Human Action and Economics
in the Liberal Thought
of Ludwig Von Mises

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Introduction

In 1960, Daniel Bell published a book entitled The End of Ideology in the West. In it Bell said that the old ideologies were exhausted. Not only had the ideologies "lost their truth and power to persuade...", but as few continued to seek to construct new socially harmonious utopias or still cling to 'classical' liberal ideas, the need for ideologies had diminished. Bell wrote:

In the Western World, therefore, there is today a rough consensus among intellectuals on political issues: the acceptance of a Welfare State; the desirability of decentralized power; a system of mixed economy and of political pluralism. In that sense too, the ideological age had ended.

At the time Bell wrote these words, economic growth seemed to indicate economists had found the correct ideology. With confidence, W.W. Rostow wrote a book entitled The Stages of Economic Growth to explain to the underdeveloped nations how they too could attain the same success. But the 1970's brought economic failures and now in the 1980's economists are not as self-assured as they once were.

The contemporary crisis in economics has caused a major reevaluation by economists and politicians as to the proper nature and extent of government intervention in the economy. Of twentieth century economists, perhaps the most ardent defender of the free and unhampered economy is Ludwig Von Mises. Living in an intellectual environment which was unsympathetic to liberalism, Von Mises was concerned about the uncritical way in which liberalism was dismissed. He felt that the arguments used against liberalism were unscientific and rooted in political bias.
Von Mises considered liberalism to be the political doctrine most consistent with the conclusions of economic science. Thus a rational defence of liberalism required a scientific exposition of economics. Von Mises developed a general science of human action in order to define the proper place and role of economics as a science. Upon such a foundation, he felt, the true nature and significance of economics could be established and defended scientifically. This attempt to provide a scientific defence of liberalism produced a reductionist and prescriptive economic science, a science which infringed upon the freedom it was intended to protect.

In the first chapter the contemporary relevance of Von Mises and the Austrian tradition will be discussed. The second chapter will sketch the historical and intellectual background of the Austrian school and conclude with a brief intellectual biography of Von Mises. The next four chapters will provide a systematic exposition of his thought. Chapter three will outline his view of praxeology, his general science of human action, and chapter four will discuss his view of economics as a branch of praxeology. These will be followed by a chapter on the operation of the market and another chapter discussing the political and religious implications of praxeology and economics. In the last chapter Von Mises' thought will be assessed. This chapter will be followed by some concluding remarks.
Notes to the Introduction


2Ibid., pp. 402-3

Chapter One

Contemporary Relevance of Ludwig Von Mises and the Austrian Tradition

The world is not so governed from above that private and social interests always coincide. It is not so managed here below that in practice they coincide. It is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally is enlightened: more often individuals acting separately to promote their own ends are too ignorant or too weak to attain these.¹

In 1926, J.M. Keynes made these assertions in an essay entitled "The End of Laissez-Faire". He argued that it was time to consider anew the agenda or non-agenda of government. He was concerned about the "fruits of risk, uncertainty, and ignorance" which he considered to be "the greatest economic evils of our time..."² These evils, he claimed, were the source of the great inequalities of wealth among the people. He argued a solution required more than simple reliance on the actions of individuals. He suggested that "in many cases the ideal size of control and organization lies somewhere between the individual and the modern State."³ He proposed that "semi-autonomous" institutions govern certain aspects of economic activity and direct economic activity in accordance with the public good and not from "motive of private advantage..."⁴ He recommended that a governing institution control currency and credit. He wanted greater access to business information and national policies to be developed concerning appropriate levels of savings and investment. He even suggested that policies determining the optimum size of the population be formulated. He
wrote, "There is nothing in them which is seriously incompati­
ble with what seems to me to be the essential character­
istic of Capitalism, namely the dependance upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machi­
ne". He felt capitalism, if it was wisely managed, could be made more efficient.

At the time, Keynes sensed a mood of discontent sur­
rounding the "pillars" of economics, laissez-faire and in­
dividualism. Though he recognized the term laissez-faire was seldom used by economists, he felt it was a concept which summed up much of what economic theory had concluded. He considered the principle of laissez-faire to be an idea which harmonized various philosophic trends and he believed that people had accepted it because material progress had convinced them that it was correct. He challenged the corner­
stone of laissez-faire, individualism, and argued that political economy ought to consider the welfare of all and not just the interests of business.

Neoclassical Synthesis

This emphasis on the participatory role of government in the functioning of the economy has since been adopted by mainstream economics resulting in what is referred to by some as the neoclassical synthesis. This synthesis is the combination of Keynesian macroeconomic emphasis on the manipulation of aggregate demand by the government to main­
tain full employment, and the neoclassical (microeconomic) theories concerning the behaviour of individual economic units within a free and competitive market. A major pro­
ponent of this synthesis in North America is Paul Samuelson who considers the two approaches to be compatible in that he thinks the market would function as neoclassical theory predicted as long as aggregate demand is sustained at the appropriate level.
At the heart of the neoclassical theory is what Lester Thurow refers to as the 'equilibrium price-auction' view of economic behaviour. According to this view, the market functions like an auction in which consumer demand is reflected in the fluctuations of prices. As individuals in the market seek to maximize their utility in their decisions to consume and to produce, prices will fluctuate until a market clearing price is established. This equilibrium price is the price at which the quantity of goods or services producers are willing to offer is equal to the quantity of the goods or services consumers are willing to purchase. It is this fluctuation of prices which directs the flow of resources to the various productive activities. As a result of the operation of the market, there can be no overemployment or underemployment of resources as, "Every factor of production is paid in accordance with its own productivity (marginal productivity) and every factor of production that wishes to be employed is employed at a wage or price governed by that productivity." Thus intervention by the government into the operation of the economy is not only unnecessary but harmful as intervention will disrupt the market clearing effect of fluctuating prices.

However, as indicated above, J.M. Keynes did not share the confidence of other economists concerning the ability of the market to guide the economy. As illustrated by the Depression in the 1930's, Keynes argued that there could be involuntary employment of resources if there was insufficient total demand in the economy to utilize all available resources. Challenging the assumption that demand was determined exclusively by supply, thus making it unnecessary to regualte, Keynes argued that in cases of insufficient demand the government could stimulate demand by spending money in appropriate sectors of the economy. Likewise, if aggregate demand exceeded supply, the resulting inflation could be controlled by increased taxation or the selling of bonds, as both of these actions would lower consumer
demand. Through the manipulation of aggregate demand by the government, employment levels and inflation could be controlled. As long as aggregate demand was sustained at appropriate levels, the market would continue to function as the neoclassical theory predicted it would.

Dissenting Movements

Despite the economic success of the 1960's, which seemed to confirm the validity of the neoclassical synthesis, not all economists were satisfied with it. James W. Dean, in an essay entitled "The Dissolution of the Keynesian Consensus", distinguishes between three dissenting movements: the revolutionaries, the evolutionaries and the reactionaries. The revolutionaries argue that the revolutionary potential of Keynes' general theory was not fully realized as some of these ideas were compromised in the attempt to synthesize it with neoclassical theory. The evolutionaries consider there to be a contradiction between Keynesian theory and neoclassical theory but they attempt to reconcile the contradictions by expanding orthodox economics to include Keynesian concerns and by altering Keynesian theory to make it more applicable to orthodox categories. The reactionaries, having little faith in the ability of the government to direct the economy, emphasize the role of the money supply in the determination of economic fluctuation and generally desire to return to pre-Keynesian theory. The reactionaries consider the private sector to be "self-stabilizing" and consider instability to be the result of "fiscal, monetary, and regulatory actions of government." As the late 1960's and the 1970's brought decreasing economic growth, the application of Keynesian policies seemed ineffectual as both unemployment and inflation appeared uncontrollable. This inability to effectively control the economy provided momentum for the reactionary movement led by Milton Friedman and the monetarists. Friedman, echoing the neoclassical belief in a self-stabilizing economy,
felt unemployment would eventually stabilize at a natural rate and that tighter monetary control by the government would control inflation. Friedman argued that demand stimulus would not be able to sustain unemployment below its natural rate and that attempts to stimulate aggregate demand to lower unemployment would only fuel inflation.

Dean is of the opinion that the popularity of the reactionary movement among economists may be more of a pragmatic choice than a result of an ideological return to nineteenth-century liberalism with its emphasis on free markets and the pursuit of private gain. He thinks that the popularity of the reactionaries may be an expression of "the new professional nihilism" which merely reflects "the general disillusionment with big government and its concomitant tax." He notes that a benefit of a pragmatic stance is that it allows economists to avoid "sticky philosophical issues which arise when economists confront their ideological roots." Therefore Dean believes that it is unlikely that the synthesis will be replaced by an "enduring 'neo-conservative' consensus." He gives two reasons for this. He writes, "First, fundamental theoretical issues remain unresolved. Second, ideological issues are still at stake. For much of the economics profession is at a pragmatic way station until dust from the Keynesian/Monetarist conflict settles."

Reformationist Schools of Economics

Irving Kristol, however, suggests that this reactionary trend among economists is more than merely a pragmatic response to the dissolution of the neoclassical synthesis. He argues that the dissenters are displaying a 'reformationist impulse' which he describes as "the impulse to 'go back' to some original and purer source of economic understanding that has been obscured by the intellectual aberration of later times." In this reformationist movement he would include thinkers Dean referred to as revolutionaries as
they desire a return to a pure form of Keynesian analysis. Kristol compares this 'reformationist' movement to a similar impulse in the history of religion. He writes, "...the spirit of innovation almost always takes the form of a return to original truths that the existing establishment has perverted beyond recognition."\textsuperscript{20} Though Kristol admits that such an impulse is not usually experienced in the sciences, especially in the natural sciences, he says the existence of a crisis is "attested by the fact that the body of undisputed theory is shrinking before our very eyes, not growing."\textsuperscript{21} Kristol identifies three schools of thought which have arisen from this reformationist impulse. They are the radical humanistic school, the post-Keynesian school, and the neo-Austrian school. The three, argued Kristol, have some common criticisms of the 'neo-classical synthesis.' According to Kristol all three charge the prevailing theory with being "in whole or in part scientific simplifications of economic theory that mislead rather than illuminate," and that such 'static' analyses are inadequate in dealing with human activity. They are critical of the "coventional, abstract models of the microeconomic universe - one in which there is 'perfect competition' between profit maximizing units which confront scarce resources and make rational, allocative decisions."\textsuperscript{22} In other words, they think economics deals with an open system. In an open system there are no real constants or invariant relations and as a result precise predictions are impossible. Economics can only provide forecasts of "the general consequences of current economics processes and policies."\textsuperscript{23}

Kristol describes the radical humanistic school as a group for whom "Economic man is a modern, monstrous invention, and whose post-modern economics can best be understood as an attempt to re-establish the pre-modern sovereignty of political, moral, and religious values over economic life."\textsuperscript{24}
Rejecting the rationalist-utilitarian basis of contemporary economics, they argue that "economics as a science should promote human welfare by recognizing and integrating the full range of basic human values." Thus once again economics becomes a branch of political economy and ceases to be an autonomous intellectual discipline. Kristol identifies the focus of this school's attack as the challenge of self-interest. Utilizing Abraham Maslow's theories, they replace the self-interest motive with a hierarchy of human needs whereby maturity is marked by the deeper needs "whose satisfaction produces a community of autonomous - but no longer self-regarding - persons." This view of economics will no doubt become increasingly popular. It is represented by some well known proponents such as E.F. Schumacher and Kenneth Boulding.

The post-Keynesian argue that in the light of corporate and trade union oligopolies, the Smithian concept of the free market is a theory of the past and thus they see the need for economic planning and government intervention. The post-Keynesians are also critical of the "scientific pretensions" of the neoclassical synthesis and, though they are still concerned with understanding the laws which govern the economy, they would modify the Newtonian clockwork model with a more dynamic cybernetic model. Such models would be based on economic aggregates and the post-Keynesians believe these models "would be of sufficient theoretical power to permit the economy as a whole to be 'planned' and 'managed' by (the right kind of) political economists."

The post-Keynesians are perhaps the best organized of the three "dissenting movements" and freely offer their alternative as a paradigm. Essentially they feel Keynes' General Theory was not fully applied with respect to the implication of the theory. Their view was that if the theory had been applied consistently, a new view of microeconomics would have resulted. The Journal of Post Keynesian Economics is now available which promotes the post-Keynesian perspective. The 'school' includes economists such as Alfred Eichner and the
late Joan Robinson.

