainable facts. The point was, however, that one could not come to know these facts by watching, listening, smelling, or touching them. And propositions about them

⁵⁷Things somewhat changed after World War II with the renaissance to Aristotelian studies. As a consequence, the expression “empirical” is often used again in the wider sense in which Aristotle and the scholastics used it. A case in point is Mises’s follower, Murray Rothbard.

could therefore not be verified or falsified by the evidence of the senses.⁵⁸ The facts of praxeology and economics could not be perceived through the senses at all. They could be known, and could *only* be known, through an act of self-reflection on the imperceptible *structural features of human action*.

For example, Mises mentioned again and again two very fundamental features of human action: that human beings make choices, and that they use means to attain ends. It seems to be difficult to deny that these features of human action do exist as a matter of fact. We somehow “know that” all human actions, at all times and all places, involve choices and the use of self-chosen means to attain self-chosen ends. But how do we know this? Can we see, hear, smell, or touch choices? Suppose we observe a man walking from the entrance of a house to a car. Do we actually *see* him making choices? Clearly, this is not the case. What we in fact see is a body moving from A to B; but we do not see the succession of choices that prompt a person to make the movements that bring

⁵⁸One contemporary reviewer of *Grundprobleme der Nationalökonomie*, Dr. Mann, summarized Mises’s position as follows:

He starts from the premise that there are two types of experience. One is an external experience through which we grasp objects and events of the exterior world. The empirical sciences—thus above all the natural sciences—start from here. Then there is inner experience, of which there are two: intuitive understanding and intellectual conception of evident processes. The conception of human actions falls into the latter category. (Review in *Sparwirtschaft* [May 1935]; my translation)

The constant reliance on facts was what distinguished Mises’s apriorism from the mystical apriorism of Othmar Spann, his rival from the University of Vienna, who had authored the most successful German social-science textbook ever (*Der wahre Staat* [Leipzig: Meyer, 1921]). Spann despised mere logical, descriptive, and analytical thought; rather he thought that to understand the workings of society it was necessary to “descend into the depth of the human heart, the ultimate fountain and mainspring of our life’s law” (p. 5).

him from A to B.⁵⁹ It is only because we know about the existence of human choice through an act of self-reflection on the invisible characteristics of human action that we can (correctly) interpret the observed fact as resulting from a sequence of choices. In short, the visible features of human behavior, such as the relative position of a human body in space and time, are anything but self-explanatory. They can only be properly understood in conjunction with what we know about certain invisible “a priori” characteristics of human action.

This problem also pertains to the correct understanding of the means of action. One cannot identify food, medicine, or weapons just by looking at the physical object. A coconut for example can be food in one context and a weapon in another. Sleeping pills can be used both as medicine and as poison, depending on the quantity in which they are used. Or consider the case of words and sentences. The physical characteristics of our language—the noise we make when speaking—are not what language is all about.⁶⁰ Words and sentences are not mere noise, but well-defined noise with well-defined meaning. The very same noise can therefore be devoid of sense in one context (for example, English words uttered to a monkey), but meaningful in another (English words uttered to residents of Scotland).

Let us highlight the inadequacy of a purely empiricist approach to the study of human action also from another point of view. Consider the psychological aspect of *learning* about broad categories of means of action—such as food, medicine, weapons, language. One might very well argue that, when we first learn about them, it is always in conjunction with a concrete physical object. Thus we

⁵⁹One cannot “see” a person making choices because, for one thing, one can never see the choice-alternative that the person puts aside to do the thing that we see him doing. Consistent materialists, such as Marx and most of his followers, have therefore denied the very existence of choice.

⁶⁰I have taken most of these examples from F.A. Hayek, “The Facts of the Social Sciences,” in *Individualism and Economic Order* (Chicago: Chicago University Press, 1948), p. 59. Hayek here delivers a good discussion of our problem.

might learn about the nature of medicine in conjunction with a concrete pill we swallow to alleviate a concrete pain, or we might learn about the nature of language in conjunction with a concrete conversation in a concrete language. But even when we first learn what medicine or language is, we do not experience this through our senses, but through a reflection on the intentions underlying the use of that concrete pill or of that concrete language. Even in these first encounters, it is only by interpreting the use of the physical object (the pill swallowed, the words uttered) as a means for the attainment of some category of ends (health, communication) that we understand what the categories of means “medicine” and “language” are all about. Thus, even though we might first learn about the nature of certain means of action *in conjunction* with a concrete physical object, it is not by studying the object’s physical characteristics that we learn about the nature of that means.