The neo-Austrians also challenge the prevailing micro-economic view of perfect competition and the assumption of perfect knowledge and supply of prices. The most eminent of the neo-Austrians are Ludwig Von Mises and Friedrich Von Hayek. The entrepreneur is the key actor in the neo-Austrian view of economics as he is "someone who takes advantage of generally unperceived opportunities, rather than someone who, by referring back to utilitarian calculus, maximizes satisfaction by choosing among known alternatives." These unperceived opportunities exist because the market is a dynamic process. It functions more like an organism than a mechanism. Thus, "The order that emerges from a marketplace is a part of a process of growth, not a state - a process of incessant adjustment and readjustment of plans, intentions and expectations." Reason is not found in the market itself, rather it is located in acting man. Apart from man's actions undertaken to better his condition, the market does not exist. It is this emphasis in the actions of the individual which causes the neo-Austrians to be strong proponents of the free-market economy in which no authoritative body interferes with the activities of the individual. This stress on freedom and the role of the individual, as well as their defense of the market system, has caused the neo-Austrians to become increasingly popular within the reactionary movement and among business leaders, politicians, and conservative Christians.

The Popularity of the Austrian Tradition

An example of the growing influence of the economics of the Austrian tradition is a 1979 feature article in Forbes of F.A. Hayek entitled "Wave of the Past? or Wave of the Future?" The subtitle stated: "Eclipsed by Keynes and long scorned by left-leaning intellectuals, Friedrich A. Hayek in the autumn of his life is experiencing a strong revival." The article spoke of the disillusionment and the
crumbling of Keynesian theory and the search for a 'new
dispensation' for looking at the world. The article con­
cluded: "Perhaps the day is coming when sane men will be
in authority and echoing that rationalist free-market scrib­
bler Friedrich August Hayek. Stranger twists of intellec­
tual and political fortunes have taken place." 33 A year
later Ronald Reagan became president and introduced supply­
side economics or Reaganomics, 34 and George Gilder's Wealth
and Poverty, a defense of capitalism and a personal favorite
of Reagan, became a national best seller.

This reformationist trend in economics had received
strong support from protestant fundamentalists and evangeli­
cals. Jerry Falwell, leader of the Moral Morality, consi­
ders ambitious and successful management, competition in
business, the ownership of private property, and the free
enterprise system to be consistent with Biblical teachings. 35
He warns Americans of the inherent loss of economic freedom
as well as political and religious freedom resulting from
economic controls and blames government intervention and
over-taxation for the country's economic woes. In like man­
ner, Harold Lindsell, former editor of Christianity Today,
recently wrote a book entitled Free Enterprise: A Judeo­
Christian Defense. In this book he discusses the Biblical
support for the ownership of private property and free en­
terprise and defends this view against all forms of social­
isim. 36 Demonstrating a more direct link with the Austrian
tradition is Ronald Nash's latest book Social Justice and
the Christian Church. 37 In his defense of capitalism he
relies exclusively on reactionary economists, the majority
of whom are neo-Austrians. 38 Perhaps the prime example of
the influence of the neo-Austrian school and particularly
of Von Mises are the writing of the Chalcedon Institute
which was categorized by Newsweek magazine as the "Think
Tank" of the new religious right. 38 The leading economist
of Chalcedon, now heading the Institute for Christian Eco­
nomics, is Gary North, the author of An Introduction of
Christian Economics. In this book he relies heavily upon Hayek, Von Mises, as well as some disciples of Von Mises: Rothbard, Kirtner, and Hazlit. Perhaps James Dean is correct in believing that the popularity of the reactionary movement among economists is merely the result of a pragmatic rejection of the synthesis. However, it remains to be seen whether the popularity of the neo-Austrian school of thought among business men, politicians and religious leaders is illustrative of an ideological shift to the right and renewed commitment to nineteenth-century liberalism.

Ludwig Von Mises was the most ardent defender of the Austrian tradition and its commitment to liberalism and the free market. Spiegel had written: "If purely theoretical work, undiluted by empiricism and free of mathematics, and methodological and political individualism were the hallmarks of the Austrian School, no one confirmed this tradition in a more forthright and uncompromising fashion than Mises." Though Hayek - a Nobel Prize Winner- may be the best known proponent of the Austrian tradition, Von Mises is considered by neo-Austrians as the 'dean' of the school, a title conferred upon him as a result of the influence he had through the seminars he conducted in Vienna and New York.

Von Mises provided the Austrian tradition with a forthright and systematic exposition of economics; an economics purposefully rooted in specific presuppositions, one with political, moral, and religious implications. The warning given by Thurow regarding the current trend back towards a more pure form of neoclassical economics is applicable to the Von Misesian version. He wrote; "This is an economics blessed with an intellectual consistency, and one having implications that extend far beyond the realm of conventional economic theory. It is, in short, also a political philosophy, often becoming something approaching a religion." Von Mises presents economic theory as a branch of a more general science of human action and he deliniates the implications of
this view of human action and economics for the selection and maintenance of a system of social cooperation. A presentation of his view of economics must also include an analysis of its philosophical foundations, its ideological implications, as well as its implications for the nature and role of other aspects of social cooperation.
Notes to Chapter One

1 J.M. Keynes, Essays in Persuasion (London: Rupert art-Davis, 1952), p.312. The emphasis is Keynes'.

2 Ibid., p.317.

3 Ibid., p.313.

4 Ibid.

5 Ibid., p.319.


7 It is interesting to note that Keynes argued that the next step forward in the consideration of the agenda of government "must come, not from political agitation of premature experiments, but from thought." At the end of the essay he wrote, "We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts." He wrote this a few years before the Depression.


11 Ibid.

12 The Crisis in Economic Theory, pp. 19-35.

13 Ibid., p.25
14. This view of liberalism, he says, is found "no where in a more pristine form then at the University of Chicago," Ibid., p. 31.

15 Ibid.

16 Ibid.

17 Ibid., p.32

18 Ibid.


20 Ibid. Thurow, in reference to the same tendency among economists, says that economics is becoming a guild in which members "advance traditional theories rather than try to develop new ways of thinking and doing things to solve new problems". Thurow notes the similarity in this tendency to the recent fundamentalist movement in religion. Dangerous Currents, pp. xviii - xix.

21 Kristol, Ibid.

22 Ibid., p.211.

23 Ibid., pp. 210-211.

24 Ibid., p.213.


26 Ibid., p.216.

27 Kenneth Boulding wrote the introduction to a book entitled The Challenge of Humanistic Economics which provides a good orientation to the school of thought.

28 The Crisis in Economic Theory, p.211.

29 Kristol does not explain what distinguishes the 'neo-Austrians' from the Austrian tradition, the approach to economics initially developed by Carl Menger (see the discussions of Menger and the Austrian tradition in Chapter 2). By 'neo-Austrian he is apparently refering to the Austrian tradition as it was propounded by Ludwig Von Mises and Friedrich A. Hayek since the 1940's.
Ibid., p.212.

Ibid.

L. Minard, "Wave of the Past? or Wave of the Future?". Forbes (October 1, 1979), pp. 45-52.

Ibid., p.52. In the May 23rd issue of 1983, Forbes featured an article entitled "The 20th Century's Greatest Economist" in which the author selected Schumpeter over Keynes as the greatest.

For a more complete though biased description of supply-side economics, see chapter four of Dangerous Currents.


Harold Lindsell, Free Enterprise: a Judeo-Christian Defense (Wheaton:Tyndale House, 1982). Many of Lindsell's arguments, particularly his discussion of the mixed economy, are most similar to Von Mises' arguments. The absence of footnotes, however, make it difficult to determine to what extent Von Mises or his disciples Kirtzner and Rothbard influenced Lindsell.


Neo-Austrians include Von Mises and Hayek as well as their followers in North America. Concerning the North American followers of Von Mises, see footnote 41, below.


M. Rothbard, I. Kirtzner and H. Hazlitt were all participants in seminars conducted by Von Mises at the New York University Graduate School of Business Administration. For a list of other prominent attenders, see Ludwig Von Mises, Notes and Recollections (South Holland: Libertarian Press, 1978) p. 152. Hayek was a participant in a seminar conducted by Von Mises in Vienna.


44. For a list of the participants of Von Mises' seminar, see Notes, p.100.

45. Dangerous Currents, p.xviii.
Chapter Two

The Historical and Intellectual Setting of
The Austrian Tradition and Ludwig Von Mises

Von Mises developed his economic defense of the free market with an emphasis on the importance of the individual at a time when such ideas were unpopular. While he lived in Vienna, the study of economics was dominated by the historical school and economic policies were strongly interventionist. After ardently defending liberalism in Europe for more than half of his life, it was with feelings of frustration and hopelessness that he moved to the United States. Though he often felt alone in his battle against socialism and interventionism, he had strong intellectual roots in the writings of Carl Menger, the founder of the Austrian school. Many of the distinctive characteristics of Von Mises' approach to, and theory of, economics were influenced by Menger and his disciples. This chapter will begin with a description of the historical and intellectual setting of the Austrian school and a discussion of the major contributions of Menger and his disciples. These sections will be followed by a brief sketch of Von Mises' own intellectual development.

Historical and Intellectual Setting of the Austrian School

Described by Karl Pribram as being at the crossroads of two conflicting patterns of thought, essentialism and nominalism, Vienna provided a unique intellectual climate within which Carl Menger formulated his distinctive view of economics. Though Pribram considered the two patterns of thought to be in polar opposition to each other, the Austrian approach contains elements of both essentialism and nominalism. The distinctiveness of the Austrian school can be understood in terms of the unique combination of elements of these two patterns in the school's view and approach to economics.
According to the essentialistic pattern of reasoning, the mind is endowed with the capacity to formulate concepts representing the real order of phenomena external to the mind. Basic to this view is the "identity of thinking and being" according to which man, with the aid of externally valid concepts, can achieve full insight into the nature and essence of things. Adherents of the hypothetical or nominalistic approach "question the real existence of any concepts outside the mind or at least the faculty of the intellect to grasp such concepts." To arrive at an understanding of events, they select assumptions which are considered useful and reliable to the extent that they "assist the student in establishing casual or functional relationships between the phenomena under observation and enable him to devise a consistent body of doctrine." 

Beginning with the essentialistic approach of Thomism, Pribram depicts the development of neoclassical economics as the result of a general movement from a basically essentialistic pattern of reasoning to a nominalistic pattern of reasoning. According to Pribram, the development of hypothetical or nominalistic reasoning gradually gained adhesion under the influence of Baconian and Cartesian thought. This development contributed to the establishment of economics as an independent science in the writings of Adam Smith. In this period, nominalistic reasoning led to the use of mechanistic conceptions in the study of social phenomena, the empirical investigation of phenomena, and the development of quantitative thinking. It also enhanced the "rejection of the scholastic belief in the real existence of religious or political collectives independent of the will of their members," the development of sociological individualism, and Locke's theory of indifference according to which the pursuit of self-interest in the economic sphere was considered morally indifferent.

The next step in the development of hypothetical reasoning was the further application of mechanistic concepts
to economic analysis, particularly the development of the concept of equilibrium. However, even the classical system of economics as developed by Ricardo on the basis of utilitarianism still contained elements of scholastic thinking, particularly in its theory of value. Thus, the next major step in the "refinement of hypothetical reasoning" was the development of marginal analysis through the application of a subjective theory of value.

Whereas in Britain the development of nominalistic or hypothetical reasoning was relatively unhindered, in Germany its progress was hampered by the German classical school or Cameralists who were described by Pribram as possessing a strong blend of classical economics and scholasticism.

The chief proponents of this version of German classical economics were Justi (1705 - 1771) and Sonnenfels (1732-1817), both of whom taught in Vienna. The latter held the first chair of economics at the University of Vienna and his textbook on economics was used in Austrian Universities until 1848.5 It was from "Sonnenfels legacy," says Spiegel, that "there stemmed a faith in reason and a willingness to postulate general principles valid for all mankind."6 It was this tradition, supported by the natural law tradition and maintained by the strong Catholic tradition in Austria, which Spiegel feels provided Menger with a 'paradigm' in which to develop general economic principles, similar to the influence of utilitarianism on English economists such as Jevons.7

In describing the philosophical environment of these German classical economists or Cameralists, Pribram wrote: "Throughout the seventeenth and eighteenth centuries the rigid principles of the Aristotelean logic, which had provided the backbone of the Thomistic philosophy, strongly appealed to the minds of the humane teachers of the social disciplines. The writings of the "Cameralists, who expounded a theory and practice of economic and political administration, bore the imprint of that methodological approach."8 In developing this approach they followed the
teachings of Leibniz (1649 - 1716) and Christian Wolff (1649 - 1716) who rejected, "the application of mechanistic ideas to economic analysis." Their philosophy provided a basis for a causal analysis and a general approach to economic science. Leibniz taught that truth could be derived by "deductible methods from axiomatic principles taught by reason" and that these truths of fact are established by "demonstration of causal relationships between the observed phenomena." Wolff dismissed the use of mathematics and divided science into a philosophical part and an empirical part. The former was to supply the "conceptual and explanatory exposition", and the latter was to "provide the facts for verifying and amplifying the knowledge gained by deductive reasoning." "Technology and administrative practice" were also included as "corresponding empirical disciplines." Though most universities in Germany and Austria were heavily influenced by these methodological principles, economists at that time were more concerned with practical applications and so theoretical aspect of economics was not developed.

Economics, as it was taught in German and Austrian universities, remained deeply influenced by essentialistic patterns of thought. However, an exception to this dominance was in Vienna where both essentialism and nominalism found adherents. The intersection of these two patterns of thought in Vienna produced a free and fertile intellectual climate in a region dominated by German culture and tradition. Pribram wrote:

The intellectual classes of Vienna had established the only outpost of monistical reasoning east of the Rhine. Vienna's scientific, philosophical, literary and artistic achievements as well as the liberal attitude of the Austrian imperial administration were attributable to the influence of that reasoning. This nominalistic attitude
contrasted sharply with a semi-universalistic trend, the heritage of the dynastic tradition which was fostered by the nobility and the Catholic clergy and which found its adherents particularly among the lower middle classes. The pattern of materialistic dialectics was endorsed by a small group of able and highly trained orthodox Marxists who elaborated the revolutionary international tenets of their doctrine. But the large majority of the industrial workers adhered to the nationalistic brand of the 'evolutionary' German Revisionists and formed a strong social democratic party. An increasing group, composed particularly of white-collar workers, was attracted by the extreme organismic principles of German National Socialism.14

This mixture of differing traditions produced a fertile intellectual soil in which, according to Von Mises, "Franz Brentano's philosophy could grow roots, as could Bolzano's epistemology, Mach's empericism, Husserl's phenomenology, and Breuer's and Fredu's psychoanalysis. In Austria the air was free from the scepter of Hegelian dialectics. There was no mood, in the sense of national duty, to 'overcome' the ideas of Western Europe. In Austria, eudaemonism, hedonism, and utilitarianism were not scorned; they were studied."15 It was within this intellectual climate that Menger developed his distinctive view of economics.

Carl Menger

The founder of the Austrian School was Carl Menger
(1840 – 1921), at one time a tutor of the crown prince and later a professor of political economy at the University of Vienna. He published two major works in which he developed a conception of economics which was to characterize the Austrian School. The first of these, which was published in 1871 and translated in 1950 under the title Principles of Economics earned him the professorship at the University of Vienna in 1873. Due to the content of this book Menger became recognized as one of three economists who, independently of each other, first applied marginal analysis and a subjective theory of value to the study of economics. The other two were W. Jevons and Leon Walras. This development has come to be known as the "marginal revolution". Each was distinctive in his use of marginal analysis and the unique characteristics of Menger's approach are apparent when the three are compared.

The distinctive feature of Jevon's approach was his strong commitment to utilitarianism and classical economics, a commitment for which Pribram considered him the most conservative of the three. In Jevon's view, happiness is maximized by exchanging pain for pleasure. Since value is measured in terms of its marginal contribution to utility, the value of a good is determined by the increment of pain or pleasure it affords to the individual. Equilibrium in the market consists in the equalization of marginal utilities as calculated in terms of relative prices for the purpose of exchange. Considering marginal utility to be quantifiable, Jevons applied mathematical analysis in his attempts to develop a theory of exchange which enabled him to determine the equilibrium conditions of exchange between several individuals. Leon Walras utilized mathematics to an even greater extent as he developed a general equilibrium model consisting of a series of simultaneously solvable equations. Assuming certain conditions, Walras was able to demonstrate mathematically how a perfectly competitive market would tend towards equilibrium.
In contrast to these, Carl Menger objected to the use of mathematics in the study of economic behaviour. Instead, he developed a psychologically oriented approach. Referring to Menger's approach as the "psychological version of marginalism", Pribram writes of him: "He believed that observation and experience had to provide the basis for his value theory and he used a sort of psychological introspection to establish the foundations of that theory, which was designed to explain the relationship among fundamental categories in terms of causal connections. He made no attempt to combine aggregate economic magnitudes into a consistent system of interdependent interactions, and did not apply the equilibrium principle to the analysis of those relationships." It was this emphasis on causal relationships and avoidance of equilibrium analysis which Von Mises considered to be the distinctive contribution to economics of Menger and the Austrian School. He wrote, "What distinguishes the Austrian School and will lend it immortal fame is precisely the fact that it created a theory of economic action and not of economic equilibrium or nonaction." In analyzing the causal relationship between production and exchange, Menger concluded that value was not inherent in things themselves but rather that it was rooted in the "psychological motivation of human behaviour as it manifests itself in the typical attitudes of individuals towards the objects of their want satisfaction and reflects the marginal utilities of the good." By applying marginal analysis to individuals' behaviour in the process of exchange, Menger sought to indentify the universally valid economic laws which affect economic activity.

Menger's use of marginal analysis and his individualistic method were quite consistent with nominalistic or hypothetical reasoning. These aspects of Menger's thought were similar to the approach of the British liberal tradition and Johnston considered Menger's analysis as the most nominalistic of Austrian social theories. Yet other aspects of
Menger's theory display essentialistic characteristics, particularly his rejection of equilibrium analysis and his general approach to the study of universal laws.

Though there is a definite affinity between the views of the Cameralists and of Menger, no one, according to William Johnston, had been able to "ascertain the formative influences on Menger." Johnston mentions two theories, one exposed by Oskar Kraus who argued that there was a parallel between Menger's thought and that of Aristotle, and Emil Kauder's argument that linked Menger as well as Bohm-Bawerk and Wieser with Leibniz, but dismisses both for not having established through whom these ideals had influenced Menger. Though the direct links to the Cameralists have not been established, T.W. Hutchison characterizes Menger's general approach as both "antinominalistic" and essentialistic.

It was this general approach which entangled Menger in a debate with Gustave Schmoller of the historical school. Menger's main contribution to the Methodenstreit (battle of methods) was the second book published in 1883 and subsequently translated into English in 1963 under the title Problems of Economics and Sociology. In this book, Menger defined the theoretical nature of economic science and his individualistic method. Menger began the book by distinguishing between two approaches used in the study of phenomena, the individual and the general. These two "orientations for the striving for cognition" in turn correspond to two classes of scientific knowledge, the individual class which deals with concrete phenomena in concrete relationships, and the general class which is concerned with empirical forms of concrete phenomena (types) and empirical forms of concrete relationships (typical), which Menger called laws. It is the study of these empirical forms which enables man to comprehend phenomena and which provides the basis "of all cognition extending beyond immediate observation, i.e., of any prediction and control of things." In the economy, the phe-
nomina of purchase, money, supply and demand, price, capital and rate of interest are referred to by Menger as examples of typical empirical forms.\textsuperscript{33} A decrease in price due to an increase in supply is an example of a typical relationship among economic phenomena.\textsuperscript{34} The study of "individual phenomena and their individual (concrete) relationships" within the economy is the domain of economic history and statistics. The general study of "empirical forms and laws (the general nature and general connection) of economic phenomena" is the task of theoretical economics.\textsuperscript{35} In addition to the historical and theoretical sciences, Menger distinguishes a third group which he refers to as the "practical sciences" or "technologies." Concerning this group of sciences he wrote: "The sciences of this type do not make us aware of phenomena, either from the historical point of view or from the theoretical: they do not teach us at all what is. Their problem is rather to determine the basic principles by which, according to the diversity of conditions, efforts of a definite kind can be most suitably pursued. They teach us what the conditions are supposed to be for the definite human aims to be achieved. Technologies of this kind in the field of economy are economic policy and the science of finance."\textsuperscript{36} Of these three groups of sciences the first two are descriptive and only the latter is prescriptive.

The method of theoretical economics is individualistic. Since the valuations which direct economic activity are determined on an individual basis, Menger felt the only way to correctly understand the economy is through the investigation of individual behaviour. Menger considered all social formulations, including economic ones, to be the result of individual action and dependent upon the human action for their continued existence. As there was nothing constant about inter-human relationships Menger considered the analysis of economic aggregates such as national income, which is crucial for Keynesian analysis, to be useless for the purposes of theoretical study and the formulation of policy.
Menger's main contributions to the Austrian tradition were his psychological marginalism, his rejection of equilibrium, his general theoretical approach to the discovery of laws, and his individualistic method. His unique approach to economic theory which combined elements consistent both with essentialistic and nominalistic patterns of reasoning, is at least partially due to the intellectual climate of Vienna. This blend of essentialistic and nominalistic reasoning was carried on by the two main disciples of Menger, Wieser and Bohm-Bawerk.

Weiser and Bohm-Bawerk

Of the second generation economists, the two most famous were Friedrich von Wieser (1851 - 1928) and Eugen von Bohm-Bawerk (1851 - 1914). Though neither was actually a student of Menger, both were heavily influenced by his writings. Both contributed to a further elaboration of price theory and set the pattern for future Austrian economists by their sharp critiques of Marxian economics. Wieser, Menger's successor at the University of Vienna, focused much of his attention on the problem of costs and developed a theory of imputation which differed from Menger's approach. Whereas Menger determined the marginal utility of a good on the basis of the effect the removal of a marginal unit of a factor of production would have on the production process, Wieser sought to derive the value of a marginal unit on the basis of its productive contribution. In some cases Wieser suggested the use of a series of equations to help determine marginal utilities. Von Mises was most critical of this departure from Menger's approach and concluded that Wieser "never really understood the gist of the idea of Subjectivism in the Austrian School of thought. Von Mises felt that Wieser had more in common with the Lausanne (Walrasian) school. Bohm-Bawerk remained faithful to Menger's view of economics and is best known for his work on the theory of interest and capital from which he concluded that interest is a general economic category and as such is a feature of all
Yet, as Spiegel notes, even Bohm-Bawerk's theories produced controversy within the Austrian School. The diversity of opinion continued to grow among the Austrian School's adherents as later Austrians only adopted certain features of the tradition and discarded the rest. Spiegel attributes this breakdown of the Austrian School to the fall of the Hapsburg Empire in 1918 and the subsequent increasing influence of Germany, both intellectually and politically, which eventually caused many economists, including Hayek and Von Mises, to leave Austria. Spiegel feels that this change in the "intellectual atmosphere" combined with the "passage of time" had "dimmed the influence of the founders and introduced new ideas generated by the process of economic science." Von Mises

The most "forthright and uncompromising" proponent of the Austrian tradition as established by Menger was Ludwig Von Mises, a third generation Austrian economist who studied under Bohm-Bawerk at the University of Vienna. Von Mises, more than any other Austrian economist, developed a 'school of thought' through seminars he conducted in Vienna and New York. In fact, one of the students who attended his seminars in New York considers Von Mises' development of a theory of money and credit to be the "culmination and fulfillment of the "Austrian School" of economics" and the beginning of a new "neo-Austrian" or "Misesian" school of thought. However, The Theory of Money and Credit was only the first of many books written by Von Mises in which he sought to reconstruct the epistemological and methodological basis of the Austrian school and to provide it with a comprehensive explanation of human action, as well as a defence of the market system. If, as Pribram said, the task of Menger's followers was to strengthen the "logical foundations of their analysis and to enlarge the scope of its applicability." Von Mises was indeed the foremost of Menger's followers.
Born in 1881, Von Mises attended the University of Vienna and received a doctor of jurisprudence degree in 1906. Though he entered university a proponent of interventionism and historicism, he was already suspicious of their validity. While yet in high school, he claimed he had recognized a contradiction in Schmoller's historical method and was not convinced by historical arguments used to refute liberalism and the ownership of private property. Rather, he was beginning to think that only liberalism could provide an adequate political foundation for Austria. Also, when he entered university, he did not believe an economic science was possible since economic history was restricted to the "means and methods of historical disciplines" and could "never yield economic laws." He wrote, "And beside economic history there was nothing in economic life, I believed, that could be made the object of scientific analysis."

Being required to take some courses in political economy, it was while under the supervision of a representative of the German Historical School that he studied various economic policies. Given the task of researching housing conditions and labour laws, he realized that all the improvements in the condition of the working class were the result of capitalism and that it was the social reform laws which brought about the opposite of what they were intended to achieve. He also became convinced that it was the interventionist policies which prevented the needed expansion of the housing market.

While he was at university he came across Carl Menger's book The Principles of Economics. He claimed that it was Menger's book which made him an economist. Though he only met with Menger a few times, he regularly attended seminars conducted by Bohm-Bawerk, a disciple of Menger, who at that time was considered the chief figure in the Austrian school of economic thought. It was an investigation of a critique made against the Austrian school which eventually resulted
in the publication of Von Mises first book and caused him to reject interventionism as a system of social cooperation.

In a book entitled *Das Geld* (1903), Karl Hillerich argued that the marginal utility theory of the Austrian school failed to solve the problem of money value. Von Mises' investigation of the claim resulted in three essays which formed the backbone of his book, *Theory of Money and Credit*, published in 1912. His investigation uncovered "the worst shortcomings of monetary thought", and his conclusions were met with stiff opposition. The "indefensible theories" used to defend banking practices and attempts by bankers to persuade him to change his views caused him to question their motives. He discovered that bankers were profiteering by the existing state of affairs and this led him to conclude that corruption was an integral part of interventionism.