To sum up, whenever we seek to explain human behavior—both as the cause of other things and as an effect of other things—we must rely on insights about certain facts that cannot be analyzed through our senses. This is why Mises claimed that “all historical investigation and every description of social conditions presuppose theoretical concepts and propositions.”⁶¹ These theoretical propositions concern (1) the time-invariant features of human action (its “nature”) and (2) the nature of the means of action. The concrete *physical* manifestations of action and its means come into play only insofar as they affect the suitability of the concrete action and the other concrete means to fulfill their purpose. For example, the nature of money involves some physical money stuff used with the intention to perform indirect exchanges; but from a praxeological point of view any concrete money stuff is interesting only insofar as it is more or less suitable than other money stuff to perform indirect exchanges.

⁶¹Mises, *Epistemological Problems of Economics*, p. 116; see also, pp. 1 ff., 6, and 107. Mises had expressed this view already in previous writings. See in particular his “Sozialliberalismus,” *Zeitschrift für die gesamte Staatswissenschaft* (1926); reprinted *Kritik des Interventionismus* (Jena: Fischer, 1929), in particular pp. 72 f. See also his *Kritik des Interventionismus*, in particular pp. 28 f.

In short, then, praxeological analysis is concerned with both visible matter and invisible choices and intentions. But it is primarily concerned with choices and intentions, and deals with matter only incidentally. And the knowledge we possess about choices and intentions is derived from sources other than the human senses. It is therefore not empirical knowledge, at any rate, not empirical *in the same sense* in which the knowledge we gain through watching, listening, smelling, and touching is empirical. This is the meaning of Mises's assertion that praxeology and economics were aprioristic sciences. These disciplines do not deal with any visibly contingent aspects of human behavior, but with the time-invariant features (the natures) of human action and of the means of action. These natures can be analyzed, and even must be analyzed, independent of the information we receive through our senses. The validity of praxeological propositions (their truth or falsity) can therefore be assessed entirely independent of the "empirical record."

THEORY AND HISTORY

Not all invisible features of human action are the subject matter of praxeology. The latter deals only with the *constant* invisible features of action, such as choice, goal-orientation, value, error and success, and so on. There are also *contingent* invisible features of action, which must be identified on a case-by-case basis, for example, the choice alternatives between which Paul had to decide himself a year ago, the goals that Mary pursued yesterday when brushing her hair, the error in John's choice to attend the pop concert tonight, etc. Insights about these contingent features are not aprioristic, but they are of course essential in order to explain what caused any concrete action to be performed in the first place. The logical and epistemological problems of this type of explanation are highly complex and intriguing. Some of the greatest social scientists of Mises's day had dedicated many years to studying these issues, most notably Heinrich Rickert, Max Weber, and Alfred Schütz.

Mises relied on the work of these men as far as the causal explanation of individual actions was concerned. But this was not his main concern. The question he was primarily interested in was not “Why did this person do what he did?” but “What are the objective consequences of this action?” The whole point of praxeology was to answer the latter kind of question in far more general terms than on a case-by-case basis. Accordingly, one of the great contributions of the present book was to point out the crucial difference between two types of social analysis: between praxeology, which deals with constant features (the nature) of human action and explains the consequences that in all cases follow from action, and history, which deals with the contingent features and explains the causes and consequences of action in the case under consideration.