While writing *Theory of Money and Credit*, he realized that such a study needed to be grounded in economic theory, of which money and credit were a part. He did not believe that the study of currency and banking could be separated from economics as was the practice in the universities and he worked to restore it to its appropriate place as an integral part of economics. In this attempt, Von Mises found the theoretical systems of Menger and Bohm-Bawerk inadequate though he was not able to provide a suitable foundation until years later, when he turned his attention to the subject of epistemology.

Because of his economic and political views, Von Mises had to earn a living outside the university. From 1909 until 1938 he worked for the Vienna Chamber of Commerce which advised the government in economic matters such as currency, credit, tax policy, etc. During this period he characterized his political activities as being concerned with four purposes: prevention of Bolshevist takeover, halting inflation, avoidance of banking crisis, and a struggle against takeover by Germany. Before the war he was also associated with the Central Associa-
tion for Housing Reform and a member of the Central Committee of Trade Policy. He also conducted a university seminar as an unsalaried lecturer, on foreign trade policy; but the work of the seminar was never completed as none of the other participants of the seminar survived the first world war.

It was his wartime experience which he said drew his attention to the primary and fundamental problem of civilization. He wrote:

Only he who fully understands economic theory can comprehend the great questions of economic and social policy. Only he who masters the most difficult tasks of economics can determine whether capitalism, or socialism, or interventionism constitute suitable systems of social cooperation. However, political decisions are not made by economists, but by public opinion, that is, the people. The majority determines what shall be done. This is true of all systems of government. Even absolute Kings and dictators can rule only as public opinion commands. 48

He argued that belief in race mysticism, religious mysticism, unerring class consciousness, or a belief in a guiding dialectical process of historical development are escape mechanisms, and that our experience discredits them. He also noted that people who adhere to the same belief propose different doctrines and programs and that appeal to any of these will not answer questions such as whether credit expansion can really reduce interest rates permanently. Though sympathetic to a system of liberal democracy, he argued that freedom of thought and speech will not assure the acceptance of a correct doctrine. It is people that decide, and economists have the duty of informing the public on economic matters. Thus, as an economist, Von Mises felt that it was
his duty to explain what constituted a suitable system of social cooperation. In 1919, he published a book entitled Nation, Staat and Wirtschaft, which he described as a "scientific book with political design." This book was directed against socialist ideas and recommended reconstruction via democratic liberal policy. A few years later, he wrote books criticising both socialism and interventionism, and later wrote a book (Liberalismus) expounding classical liberalism.49

In his analysis of systems of social cooperation he claimed to have introduced a new point of view which alone provided an opportunity for scientific discussions of political questions. In describing this approach he wrote:

I enquired into the effectiveness of the chosen means to attain the avowed ends, that is, whether the objective which the recommended measures were to attain would actually be achieved by the means recommended and employed. I demonstrated that an evaluation of the various systems of social cooperation is rather pointless when conducted from an arbitrary point of view. Instead, what only is significant is to judge what the systems indeed accomplish.50

Thus, pronouncements or policy proposals without an evaluation of their effectiveness were merely expressions of subjective value judgements.

After the war, he continued in the Chamber of Commerce and revised Theory of Money and Credit. He also conducted a private seminar one evening every other week through which the 'Austrian school' lived on. Participants in this seminar included Hayek, Ropke and Eric Voegelin.51 His other activities included involvement in two notable associ-
ations, the Association for Social policy to which he was elected in 1919, and the German Association for Sociology which he joined in 1925. As well, he founded the Austrian Institute for Business Cycle research in 1926. It was in the late 20's and early 30's that his concern over methodology resulted in the publication of several essays which in 1933 were published under the title *Epistemological Problems of Economics*. In 1934 he accepted an invitation to assume the chair of International Economic relations at the Institut Universitaire de Haute Etudes Internationales in Geneva, where he remained until 1940. It was in 1940 that he published a book which represents the integrated and systematic presentation of his work in the theory of money, social cooperation, and methodology. This book was published in English in 1949 as *Human Action*.

In 1940 Von Mises moved to the United States. He was never hired to a regular academic post in America. He was a visiting professor at the Graduate School of Business Administration at New York University and his income was provided by foundations and friends. He died in 1973 at the age of 93. During his time in the United States, he was one of the founding members of the Mont Pelerin Society, an international association of freemarket economists and social philosophers. He continued to be an active writer as he published four books, *Bureaucracy, Omnipotent Government, Theory and History* and the *Ultimate Foundation of Economic Science*. During this period he was also the recipient of several awards, including an Honorary Doctorate of Laws from New York University in 1963, and an Honorary Doctorate of Political Science from the University of Freiburg in 1964. In 1969 he received the Distinguished Fellow award of the American Economic Association.

Perhaps the most significant contribution he made while in the United States was the teaching of a graduate seminar at New York University which he conducted from 1948 to 1969.
Many of the participants, such as Israel Kirzner, George Reisman, Murray N. Rothbard and Hans Sennholz continue to promote Von Mises' view of economics.

The unique tribute given to Von Mises was the proposal of Oskar Lange, a member of the Polish Politburo, who suggested that socialists erect a statue of Von Mises, "For it was his powerful challenge that forced the socialists to recognize the importance of an adequate system of economic accounting to guide the allocation of resources in a socialist economy."\(^{53}\)
Notes to Chapter Two

1. Karl Pribram, Conflicting Patterns of Thought (Washington: Public Affairs Press, 1949). Pribram considered all schools of economic thought to contain elements of both patterns of thought and the particular combination of elements of essentialism and nominalism, he argued, were key factors in the distinctiveness of each school.


3. Ibid., p.3.

4. Ibid., p.5.


6. Ibid., p.532

7. Ibid.


11. Ibid., p.94

12. Ibid.

13. Ibid., p.95.


16. Von Mises felt that neither Menger nor Bohm-Bawerk (1851-1914) intended to found a school of economic thought. He said they did not "propagandize their theories" and they did not
use their influence to aid the promotion of those who agreed with their ideas. In fact, Menger once wrote "There is only one sure method for the final victory of a scientific idea, namely, by letting every contrary proposition run a free and full course" - a statement that seems consistent with his early retirement and subsequent silence. See Von Mises chapter on the Austrian school in Notes and Recollections, pp.33-41. In this regard, Spiegel notes that neither Wieser nor Bohm-Bawerk (the main disciples of Menger) were actually students of Menger and Von Mises had already become acquainted with Menger's work years before he attended Bohm-Bawerk's seminar. The only one who seemed to actively try to develop a group of followers was Von Mises, who conducted a private seminar in his office at the Chamber of Commerce in Vienna, beginning in 1920. He referred to the participants of this seminar as a circle of students in which "the younger Austrian school of Economics lived on." Notes and Recollections, p.97.

20 See Pribram's comparison of the three in which he labels their respective theories as utilitarian marginalism (Jevons), mathematical marginalism (Walras), and psychological marginalism (Menger). See A History of Economic Reasoning, chapter 18.
21 It was this accomplishment of Walras for which Joseph Schumpeter considered him to be the "greatest of all economists." J. Schumpeter, A History of Economic Analysis (New York: Oxford University Press, 1954), p.827.
22 Pribram, Economic Reasoning, p.281
23 Hence Von Mises did not consider Schumpeter, a supporter of equilibrium analysis, a member of the Austrian school. Notes p.36.
24 Hence Von Mises did not consider Schumpeter, a supporter of equilibrium analysis, a member of the Austrian school. Notes p.36.


26 Pribram notes that both Menger and his disciple Bohm-Bawerk denied that their thinking was influenced by utilitarian philosophy and Weiser "insisted that the method of 'introspection' which he used to establish to principles of subjective valuation was independent of the teachings of any specific school of psychology or philosophy." See Pribram, Economic Reasoning. p.363.


28 Ibid., p.86.


30 W. Eucken refered to the debate between Schmollers' individual-historical approach' and Menger's 'general-theoretical' approach as the "great antimony." Eucken, The Foundations of Economics (London: William Hodge, 1950), see chapter 2. William Johnston says it was the polarization resulting from this debate which helped Pribram develop his distinction between nominalism and organicism and that it was Weber who brought the two together in his concept of the ideal type. William Johnston, The Austrian Mind, p.79.


32 Ibid., p.35.

33 Ibid.

34 Ibid.


Von Mises, Notes and Recollections, p.36.

See Pribram's section or Bohm-Bawerk's contribution. Pribram, Economic Reasoning, pp.319-322. See also Spiegel, Growth pp.539-542.

Spiegel, Growth of Economic Thought, p.542.

Ibid.

This is how Spiegel describes him. Ibid., p.543.


Historicism is described by Von Mises as follows: "The fundamental thesis of historicism is the proposition that, apart from the natural sciences, mathematics and logic, there is no knowledge but that provided by history. There is no regularity in the concatenation and sequence of phenomena and events in the sphere of human action. Consequently the attempts to develop a science of economics and to discover economic laws are vain." Theory and History (New Haven: Yale University Press, 1957), p.199. The only source of economic laws was through the study of history. See chapter One of Notes and Recollections.

Von Mises, Notes and Recollections, p.119.

This was Professor Karl Grunberg.

He first read Menger's book in 1903.

Von Mises, Notes and Recollections, p.67.
It was translated and published in English under the title *Socialism* (New Haven: Yale University Press, 1951). It was first published in 1922 and it is this book which Hayek says made a profound impression on himself and others such as Ropke and Robbins. Hayek made this comment in a speech at a party given in honour of Von Mises. See Margit Von Mises, *My Years with Ludwig Von Mises* (New Rochelle: ArlingtonHouse, 1976), Appendix 2.

50 Von Mises, *Notes and Recollections*, p.113.

51 Others included Gottfried Von Haberler, Fritz Machlup, Oskar Morgenstern, and Richard Von Strigl.

52 Von Mises did not immediately resign from his post at the Chamber of Commerce as he continued to direct the Chamber's department of finance, returning to Vienna when necessary.

Praxeology : The Science of Human Action

Von Mises believed that economists were singularly qualified to judge the viability of systems of social cooperation. He wrote, "Only he who fully understands economic theory can comprehend the great questions of social policy. Only he who masters the most difficult tasks of economics can determine whether capitalism, or socialism, or interventionism constitute suitable systems of social cooperation." However, he realized that political decisions were not made by economists but by the people and though he was sympathetic to the system of liberal democracy, he believed that freedom of thought and speech would not assure the acceptance of the suitable system of social cooperation. Thus, he considered it to be the duty of economists to inform the public on economic matters. If economists were to fail scientifically in their analysis or, if they were to fail in communicating their findings to the public, then Von Mises felt the situation would be hopeless. He felt the problem facing economists was particularly difficult because men like J.M. Keynes, Bertrand Russell, Harold Laski and Albert Einstein "could not comprehend economic problems."

Though Von Mises considered "misunderstandings about the nature and significance of economics" to be partially attributable to "antipathies arising from political bias against the results of inquiry and conclusions to be necessarily drawn from them", a cause of much confusion about economics was the "logical and methodological singularity of economic theory," which he felt made economics difficult to categorize. This he understood to be an epistemological problem and through a reformulation of the epistemological foundations of economics, he sought to redefine the place and role of economics in the human sciences.
On the basis of such a foundation, he felt the true nature and significance of economics could be established scientifically and thus rationally defended against criticism arising from political bias. Von Mises hoped that such an exposition of economics would expose the fallacies of both interventionism and socialism and that it would provide a defense for liberalism, the political doctrine which he considered to be the practical result of correct economic theorizing.

To provide an adequate foundation for economics, Von Mises developed a general science of human action of which economics was to be considered one branch. This general science of human action he called praxeology. There are four main components of praxeology: its conception of human action, its methodological individualism, its theoretical nature based on a priori reasoning, and the subjective theory of value utilized by praxeology in understanding human action. This chapter will provide an exposition of praxeology in reference to these four components.

**Human Action**

Praxeology, said Von Mises, arises from the realization that action is the result of the subject consciously aiming at an end. There are three prerequisites for action: felt uneasiness, the image of a more satisfactory state, and the expectation that purposeful behaviour had the power to remove or at least alleviate the felt uneasiness. Thus action is purposeful. "In acting, the mind of the individual sees itself as different from its environment, the external world, and tries to study the environment in order to influence the course of events it it." It is this purposeful aspect of action, referred to by Von Mises as the category of teleology, which distinguishes the human sciences from the natural sciences. In the natural sciences "there is no action: there is only agitation and response, cause and effect, but no ascertainable purpose." Man alone can act. Man can manipulate his environment to achieve his purposes. As action can also achieve its purpose, the category of fi-
nality is applicable to human action. Human action has purpose and conclusion. Action also involves the consideration of the actions of others to the extent these actions will influence the actions of the individual. As the actions of others cannot be predicted with certainty and, as natural phenomena such as the weather cannot be predicted with certainty, all action involves an element of speculation.

All action is undertaken to attain a specific result. This orientation to results makes action rational. As every action is undertaken in order to remove felt uneasiness, every action has an end, or goal. All action is purposeful, thus all action was considered by Von Mises as rational. The rationality of an action is not dependent upon the object of the action, but rather it refers to the very nature of acting itself. "When applied to the ultimate ends of action," wrote Von Mises, "the terms rational and irrational are inappropriate and meaningless. The ultimate end of action is always the satisfaction of some desires of the action man. Since nobody is in a position to substitute his own value judgments for those of an acting individual, it is vain to pass judgment on other people's aims and volitions." The purpose of the action does not make an act rational; that the action is purposeful makes it rational. Von Mises noted that when considering the selection of means chosen for the attainment of ends, the term rational or irrational is used judgmentally with respect to the expediency and adequacy of the means utilized. However, even if an action is unsuited to the ends sought, though the action may be considered "contrary to purpose", he maintained that the action is still rational in that it is still "the outcome of a reasonable - although faulty - deliberation and an attempt - although an ineffectual attempt - to attain a definite goal." Thus the opposite of action is not irrational behaviour, but "a reactive response to stimuli on the part of the bodily organs and instincts which cannot be controlled by the volition of the
person concerned.\textsuperscript{8}

This teleological nature of action enables human action to be the object of scientific inquiry. As an activity, science itself is rational. However, Von Mises admitted that there was a limit to scientific analysis. He wrote, "the analysis of objects into their constituent elements must sooner or later necessarily reach a point beyond which it cannot go. The human mind is not even capable of conceiving a kind of knowledge not limited by an ultimate given inaccessible to further analysis and reduction. The scientific method that carries the mind up to this point is entirely rational. The ultimate given is an irrational fact."\textsuperscript{9} The science of praxeology does not concern itself with the selection of ultimate ends, but with action itself and the selection of means to be used for the attainment of ends.

**Methodological Individualism**

Methodological individualism is a characteristic of the Austrian School of economics and was utilized by the founder of the school, Carl Menger, in his investigations of social order. In these investigations, Menger sought to explain the development of economic and social institutions or orders which, although not structured by conscious human design, were the result of human action. Menger felt that human behaviour and the development of these institutions could only be explained in terms of individual motives and actions.\textsuperscript{10} Von Mises adopted what Menger referred to as the 'composite' method and used it in his own study of human action and social cooperation.

Praxeology, Von Mises' science of human action, focuses on the action of individuals. Von Mises argued that no "sensible proposition concerning human action can be asserted without reference to what the acting individuals are aiming at and what they consider as success or failure, as profit or loss."\textsuperscript{11} As all actions are performed by individuals, the individual is the primary given for the science of human action.
Von Mises wrote:

Individualism as a principle of the philosophical, praxeological, and historical analysis of human action means the establishment of the fact that all actions can be traced back to individuals and that no scientific method can succeed in determining how definite external events, liable to a description by the methods of the natural sciences, produce within the human mind definite ideas, value judgements, and volitions. In this sense the individual that cannot be dissolved into components is both the starting point and the ultimate given of all endeavours to deal with human action.\(^\text{12}\)

As the individual is the ultimate starting point for the human sciences, human cooperation and social action can only be understood in terms of individual action. Thus social action was considered by Von Mises to be a "special case of the more universal category of human action as such,"\(^\text{13}\) and any attempts to explain action in collective or holistic terms would be fallacious.

In emphasizing the role of the individual, Von Mises did not wish to deny that social groupings or communities such as nation, states, parties, or religious communities have an influence in determining the source of human action. Rather, he merely wanted to establish that these institutions or social wholes can only be properly understood by an analysis of individual action. "Methodological individualism," he wrote, "far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structure, and their operation."
And it chooses the only method fitted to solve this problem satisfactorily.\textsuperscript{14}

Society is considered by Von Mises to be "concerted action", or "cooperation." "Society", he wrote "is the outcome of conscious and purposeful behaviour. This does not mean that individuals have concluded contracts by virtue of which they have founded human society. The actions which have brought about social cooperation and daily bring it about anew do not aim at anything else than cooperation and coadjuvancy with others for the attainment of definite singular ends."\textsuperscript{15} Society is the product of cooperative effort and it "exists nowhere else than in the actions of individual man."\textsuperscript{16} Science, limited by its reasonableness, cannot ascertain the validity of theological or metaphysical theories concerning the nature and purpose which wholes such as society may have. If society is considered as "an entity living its own life, independent of and separate from the lives of the various individuals", which acts in its own behalf and aims at its own ends which may differ from the ends sought by individuals, then conflict between the aims of society and that of the the individuals can only be resolved by compelling individuals to act in accordance with the ends of society. Science cannot enable man to discover what the end or purpose of society may be. This is a question addressed by "theological or metaphysical professions of faith." In determining these ends, "They must assume that Providence, through its prophets, apostles, and charismatic leaders, forces men who are constantly wicked, i.e., prone to pursue their own ends, to walk in the ways of righteousness which the Lord or Weltgeist or history wants them to walk."\textsuperscript{17} Such questions are beyond the proper scope of a science. A science of human action must limit itself to the actions of individuals and consider society as merely the result of cooperation by individuals. Von Mises did not deny the influence that social wholes do have on the individuals with respect to the selection of ends. However,
it is by the actions of individuals that such wholes are maintained and scientific investigations to remain scientific, must be limited to methodological individualism.

Judging by the limited amount of space in the writings of Von Mises devoted to the formulation and exposition of methodological individualism, it appears he felt the need for an individualistic method in the study of human action to be self-explanatory. When he did refer to it, he did so most often with the purpose of demonstrating the inability of other methods to provide an adequate explanation of social cooperation and a proper understanding of what motivates an individual to act.

Von Mises felt that a rejection of methodological individualism "implies the assumption that the behaviour of man is directed by some mysterious forces that defy any analysis and description." In the absence of scientific analysis, men should attempt to explain human action and social cooperation as they had done in the past. Either they would attempt to "ascertain the ends of which God or Nature was trying to realize in the course of human history" and explain social cooperation in terms of "miraculous interference of the Deity either by revelation or by the delegation of God-sent prophets and consecrated leaders, pre-established harmony, predestination, or the operation of a mystic and fabulour 'world soul' or 'national soul'." Or, denying that there was any regularity or invariance in social events, social cooperation was understood by others as a political problem which required the correct set of rules to guide political action, as well as "good princes and virtuous citizens." Either way, Von Mises felt that it was futile to analyze social action and individual action "with an attitude of a censor who approves or disapproves from the point of view of quite arbitrary standards and subjective judgements of value." Rather, Von Mises believed that
human action and social cooperation ought to be understood as the object of a "science of given relations, no longer as a normative discipline of things that ought to be..."[22] Thus, according to Von Mises, a scientific analysis of human action and social cooperation must begin with the individual.

Theoretical Nature of Praxeology

I. Theory

Man observes "regularity in the succession of concatenation of natural phenomena."[23] By experience and experimentation, man discerns laws and establishes facts. These facts are used to develop theories. However, the determination of facts itself requires theory. "Nothing is more clearly an inversion of the truth" wrote Von Mises, "than the thesis of empiricism that theoretical propositions are arrived at through induction on the basis of a presuppositionless observation of 'facts'."[24] Theory is the "search for constant relationships between entities or, what means the same, for regularity in the succession of events."[25] The search for constant relationships itself requires a prior proposition concerning the regularity in the succession of events in nature. Such a prioristic proposition is necessary even for the determination of facts; for if there were no regularity, facts could not be established as reality would appear as chaos. Indeed, Von Mises argued that "a theory is already contained in the linguistic terms involved in every act of thought."[26] Thus theory is utilized in acting. "Even a complete stranger to scientific thinking, who naively believes in being nothing if not 'practical', had a definite theoretical conception of what he is doing. Without a 'theory' he could not speak about his actions at all, he could not think about it, he could not even act."[27] As the study of history presupposes a theory of action, laws of human action are not discovered inductively through historical investigation, but on the
basis of theory based on a prior preposition. This theoretical approach enables praxeology to study "universally valid laws of human action, i.e., laws that claim validity without respect to the place, time, race, nationality, or class of the actor."\textsuperscript{28}

According to Von Mises a scientific analysis of human action and social cooperation is made possible by the realization that there was "regularity and invariance" in social events. In particular, he believed that the need for a general science of human action became apparent with the "discovery of a regularity in the sequence and interdependence of market phenomena" which he claimed, "went beyond the limits of the traditional systems of learning. It conveyed knowledge which could be regarded neither as logic, mathematics, psychology, physics, nor biology."\textsuperscript{29} This regularity indicated that in addition to the laws of nature and the laws of human reasoning, there was another set of laws operative, the study of which provided another perspective from which human action could be viewed. Moreover, if man wanted to be successful in his activity, he must adjust his action in accordance to this "regularity of phenomena." The existence of laws governing human action and social cooperation means that one must study these laws "as a physicist studies the laws of nature."\textsuperscript{30} However, the radical nature of this new perspective on human action and social cooperation was not immediately recognized by classical economists. According to Von Mises there were two reasons for this. First, they failed to understand the revolutionary nature of this discovery and to realize that economics required a unique place in the theory of knowledge. Secondly, the classical theory of value restricted economics to the study of only one kind of human activity, name, activity concerned with the production and distribution of wealth. (The second reason will be discussed in chapter 4).
II. Epistemological Foundations

Von Mises believed that the revolutionary implications of this discovery were so great that the science studying human action and social cooperation required a unique place in the theory of knowledge. He wrote: "The development of and rationalistic sociology from Cantillion and Hume to Bentham and Ricardo did more to transform human thinking than any other scientific theory before or since. Up to that time it had been believed that no bounds other than those drawn by the laws of nature circumscribed the path of acting man. It was not known that there was still something more that sets a limit to political power beyond which it cannot go. Now it was learned that in the social realm too there is something operative which power and force are unable to alter and to which they must adjust themselves if they hope to achieve success, in precisely the same way as they must take into account the laws of nature." 31 Von Mises felt that this was essentially an epistemological problem. Epistemology, according to Von Mises, deals with man as he thinks and acts. Traditionally, the praxeological aspect, i.e., the relation between thought and action, was ignored by epistemology. "The epistemologists dealt with thinking as if it were a separate field cut off from other manifestations of human endeavour. They dealt with the problem of logic and mathematics, but they failed to see the practical aspects of thinking. They ignored the praxeological a priori." 32 The new science of praxeology would study the relation between thought and action and provide a unique epistemological foundation for the study of human and social action. Failure to realize the unique nature of this new science resulted in the attempt to categorize economics as either a natural science or as a historical science. Von Mises wrote:

Starting from an epistemological system to which praxeological thinking was strange and from a logic which acknow-
ledged as scientific - besides logic and mathematics - only the empirical natural sciences and history, many authors tried to deny the value and usefulness of economic theory. Historicism aimed at replacing it by economic history; positivism recommended the substitution of an illusory social science which should adopt the logical structure and pattern of Newtonina mechanics. Both these schools agreed in radical rejection of all the achievements of economic thought.\textsuperscript{33}

The absence of a proper scientific foundation for economic theory also left it vulnerable to criticism. Therefore Von Mises argued that it was "incumbent upon no branch of learning other than economics to examine all the objections raised from various points of view against the usefulness of the statements of economic theory for the elucidation of the statements of economic theory for the elucidation of the problems of human action. The system of economic thought must be built up in such a way that it is proof against any criticism on the part of irrationalism, historicism, panphysicalism, behaviourism, and all varieties of polylogism."\textsuperscript{34} Von Mises developed praxeology, the science of human action, to provide economics with a necessary philosophic foundation and a basis of defence.

In attempting to properly categorize economics as a theoretical science, and to help defend praxeology from encroachment by positivism and historicism, Von Mises relied on the arguments of the neo-Kantians, Windelband and Rickert. In their attempts to clarify "the logical problems of the historical sciences" and to distinguish between theory and
history, they had defended the human sciences against the spread of positivism. Although Von Mises admitted that they did not indicate that economics, or sociology for that matter, could be a universally valid science of human action, they had defended the moral sciences against the positivists' attempts to replace the moral sciences with a science of historical laws.

III. A Priori Reasoning

A prioristic knowledge is self-evident knowledge known by reason alone. A priori categories are not innate ideas. "The a priori categories are the mental equipment by dint of which man is able to think and to experience and thus to acquire knowledge. Their truth or validity cannot be proved or refuted as can those of a posteriori propositions, because they are precisely the instruments that enables us to distinguish what is true or valid from what is not." A priori categories are necessary for thought and action. A priori categories "emmanating from the logical structure of the human mind have enabled man to develop theories the practical application of which had enabled him in his endeavours." The a prioricategory of action for instance, implies categories of logic, of causality of regularity, of time, of value and finality.