Consider the following example. The president of a central bank decides to issue additional fiat money tickets. How do historical research and praxeological theory contribute to the analysis of this event? The historian might explain *why* the president did what he did; he will find, for example, that the president sought to finance an election campaign, or a war, or some large corporation in difficulties, or that he tried to appease public opinion which called for such an increase to stimulate growth of the entire economy. Then the economist steps in and states that the president’s action resulted in an increase of prices. Now observe the crucial difference: the statements of the historian exclusively concern the particular facts of the case; for example, if he claims that the president was motivated by the desire to finance an election campaign, he does not derive this assertion from a general law that “all decisions to increase the quantity of money are prompted by such a desire,” but from his scrutiny of the facts of the present case. The economist, in contrast, does derive his statement from a general law. He claims that the present action of the president resulted in an increase of prices precisely because he thinks that increases of the quantity of paper money *always and everywhere*—that is, irrespective of the particular conditions of the case—lead to an

increase of prices above the level they would have reached in the absence of the paper money inflation.

What are the grounds on which such sweeping assertions can be made? This is the question Mises deals with in the present book. Let us emphasize that he not only expounded his position but also spent many pages criticizing the views of Max Weber, who argued that economic laws were some sort of generalization from historical experience (ideal types).

A present-day champion of Mises's epistemological views has characterized the validation of praxeological or economic laws as an "intellectual apprehension or comprehension of the nature of things." Asserting that the propositions of praxeology and economics are "statements about *necessary facts and relations*,"⁶² he gave the following list of a priori praxeological and economic laws:

Human action is an actor's purposeful pursuit of valued ends with scarce means. No one can purposefully *not* act. Every action is aimed at improving the actor's subjective well-being above what it otherwise would have been. A larger quantity of a good is valued more highly than a smaller quantity of the same good. Satisfaction earlier is preferred over satisfaction later. Production must precede consumption. What is consumed now cannot be consumed again in the future. If the price of a good is lowered, either the same quantity or more will be bought than otherwise. Prices fixed below market clearing prices will lead to lasting shortages. Without private property in factors of production there can be no factor prices, and without factor prices cost-accounting is impossible. Taxes are an imposition on producers and/or wealth owners and reduce production and/or wealth below what it otherwise would have been. Interpersonal conflict is possible only if and insofar as things are scarce. No thing or part of a thing can be owned exclusively by more than one person at a time. Democracy (majority rule) is incompatible with private property (individual ownership and rule). No form of taxation can be uniform (equal), but every taxation involves

⁶²Hans-Hermann Hoppe, *Democracy—The God That Failed* (New Brunswick, N.J.: Transaction Publishers), pp. xv, xviii.

the creation of two distinct and unequal classes of *taxpayers* versus *taxreceiver*-consumers. Property and property titles are distinct entities, and an increase of the latter without a corresponding increase of the former does not raise social wealth but leads to a redistribution of existing wealth.⁶³

MISESIAN RATIONALISM

Mises's use of expressions such as "a priori" have prompted many readers to assume a particular affinity between his epistemology of the theoretical social sciences and Immanuel Kant's philosophy. To some extent such affinities do in fact exist, but they should not be overstated. Kant and Mises stood on common ground to the extent that both of them reacted to what they believed were exaggerated empiricist claims. Hence, both sought to give a precise definition of the kind of questions we can answer without relying on our sensorial apparatus—and, as a corollary, of those questions that can be answered only on the basis of *observed* facts. Both Kant and Mises asserted that to some extent it was possible to gain knowledge about the material world through an exercise of "pure reason"—that is, without reliance on information mediated through the human senses.

But this is more or less where the affinities end. Kant was not well versed in economics and never dealt with the epistemology of the social sciences. Mises, on the other hand, was only incidentally interested in epistemology *per se*; he had no pretensions and inclinations to deal with any problems of general epistemology, such as the nature of truth or the role of epistemology within the general edifice of human knowledge. Mises's ambition was much more limited. He merely sought to clarify the epistemological nature of praxeology and economics; or, more precisely, to *differentiate* the epistemological nature of praxeology from the epistemological nature of the other sciences. And in so doing he took recourse in

⁶³Ibid. p. xvii.

the terms of standard epistemology. Now, as we have explained at some length, Mises was quite justified in insisting that economics was not an empirical science in the sense in which the term “empirical” was used by the academic philosophers of his day. He therefore called it an aprioristic science, which was a perfectly reasonable way of conveying his point.