Von Mises did not believe an empirical method was appropriate for the study of human action. He distinguishes between the natural sciences and the human sciences on the basis of what he refers to as methodological dualism. By this he is referring to the distinction between two realms: the realm of external events, or nature, and the realm of human thought and action. Until science can provide a link between the two realms, Von Mises felt a unified science is 'untenable' and in the absence of a unified science, the study of human action cannot be primarily empirical. Though the nature of action is determined by what Von Mises belie-
ved were a priori categories, a specific action is determined by the ends sought, and these ends, being subjectively chosen, cannot be studied theoretically. "The sciences of human action start from the fact that man purposely aims at ends he has chosen. It is precisely this that all brands of positivism, behaviourism, and panphysicalism want either to deny altogether or to pass over in silence." In nature there is "ascertainable and inevitable regularity" and this is the basis of the ability to predict in the natural sciences. In human action, "there is no such regulation in the conjunction of phenomena." Whereas "non-human entities react according to regular patterns; man chooses." Though regularity in the sequence of events in nature is necessary for human action, human action is teleological. Thus, Von Mises concluded; "It is impossible to reform the sciences of human action according to the pattern of physics and the other natural sciences. There is no means to establish a posteriori theory of human conduct and social events. History can neither prove nor disprove any general statement in the manner in which the natural sciences accept or reject a hypothesis on the grounds of laboratory experiments." A science of human action cannot be subject to either experimental verification or falsification. As a theoretical science it must be based on a priori reasoning.

Von Mises also used the theories of Windelband and Rickert to defend praxeology against the proponents of the German Historical School who believed it was possible to derive "a posteriori from historical experience laws of history in general, or of economic history in particular, or 'laws' of 'economic action' within a definite historical period." Here again the distinction between theory and history was useful and Von Mises agreed with Windelband and Rickert that it was not possible to "derive theoretical knowledge from historical experience." What Von Mises wanted to establish was a theoretical science of human action.
What Von Mises wanted to refute was the notion "that historical data was to be approached without any theory of action" and "that an empirical theory of action can be derived by induction from the data of history." He wrote:

Praxeology is a theoretical and systematic, not a historical, science. Its scope is human action as such, irrespective of all environmental, accidental, and individual circumstances of the concrete acts. Its cognition is purely formal and general without reference to the particular features of the actual case. It aims at knowledge valid for all instances in which the conditions exactly correspond to those implied in its assumptions and inferences. Its statements and propositions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification on the ground of experimental facts. They are both logically and temporarily antecedent to any comprehension of historical facts. They are a necessary requirement of any intellectual grasp of historical events. Without them we should not be able to see in the course of events anything else than kaleidoscope changes and chaotic muddle.

Von Mises did not want to reject the place of history within the human sciences. Rather he wanted to establish that concepts are logically prior to historical understanding, that history is nonsense unless universally valid laws are
supplied, and that these can only be properly formulated by a prior theoretical investigation. Thus in addition to the empirical and historical sciences, Von Mises wished to establish a theoretical science of human action founded on a priori reasoning which would be similar to mathematics and logic. This general science of human action Von Mises called praxeology. He considered economics to be a branch of praxeology.

Although he was the first to recognize the a prioristic character of praxeology in general and economics in particular, Von Mises felt the works of Senoir, J.S. Mill, Cairnes and Weiser were not far from recognizing this characteristic. The closest of these was Weiser who believed, as Von Mises did, that the function of economics "consists in scientifical explication and developing the content of common experience." Proceeding from this view of economics, Von Mises wrote that when "Weiser seeks to mark off economic theory from the historical, descriptive, and statistical treatment of economic problems, he enters upon a path that must lead, if one follows it consistently to the recognition of the prioristic character of economic theory." All that held him back was the "influence of Mill's psychologistic epistemology which ascribed an empirical character even to the laws of thought."

The a prioristic categories upon which praxeology is based are the "mental equipment of the individual that enables him to think and ... to act." These categories are presupposed in the ability of humans to reason. Acknowledging indebtedness to Kant, Von Mises attributed them to the logical structure of the human mind. It is this essential and necessary character of the human mind which is the fundamental difference between humans and animals. Concerning these a priori categories Von Mises wrote, "Their analysis is analysis of the human condition, the role man plays in the universe. They are the force that enables man to create and to produce all that is called human civilization."
These categories are fundamental and as such are not subject to proof or disproof as "every attempt to prove them must presuppose their validity." However, they are not to be dismissed as merely tautological, hence useless, for the purpose of gaining a further insight into human action. "They are the indispensable prerequisite of perception, apperception, and action." They enable men to act.

This logical structure of the human mind allows man to grasp reality as it enables him to make sense out of empirical knowledge. "What we know," said Von Mises, "is what the nature of structure of our senses and of our minds makes comprehensible to us. We see reality, not as it is and may appear to be a perfect being, but only as the quality of our minds and of our senses enable us to see it." The primary achievement of this ability to think is "the awareness of constant relations among the external phenomena that affect our senses." Causality in nature combined with man's cognizance of the relations between a cause and its effect is necessary to man's ability to act.

Subjective Theory of Value

In reality there are no ends or means, there are only things. Things have no value in themselves. "External objects are as such only phenomena of the physical universe and the subjective matter of the natural sciences. It is human meaning and action which transforms them into means." Thus the designation 'end' or 'means' is purely subjective. A thing only becomes a means "when human reason plans to employ it for the attainment of some ends and human action really employs it for this purpose." As a result conceptions such as goods, commodities, and wealth only have meaning in reference to action.

As action is contingent upon need, the desire to act implies scarcity. "Means", wrote Von Mises, "are necessarily always limited, i.e., scarce with regard to the services for which man wants to use them. If this were not the case,
there would not be any action with regard to them. Where man is not restricted by the sufficient quantity of things available, there is no need for action."\textsuperscript{59} Means are valuable to the extent that they contribute to the attainment of an end. Value is not intrinsic to things, it is not part of their composition. Rather valuing "is man's emotional reaction to the various states of his environment, both that of external and that of the physiological conditions of his own body."\textsuperscript{60} Being an emotional reaction, knowledge of an individual's scale of value can only be obtained through observation of the individual's action. As Von Mises expressed it, "Every action is always in perfect agreement with the scale of value of wants because these scales are nothing but an instrument of the interpretation of man's acting."\textsuperscript{61} Value is subjective. It does not have independent existence apart from the actual behaviour of individuals. Being an emotional response, value or a scale of value only manifests itself in the reality of action.

Though he stressed the subjectivity of value, Von Mises did not deny that valuations are often adopted from the individual's social environment. He admitted that the "immense majority of people take their valuation from the social environment into which they were born ..." and that few have the power to deviate from the traditional set of values and to establish their own scale of what appears to be better and what appears to be worse."\textsuperscript{62} However, Von Mises insisted on viewing the valuations on the basis of the individual as it is at the personal level that these valuations affect human action. The nature of the valuations themselves are beyond the scope of praxeology. "Praxeology and economics deal with the means for the attainment of ends chosen by the acting individuals. They do not express opinion with regard to such problems as whether or not sybhartism is better than asceticism. They apply to means only one yardstick, viz., whether or not they are suitable to
attain the ends to which the acting individual aims."Neither does praxeology distinguish between needs and wants. The science of human action does not deal with what man should do, but rather with what he does.

By developing a general science of human action, Von Mises felt he had established a scientifically valid and epistemologically solid basis for economic science. The link between praxeology and economics was provided by his adoption of subjective theory of value which not only provided economics with a broader scope but changed the focus of economics from the study of wealth to the study of exchange. Economics could then be considered a branch of praxeology which studied the exchange aspect involved in all action. The aspectual character of economics, along with its scope, focus, and approach will be discussed in the next chapter.
Notes to Chapter Three


2 Ibid.


6 Ibid., pp. 18-9.

7 Ibid., p.20

8 Ibid.

9 Human Action, p.20-1

10 see note 2.

11 Ultimate Foundations, p.80

12 Ibid., p.84

13 Human Action, p.87.

14 Ibid., p.42.

15 Ibid., p.143

16 Ibid.

17 Ibid., p.145.

18 Ultimate Foundations, p.87.


21. Ibid.

22. Ibid.


24. Ibid., p.28.


27. Ibid.

28. Ibid., P.xiii-xiv.


30. Ibid., p.2.


34. Ibid., p.7.

35. *Epistemological Problems*, p.x


37. Ibid., p.16.

39 Ibid., p.4.
40 Ibid., p.10
41 Ibid., p.11.
42 Human Action, p.30
43 Epistemological Problems, p.xiv.
44 Ibid.
45 Ibid.
46 Human Action, p.32.
47 Epistemological Problems, p.28.
48 Ibid., p.22.
49 Ibid.
51 Human Action, p.34.
53 Ibid., p.34.
54 Human Action, p.34.
56 Ibid., p.20
57 Human Action, p.40.
58 Ibid., p.42.
59 Ibid., p.93.
60 Ultimate Foundations, p.37.

61 Human Action, p.93.

62 Theory and History, p.22.

63 Human Action, p.95.
Concerning the history of economic inquiry, Von Mises felt there had been a consensus among economists with regard to the object of economic investigation. Its task is to investigate a range of market phenomena which was described by Von Mises as "the determination of the mutual exchange ratios of the goods and services negotiated on markets, their origin in human action and their efforts upon later action." However, he felt a consensus did not exist among economists concerning the scope of economics. Problems arise in defining the scope of economics because "attempts to elucidate the phenomena concerned must go beyond the range of the market and of market transactions. In order to conceive the market fully, one is forced to study the action of hypothetical isolated individuals on one hand and to contrast the market system with an imaginary socialist commonwealth on the other hand. In studying interpersonal exchange, one cannot avoid dealing with autistic exchange. But then it is no longer possible to define neatly the boundaries between the kind of action which is the proper field of economic science in the narrower sense, and other action." In specifying the scope of economics, Von Mises contrasted it with praxeology, the science of human action, and catallactics, the study of market phenomena. Economics provides the link between the two as it is concerned with the exchange aspect of all human action and its influence in the determination of exchange ratios within a market economy. A major part of this focus is the nature and function of money as a unit of calculation which facilitates exchange. As economic inquiry originated in response to questions concerning the developing market economy, and since the main concentration of economics is
exchange within the market oriented economy, the approach used in economics is that of imaginary construction by which the economist investigates action within the market by depicting action if one or more elements affecting action in the market were eliminated. This chapter will focus on these characteristics of economic science, i.e., its aspectual character, its understanding of the nature and role of calculation, and money, and the approach of economics.

Aspectual Character of Economics

As mentioned above in chapter three, there were two reasons why Von Mises felt the implications of the discovery of another set of laws governing human action and social cooperation were not fully recognized. The first was the failure to provide economics with a proper philosophical basis. This was accomplished by making economics a branch of a theoretical general science of human action based on priori reasoning. The second reason was the narrow scope given economics by the various classical theories of value. The development and application of a subjective theory of value not only broadened the scope of economics to include all activity, but it also changed the focus of economics from the study of wealth to the study of exchange. As exchange is an aspect of action, this shift in the focus of economics provides a direct link between economics and praxeology.

In a book entitled Economic Thought and Language, L. M. Fraser distinguishes between two groups of definitions of economics which he found in a survey of economic literature. The first is exemplified by the definition of economics - political economy as it was then called - given by J. N. Keynes. Keynes defined economics as the "science which
treats of the phenomena arising out of the economic activities of mankind in society." In his analysis of the key concepts used in the definition, Fraser concludes that by "economic activities" Keynes meant "those activities which are concerned with adding to wealth; and to say that economics studies economic activities is to connect it with the phenomena of production and appropriation of wealth." Another implication of Keynes' use of the term economic activity which Fraser notes is that people "obviously do not always act economically, in the sense of seeking to increase wealth... It follows that the definition under consideration confines the sphere of economics to a certain section or department of economic behaviour." This departmental qualification of economic activity was, according to Fraser, the view of Marshall as well as that of Adam Smith. Under this departmental definition the scope of economics was directly related to the concept of wealth. Of the various meanings of wealth, Fraser argues that when economists use the term they are referring to material possessions. As not all material objects are useful in the economic sense, wealth, according to Fraser, consists of "all material and exchangeable means of satisfying human needs." The second definition of economics is represented by Robbins and Wicksteed. According to Robbins, economics concerns the problem of economising. Fraser summarizes Robbins' view as follows: "We assume an individual, or a set of individuals, each of whom has various desires and needs. We further assume that owing to the inadequacy of their resources not all their needs can be satisfied. Their means are limited in comparison with their ends, and they must choose which of the ends to retain and which to sacrifice. In order to do this some kind of pricing process
is necessary. The ends must be compared with one another and set in some sort of scale of importance, and value must be set upon the means so as to restrict them to their most urgent uses." In Robbins' view economics studies human behaviour "as a relationship between ends and scarce means." Likewise, Wicksteed describes economics as "the study of the general principles of the administration of resources..." Fraser maintains that the guiding principle in the development of this second view of economics was the 'conviction' of these economists that economics was a science. "Science is for them," writes Fraser, "not any systematic or quasi-systematic body of knowledge, but a system of theoretical and positive knowledge. They hold economics to be scientific, not merely in the sense of pursuing objective truth, but in the narrow sense of seeking truth for its own sake (rather than for its practical usefulness) and - still more important - of seeking truth about what is, rather than about what ought to be." Fraser concludes that this scientific approach results in economics becoming the study, not of a certain kind of activity, but of an aspect of all activity.