Rather than as a Kantian, Mises can more usefully be classified as a representative of Aristotelian realism. Consider first the fact that Mises was educated in the schools of Austria-Hungary in an era in which the influence of the realist *philosophia perennis* (Aristotelian philosophy with a Christian scholastic twist) was of paramount importance. Until the 1850s, Catholic clerics ran virtually all the primary and secondary schools in the country, and while any direct clerical influence diminished after the reforms under Count Thun, the epistemological orientation of the teachers did not change. Realist philosophy in the Aristotelian tradition was far more important in Austria-Hungary than the philosophy of Immanuel Kant, whose works were by the way censored in Austria until the mid-1800s.⁶⁴ In the early nineteenth century, realist rationalism was firmly implanted in Austria through the works of Bernard Bolzano and popularized through the writings of the German philosopher Johann Friedrich Herbart.

The mere fact that Mises was brought up in an intellectual environment nurtured by realist philosophy is of course only indirect evidence for any influence on Mises’s thinking. It is therefore essential to take a look at Mises’s writings themselves. And here one finds that Mises shared the same quest for realism that had

⁶⁴The eminent cultural historian, William M. Johnston argued that Austrian thought was subject to the pervasive influence of a particular variant of *philosophia perennis*, namely, the philosophy of the rationalist philosopher Gottfried Wilhelm Leibniz (1646–1716) from Saxony. Leibniz lived in Vienna from 1712 to 1714. During this time he wrote his important treatises *Monadologie* and *Principes de la nature et de la grace*. See William M. Johnston, *The Austrian Mind: An Intellectual and Social History 1848–1938* (Los Angeles: University of California Press, 1972), p. 274.

already distinguished the writings of Carl Menger and Eugen von Böhm-Bawerk. Emil Kauder, in his well-known monograph on the history of marginal-utility analysis, pointed out that the philosophical underpinnings of the Austrian School had a decisive Aristotelian flavor.⁶⁵ This seems to be uncontroversial in the case of the founder of the school, Carl Menger.⁶⁶ And the Aristotelian orientation is equally clear in the case of Menger's immediate followers, Eugen von Böhm-Bawerk and Friedrich von Wieser.⁶⁷ Now in Mises's case there is the difficulty posed by the "Kantian" language in his statements on the epistemology of economics. But a closer look at Mises's actual economic writings clearly reveals that he stands firmly in the traditional Austrian line of Aristotelian realism.

In his first great treatise, the *Theory of Money and Credit*, Mises devotes the entire first part to a discussion of "the nature of money"—which seems to fit the jargon of the Aristotelian approach rather than the jargon of Kantian philosophy. In the same book, Mises propounds a business cycle theory that boils down to the proof that it is in the nature of fractional reserve banking to provoke business cycles.⁶⁸ Similarly, his socialist-calculation argument is the proof that it is in the nature of capitalism (defined as private ownership of the means of production) to make economic calculation possible; whereas it is in the nature of socialism (defined as common ownership of the means of production) to make economic

⁶⁵See Emil Kauder, *A History of Marginal Utility Theory* (Princeton, N.J.: Princeton University Press, 1965).

⁶⁶See in particular Menger's monograph on the methods and epistemology of the social sciences: *Untersuchungen über die Methode der Socialwissenschaften und der Politischen oekonomie insbesondere* (Leipzig: Duncker and Humblot, 1883). On Menger as an Aristotelian, see Barry Smith, *Austrian Philosophy: The Legacy of Franz Brentano* (La Salle, Ill.: Open Court, 1994).

⁶⁷Some exceptions must be made for Wieser, though, because he allowed for "idealizing abstractions." See above, footnote 29.

⁶⁸See Mises, *Theory of Money and Credit*, part 3.

calculation impossible. His book *Socialism* is a treatise on various aspects of the nature of socialism, just as the essays collected in his *Critique of Interventionism* deal with various aspects of the nature of interventionism.

The least that one can say is that Mises's theoretical analyses do not fit very well the caricature of the "Kantian" approach—studying the workings of the human mind, and nothing but this, in order to derive a priori insights about the rest of the world. If we want to do justice to what Mises actually said and did, rather than to squeeze his views into some preconceived epistemological scheme, then it seems we cannot avoid the conclusion that the affinities of Mises's ideas with Kant's philosophy are mainly rhetorical affinities. Mises is not closer to Kant than he is to any other rationalist philosopher.⁶⁹

Mises always stressed that the propositions of praxeology and economics were not derived from metaphysical (in the pejorative sense of "groundless") speculation, but from facts of experience—though not experience of the kind that comes from the human senses. For example, his scientific case for capitalism relied essentially on two such facts: (1) the division of labor is more physically productive than isolated labor, and (2) capitalism allows for a higher division of labor than socialism, and than any mixed economy, because socialism makes economic calculation impossible.⁷⁰ Yet,

⁶⁹If there ever was a Kantian in the ranks of the Austrian School, it was Richard von Strigl. In his *Die ökonomischen Kategorien und die Organisation der Wirtschaft* (Economic Categories and Economic Organization, 1923), he argued that the subject matter of economic theories were the relationships between certain concepts such as "ownership" and "acting subject." Another Kantian economist of the time was Harro Bernardelli. See his *Die Grundlagen der ökonomischen Theorie. Eine Einführung* (Tübingen: Mohr, 1933). Neither Strigl nor Bernardelli were, however, Kantians in the sense of impositionists.

⁷⁰See for example, Mises, "Anti-Marxism," *Critique of Interventionism* (New Rochelle, N.Y.: Arlington House, 1977), p. 112; idem, *Liberalismus* (Jena: Fischer, 1927), pp. 16f.; idem, *Nationalökonomie* (Geneva: Editions Union, 1940; reprint Munich: Philosophia, 1980), pp. 125ff.; idem, *Human*

again, knowledge of these facts does not come, like the famous rabbit, out of the magician's hat; nor is it derived from the mere observation of some concrete schemes of division of labor or of socialism. Rather, one comes to know these facts through an analysis of the nature of the division of labor, and of the nature of socialism.⁷¹

CONCLUSION

The present book is a milestone in Ludwig von Mises's long-term research program dedicated to the development of praxeology—a research program, we might add, that absorbed the greater part of his energies from the late 1920s to the 1960s.⁷² It would however be wrong to infer that this has become obsolete. The truth is that Mises did not like repetition and that *Epistemological Problems of Economics* contains a considerable amount of discussion that cannot be found in any other of his writings. This concerns in particular his critical discussion of the works of those thinkers to whom he felt the greatest intellectual affinity and intellectual debt: Carl Menger, Eugen von Böhm-Bawerk, and Max Weber.

Given the widespread ignorance of Mises's ideas among present-day social scientists, the book has lost nothing of its importance.

Action, Scholar's Edition (Auburn, Ala.: Mises Institute, [1949] 1998), pp. 157ff.

⁷¹This is also why Murray Rothbard—a dedicated Aristotelian in epistemology—would both argue that economics was based on facts of experience and call it aprioristic. It was precisely his Aristotelianism that made him receptive to Mises's point that the experience we gain from the nature of human action is a priori to the experience we can gain through the observation of any concrete behavior. See Murray N. Rothbard, "In Defense of 'Extreme Apriorism,'" *Southern Economic Journal* 3, no. 2/3 (1957): 314–20; idem, *Man, Economy, and State*, 3rd ed. (Auburn, Ala.: Mises Institute, 1993).

⁷²It was only after the publication of *Human Action* that Mises focused his attention more exclusively on the epistemological problems of praxeology. This last phase of his research was productive and culminated in the publication of two books: *Theory and History* (1957), and *The Ultimate Foundation of Economic Science* (1962).

The great majority of contemporary economists, sociologists, political scientists, and philosophers are either completely unaware of Mises's contributions to the epistemology of the social sciences, or think they can safely neglect dealing with them. They are in error. One can ignore a thinker, but the fundamental problems of social analysis remain. There will be no progress in these disciplines before the mainstream has fully absorbed and digested Mises's ideas. Hopefully the new edition of *Epistemological Problems of Economics* will help bring this about.

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