In outlining the difference between these two conceptions of economics Fraser fails to mention the role that the theory of value played in the distinction between the departmental and the aspectual view of economics. For Von Mises, the development of the subjective theory of value was fundamental in providing economics with a broader scope. According to Von Mises, what confused classical economists and caused them to misunderstand the nature of economics was the apparent paradox of value. Before the development of the subjective theory of value, economists were confused when confronted by situations in which an object with great use value was valued less then an object of lesser value in use. For example, the case
of water and diamonds. Water is necessary to life, and yet is inexpensive when compared to diamonds, which have very little practical value. This paradox arose because the classical economists failed to distinguish between the subjective use value and the objective use value of the thing in question. The objective use value is the "relation between a thing and the effect it has the capacity to bring about." However, the decision to employ a good is not made on the basis of its objective use value. When man acts, he chooses under specific circumstances and between a strict or limited supply of commodities. Illustrating the paradox using gold and iron, Von Mises argued that when an individual chooses one over the other "he does not express an academic or philosophical judgement concerning the 'absolute' value of gold or iron; he does not determine whether gold or iron is more important for mankind, he does not perorate as an author of books on the philosophy of history or on ethical principles. He simply chooses between satisfactions both of which he cannot have together." A judgement of value is purely subjective. It is misleading to distinguish between classes of goods, say between necessary goods and luxury goods, for the purpose of calculating their value, since whether they are sought by an individual depends entirely on that individual's subjective interpretation of his situation at that particular moment.

When value was understood as being a characteristic of a good, being either intrinsic to the good (for example the capacity of wood to produce heat) or imputed to the good via human labour, then economists would focus their attention on the production or creating of wealth. As a result, the study of economics was restricted to the study of business activity. Von Mises wrote, "Unable to solve the apparent paradox of valuation, the classical economists
could not trace the chain of market transactions back to the consumer, but were forced to start their reasoning from the actions of business men, for whom the valuations of the buyers are a given fact. Economic activity was divided into two parts; on the one side there is the business man who maximizes profits by buying cheaply and selling dearly, and on the other side there is the consumer whose own valuations determine what price he is willing to pay to obtain a specific good. Under this view of economic activity, not only is the character of the consumer's valuations ignored, but by viewing economic action in their way "it is certainly possible," warned Von Mises, "to distinguish between business-like conduct (falsely termed economic or rational conduct) and conduct determined by other consideration than those of business (falsely termed uneconomic or irrational)." One consequence of this faulty approach is that the individual actor is perceived as an 'economic man' who is perceived as a perfect "egoist", who is "omniscient" and "exclusively intent upon accumulating more and more wealth." In contrast to this fictitious economic man, Von Mises argued that the real object of economic analysis is the man who, subject to various limitations, faultingly attempts to better his condition. "What determines the real course of events, the formation of prices and all other phenomena commonly called economic as well as all other events of human history, is the attitude of those fallible men and the effects produced by their actions liable to error." Von Mises understood the scope of economics to be greater than the study of business activity. By applying subjective theory of value to economics, the economic
principle becomes the "fundamental principle of all rational action" and therefore all rational action may be considered as "an act of economizing."\(^{18}\)

Rather than being restricted to the study of a certain kind of activity, the focus of economics became a characteristic of all action. As all action is undertaken by an individual to better his condition, all action involves the exchange of one state of affairs for another. Von Mises wrote, "Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one. We call such a willfully induced alteration an exchange. A less desirable condition is bartered for a more desirable. What qualifies less is abandoned in order to attain something that pleases more."\(^{19}\) Economics is the science of exchange. As all action involves exchange, economics is a science which studies all action from an economic point of view.

In acting, "Men apply economic goods and personal time and labour in the direction which, under the given circumstances, promises the highest degree of satisfaction, and they forgo the satisfaction of lesser needs so as to satisfy the more urgent needs. This is the essence of economic activity."\(^{20}\) This broad conception of economics denies that there is a fundamental distinction between economic and non-economic action. Von Mises believed that such a distinction with respect to the motives or goals or the objects of action, be they material or immaterial, is untenable. Material things are not only exchanged for other material things, but for non-material things such as honour or fame. He felt there was no significant difference between exchanging material for material as opposed to exchanging material for non-material. Likewise, he felt
direct exchange (which is conducted without the use of money) is not fundamentally different from indirect exchange, nor is interpersonal exchange different from the action of an isolated individual or one acting within his own household.

All exchange, hence all action, involves choice; and fundamental economic categories are involved in every action. In action, ultimate goods or ends are distinguished from goods or means. Goods of the first order or consumer goods, are means which are able to satisfy human wants directly and whose use does not depend upon the cooperation of other goods. Means which satisfy indirectly are designated producers goods, factors of production, or goods of remoter or higher orders. The value of the price paid in order to exchange one situation for another is called the cost. The cost is the value of the satisfaction one relinquishes to obtain the means for or the end which is being sought. The valuational difference between the cost and what is attained is called profit. Thus profit, as cost, is subjective. Profit "is an increase in the acting man's happiness, it is a psychical phenomenon that can neither be measured or weighed." In all action categories of means and ends, consumer goods and goods of higher orders, cost and profit, can be applied.

Calculation

In the determination of whether or not to act, and which course of action to pursue, calculation is involved. As Von Mises perceived it, the economic problem facing man is how to "employ the available means in such a way that no event more urgently felt should remain unsatisfied because the means suitable for its attainment were employed - wasted - for the attainment of want less urgently felt."
What acting man needs to know is "how he must employ the available means for the best possible - the most economic - removal of felt uneasiness." The individual calculates in order to arrange his activity so that a definite result will be attained. As the cost of the action is the valuation of the satisfaction forgone, it is in the interest of the acting individual to minimize the cost, thus encouraging efficiency.

There are limits to what can be calculated. Some things of value cannot be bought and sold, things such as health and virtue. The sacrifice necessary for the attainment of these may not be calculable. Other things cannot be fully appreciated in terms of money, such as the sentimental value of an object. As Von Mises explained it, "What touches a man's heart only and does not induce other people to make sacrifices for its attainment remains outside the pole of economic action." These things which are not calculable are either ends or goods of the first order. In the case of such goods, "All acting man needs in order to make his choice is to contrast them with the total amount of costs their acquisition or preservation requires." For such goods, calculation is not necessary to acknowledge or make "due allowance" for them.

Calculation provides information to the acting individual with respect to the allocation of means. Calculation is a means by which the "expenditure of goods and labour of different kinds become comparable." However, calculation does not measure value, it is a basis of comparison. If all means for the attainment of various ends could be substituted for one another according to definite ratios, Von Mises felt the calculation of their relative abilities to facilitate the attainment of a given end would be strictly a technical problem. However, all
means cannot contribute equally to the attainment of a
given end and since some means can be used to attain more
than one end, to act efficiently man must allocate them
to "those employments in which they can render the best
service." 27 Technology can only provide information con­
cerning the "causal relations between external things."
It can tell you how to build a bridge but it cannot tell
you "whether or not a bridge should be built at all,
where it should be built, what capacity for bearing loads
it should have, and which of many possibilities for its
construction should be chosen." 28 Technology cannot
provide acting man with what he needs to know, namely how
to select and employ the available means for the most ef­
ficient removal of felt uneasiness. Perhaps an isolated
individual or the leader of an isolated group could make
such evaluations on his own. But for action involving
direct and indirect exchange, some form of calculation
of relative values of the various means is necessary.

The act of choosing involves judgements of value.
These judgements of value do not quantitatively measure
ends, rather they arrange or grade ends relative to each
other. Thus judgements of value cannot be measured on a
cardinal scale. Through the act of exchange we can observe
that an individual prefers A to B, but the act of exchange
does not enable us to quantify how much more A is preferred
to B. Means are valued in so far as they contribute to
the attainment of an end. However, the subjective ordering
of ends is not sufficient to allow an individual to make
an informed economic choice. "If he relies only on sub­
jective evaluation, even an isolated man cannot arrive at
a decision based on more or less exact computations in
cases where the solution is not immediately evident. To
aid his calculations he must assume substitution relations between commodities. As a rule he will not be able to reduce all to a common unit. But he may succeed in reducing all elements in the computation to such commodities as he can evaluate immediately, that is to say, the goods for consumption and the disutility of labour and then he is able to base his decisions upon the evidence."  

Even for the isolated individual the calculation of substitutionary relations between various goods is done in terms of labour and consumptive goods both of which are valued in accordance with the subjective valuation of the end sought. Thus the value of a good will vary between individuals and under changing circumstances.

There are two laws which affect economic calculation in relation to valuation. The first is the law of marginal utility. The marginal utility is the value attributed to the last unit of a homogeneous supply with respect to its contribution to the whole supply towards the removal of felt uneasiness. In calculation, the individual does not measure the value of a thing or group of things: rather he calculates the value of the services he expects those things to render him. For example, when valuing a specific group of productive units, what is being measured is the "increment in well-being dependent upon it, or what is the same, the impairment of well-being which its loss must bring about."  

However, the total value of such a supply is not necessarily the sum of the values of its composite units. A unit is the smallest quantity of a means which can be the object of a decision of choice. If the attainment of an end requires the use of at least twenty units, the value of units will be substantially more than the value of only nineteen units. Indeed without the twentieth unit, the nineteenth might be considered worthless. The same principle applies to the
value of a total stock comprised of two different things when compared to the valuation of part of these stocks. Von Mises uses the example of a man who owns seven cows and seven horses. Though he may value one horse more than one cow, if faced with the decision of choosing between giving up all his cows or all his horses, he may choose to keep the cows. Thus "the concepts of total utility and total value are meaningless if not applied to a situation in which people must choose between total supplies." 31 Judgements of value always concern the specific supply with which the act of choice is concerned. In the case of a homogeneous supply, "If the supply is decreased by the loss of one unit, acting man must decide anew how to use the various units of remaining stock...That employment of the various units which under this new disposition is no longer provided for, was in the eyes of the acting man the least urgent employment among all those for which he had previously assigned the various units of the greater stock." 32 Thus when facing the loss of one unit of a homogeneous supply, it is the marginal satisfaction or utility of that good which is lost. In the case of the twenty units mentioned above, the marginal utility of the twentieth unit will vary depending upon the consequence its loss has for the attainment of the end sought. When faced with giving up a unit of one of two supplies as in the case of the cows and horses, the decision is based on comparing the marginal utility of the two units.

Another law affecting the valuation of supply of goods is the law of returns. This law asserts "that for the combination of economic goods of higher orders (factors of production) there exists an optimum. If one deviates from this optimum by increasing the input of only one of the factors, the physical output either does not increase
at all or at least not in the ratio of the increased input.\textsuperscript{33} An example would be the hiring of five men to move an object with only four handles. The additional man does not increase the output. In fact, his presence may hinder the efforts of the four. Because a factor of production is physically limited in its ability to contribute to the attainment of an end, there exists optimum combinations of the factors of production. As a result, the marginal value of the additional unit which increases the supply above the optimum level of each of the other units may be negative in its contribution as it may hinder the attainment of the chosen end.

In the case of an isolated individual, the relative value of the means of production in his control would be determined by his valuation of the end which could be attained by the use of those means. "Isolated man," wrote Von Mises, "can easily decide whether to extend his hunting or his cultivation. The processes of production he has to take into account are relatively short. The expenditure they demand and the product they afford can easily be perceived as a whole."\textsuperscript{34} But when the processes of production become more complicated, or when the means of product must be obtained via interpersonal exchange, a method of calculating the relative values of means is useful in determining what is the most efficient course of action.

\textbf{Objective Exchange Value}

"Means" wrote Von Mises, "are necessarily always limited, i.e., scarce with regard to the services for which man wants to use them. Where man is not restrained by the insufficient quantity of things available, there is no need for any action."\textsuperscript{35} A distinction is often made between free
goods and economic goods. Free goods need not be economized because they are available in abundance. Their procurement does not require action. "They are general conditions of human welfare; they are parts of the natural environment in which man lives and acts." Such goods, like air for instance, are not the concern of economics. Economics is concerned with goods which are scarce and require action to make them servicable to human needs.

Means are valued with respect to their ability to contribute to the attainment of an end. As individuals value ends differently, means will differ in value among individuals or even in the mind of an individual over time. As exchange is undertaken to improve one's situation, when interpersonal exchange occurs, there must be a difference in the valuation of the goods exchanged. Each individual considers the good obtained as more valuable than the one traded. Thus the cost or price paid for the good obtained is less than its subjective value for that individual. The price paid is referred to by Von Mises as the objective exchange value. It is the objective exchange value which serves as the unit of calculation.

According to Von Mises, there are three advantages to using the objective exchange value as a unit of calculation. The first reason is that it takes into account the valuation of all the individuals participating in trade. The objective exchange value is determined by the exchange ratio of one good to other goods. The exchange ratios are determined "between extremely narrow margins: the valuations on the one hand of the marginal buyer and those of the marginal offerer who abstains from selling, and the valuations on the other hand of the marginal seller and those of the potential buyer who abstains from buying." Each individual, in his decision
whether or not to buy or sell, contributes to the determination of exchange ratios. The greater the number of individuals participating in exchange, the smaller the influence the individual has on the determination of exchange ratios.

The second advantage of the objective exchange value is that it indicates which use or uses are appropriate for the means of production. The objective exchange value provides information to producers concerning the relative values of final goods and goods of higher orders as determined by those participating in exchange i.e., the market. The appropriate use of means is the most efficient use. Knowledge of the relative values of production goods enables the producer to compare the cost efficiency of various production processes and determine whether production of a particular final good should even be undertaken. Though the relative value of production goods are ultimately determined by the value of the final goods to which they contribute, their relative value is still determined by exchange ratios which requires the production goods themselves to be exchangeable.

Finally, the objective exchange value enables values to be reduced to a common unit. The common unit of exchange is that which best facilitates exchange. This medium of exchange is money. Not only were money and money prices the original object of economic inquiry, but only "through the rationalization inherent in economic calculation based on the use of money could the human mind come to understand and trace the laws of its action." Money prices do not measure value: Prices are merely amounts of money which indicate the objective exchange value of a good at a particular time and under specific circumstances. Any deficiencies in money calculation arise because they are based on exchange values and not on subjective values, and as mentioned above, not everything can be ascribed an objective use value.
Money

There are two prerequisites for the computation of value in terms of money. First, there must be a general medium of exchange in use. It must function as an intermediary for the goods of higher orders as well as consumption goods. Otherwise it would not be possible to reduce all of the exchange relationships to one common denominator. The second prerequisite, which is implied in the first, is that the goods of higher order be exchangeable. This requires the private ownership of both the goods of higher order and consumption goods. Private ownership means that the owner has "full control of the services that can be derived from a good" and that he can "determine the employment of the factors of production." The private ownership of the means of production is necessary for two reasons. It ensures the integration of the consumptive and productive functions of individuals in the economy, and in so doing it allows the value of goods of higher orders to be calculated.

Under a system based on private ownership in the means of production, the scale of values is the outcome of all the actions of every independent member of society. Everyone plays a two-fold part in its establishment, first as a consumer, secondly as a producer. As a consumer, he establishes the valuation of goods ready for consumption. As a producer, he guides production into those uses in which they yield the highest product. In this way, all goods of higher orders are also guided in the way appropriate to them under the existing conditions of production and the demands of society.
If the means of production are not exchangeable, their relative values cannot be established through exchange ratios. Knowledge of the relative values is necessary to determine the most efficient use of the factors of production. These two prerequisites ensure that the economic principle is followed in production as well as in consumption.

Herein lies the cornerstone of Von Mises' rejection of both socialism and interventionism. Under socialism, in the absence of the ownership of private property, it would be impossible to calculate the exchange value of goods of higher order and so the relationships between various goods could not be given in terms of a common denominator. Simply put, Von Mises maintained that without private ownership of the means of production, there can be no economic calculation. Under interventionism, the government or other institutions or individuals interfere in the calculation process of the economy and thereby distort the relative price ratios. Distorted price ratios will provide producers with distorted information and the market economy will suffer accordingly. Quite often interventionism is undertaken for the sake of price stability which in Von Mises' view is futile as in the case of prices the only certain thing is constant change.

The Approach of Economics

Since economists cannot derive their theories from "laboratory experiments and sensory perception of external objects," they must proceed according to different methods than those used in the natural sciences. The method used by economists in studying economic activity is to develop imaginary constructions. As Von Mises defined it, "An
imaginary construction is a conceptual image of a sequence of events logically evolved from the elements of action employed in its formation." Imaginary constructions are not representations of reality. Rather, by developing these constructions the economist tries to depict the nature of human action if one or more elements affecting human action in reality were removed. For instance, to understand action, the economist would imagine a state of affairs in which man would not have to act. Another example is that of the pure market economy characterized by the private ownership of the means of production and the market exchange of goods and services. Such a construction would assume that the operation of the market is unhampered by other societal institutions. The economist would then try to explain the operation of the market and study the effects on the market by various forms of intervention. Perhaps the most well-known imaginary construction is that of the Autistic economy, the analysis of the economic activity of an isolated individual. Once the situation of the isolated individual is explored, a second individual is added and the problems of interpersonal exchange are studied.

The roles individuals play in imaginary constructions are divided into four distinct functions by Von Mises. They are the entrepreneur, the capitalist, the landowner, and the worker. He outlined them as follows: "Entrepreneur means acting man in regard to the changes occurring in the data of the market. Capitalist and Landowner mean acting in regard to the changes in value and price which, even with all the market data remaining equal, are brought about by the mere passing of time as a consequence of the different valuation of present goods and of future goods. Worker means man in regard to the employment of the factor
of production human labour."\(^45\) By distinguishing the roles individuals play according to function, he sought to explore "the structure of acting in the market society, without any regard to the ends people aim at and the means they employ...."\(^46\) As these are merely functions or categories of action, one individuals activity may involve several of the functions.

The key function in the market economy is that of the entrepreneur. Von Mises defined the entrepreneurial function as "acting exclusively seen from the aspect of uncertainty inherent in every action."\(^47\) Since individuals cannot know the future with certainty, action involves speculation and as long as there is speculation, there will be profit and loss. For instance, changes in the weather may damage crops. Or, in the case of interpersonal exchange, a source of uncertainty is the changing subjective valuations of individuals. In the market, such changes will affect prices, and entrepreneurial profit and losses result from the difference between anticipated prices and prices established by the market. The entrepreneurs, by buying "where and when they deem prices too low," and selling "where and when they deem prices too high", facilitate the development of more accurate exchange ratios.\(^48\) As entrepreneurs compete with each other in their speculation about future prices and their promotion of the production of goods they believe others consider valuable, their activity minimizes the objective exchange value of goods, thus making exchange more efficient. It is the expectation of profit, the removal of felt uneasiness, which motivates individuals and prompts entrepreneur activity.

The two elements necessary for economic calculation and exchange are: that a generally accepted medium of exchange be in use and that both consumption goods and goods
of higher orders be privately owned. Both of these elements require social cooperation. Indeed, social cooperation is a prerequisite to the study of praxeology and economics as it was only as a result of social cooperation and its provision for exchange and the development of money that man could recognize the "regularity and sequence and interdependence of market phenomena" which prompted the study of laws governing social cooperation. The basis of social cooperation is the division of labour which promotes interdependence among individuals by encouraging specialization and it is the market which facilitates the exchange of goods between individuals. The division of labour and the market will be considered in the next chapter.
Notes to Chapter Four


2. Ibid.


4. Ibid., p.21.

5. Ibid., p.22.

6. Ibid.

7. Ibid., pp.23-4

8. Ibid., p.29.

9. Ibid.

10. Ibid., p.30.

11. Ibid. note the emphasis is Fraser's.

12. Human Action, p. 120.

13. Ibid., p. 121.


15. Ibid.

16. Ibid.

17. Ibid.

19 Human Action, p.97.


21 Human action, p.97

22 Ibid., p.208

23 Ibid.

24 Ibid., p.216

25 Ibid.

26 Epistemological Problems, p. 156

27 Human Action, p. 208

28 Ibid., p.209.

29 Socialism, pp. 114-5.

30 Human Action, p.121.

31 Ibid., p.122.

32 Ibid.

33 Ibid., p. 128

34 Socialism, p.114.

35 Human Action, p.93.
36 Ibid.

37 Socialism, p.115.

38 Human Action, p.324.

39 Socialism, p.111.

40 Ibid., p.117.

41 Human Action, pp. 678-679.

42 Socialism, p.120.

43 Human Action, p.237.

44 Ibid.

45 Ibid., 255.

46 Ibid., 253.


48 Ibid., p.325.

49 Ibid., p.1.
Chapter Five

Society and Social Cooperation

Von Mises considered society to be concerted action or cooperation and he believed it to be wholly the product of human action. It determines the realm in which the process of economic exchange, the market, can function.

In accordance with his methodological individualism, Von Mises understood society to be nothing more than the "concentration of individuals for cooperative effort." It is the "total complex of mutual relations" resulting from concerted action and it is erroneous, argued Von Mises, to speak of society as having "autonomous and independent existence." The latter is the view of "holistic" or "metaphysical" interpretations of society which perceive society as an entity living its own life, independent of and separate from the lives of various individuals, acting on its own behalf and aiming at its own ends which are different from the ends sought by the individuals. Since such a conception of society presumes an "antagonism between the aims of society and those of its members", in order to establish a basis for social harmony, it must integrate these divergent aims. Von Mises wrote:

In order to safeguard the flowering and further development of society it becomes necessary to master the selfishness of the individuals and to compel them to sacrifice their egotistic designs to the benefit of society. At this point all these holistic doctrines are bound to abandon the secular methods of human science and logical reasoning and to shift to theological or metaphysical professions of faith. They must assume that Providence, through its prophets, apostles, and charis-
matic leaders, forces men who are constitutionally wicked, i.e., prone to pursue their own ends, to walk in the way of righteousness which the Lord or 'Weltgeist' or history wants them to walk.\(^4\)

According to this view, the existence of social cooperation is dependent upon providential intervention. However, Von Mises believed science need not resort to ideas of superhuman intervention to explain the reality of society and social cooperation.

**Divisions of Labour**

The basis of society and social cooperation is provided by the higher productivity which results from a division of labour. "The fundamental fact that enables man to elevate his species above the level of the beasts and the horrors of biological competition was the discovery of the principles of the higher productivity of cooperation under a system of division of labour, the great cosmic principle of becoming."\(^5\) The division of labour is referred to by Von Mises as a law of nature and it is the recognition and investigation of this law that provides man with knowledge which enables him to improve his condition. The task of science in its investigation of society is to investigate "those factors which can and must result in association and its progressive intensification."\(^6\) This is the domain of praxeology. Praxeology analyses how much more productive cooperative labour is compared to isolated labour and, to the extent man recognizes this fact, how individual human action tends towards cooperation. In viewing cooperation this way, the individual is not required to sacrifice his own interest for the sake of cooperation, rather cooperation is the product of the individual's pursuit of his own interest. And if cooper-
ation requires the individual to sacrifice his own interest, he is compensated by the greater returns possible under the division of labour.

For what the individual must sacrifice for the sake of society he is amply compensated by greater advantages. His sacrifice is only apparent and temporary: he forgoes a smaller gain in order to reap a greater one later. When social cooperation is intensified by enlarging the field in which there is division of labour or when legal protection and the safeguarding of peace are strengthened, the incentive is the desire of all those concerned to improve their own conditions. In striving after his own — rightly understood — interests the individual works towards an intensification of social cooperation and peaceful intercourse.\(^7\)

These rightly understood interests are in fact the individual's long-run interests. To achieve cooperation the individual need not compare "his personal interests to that of the phantom society"; rather, he merely "forsakes an immediate boon in order to reap at a later date a greater boon."\(^8\) The sacrifice he makes is merely "provisional."

Von Mises attributes the higher productivity of the division of labour to two "facts of nature": inequality of human abilities and the variety of external conditions facing acting man.\(^9\) To these he adds a third fact, namely that some tasks require joint effort, but notes that this fact alone will provide the basis for an occasional alliance between men but that it will not provide a basis for lasting cooperation.\(^10\) Lasting cooperation requires the existence of the first two facts which ensure that associ-
ation will be advantageous for acting men. This was first demonstrated by Ricardo's Law of Association which showed that the division of labour between two groups with unequal productive capabilities is advantageous to both. The same is true of the division of labour between unequally endowed areas. In either case - that of the more productive workers or that of the better endowed area - it is more advantageous for them to concentrate their efforts on the production of goods for which they have the greatest comparative advantage and leave to the others the production of goods in which their superiority is less. Since the division of labour if advantageous to all individuals no matter how unequal their productive abilities are, it becomes a unifying principle. "It leads men to regard each other as comrades in a joint struggle for welfare, rather than as competitors in a struggle for existence. It makes friends out of enemies, peace out of war, society out of individuals." 

Society is strictly a human phenomenon because man alone, due to his ability to reason, can "arrange his various observations and experiences into a coherent system." This ability allowed man to discover the law of the division of labour. "Once it has been perceived that the division of labour is the essence of society, nothing remains of the antithesis between individual and society. The contradictions between individual and principle and the social disappears." When this was recognized by British political economists, beginning with Hume and ending with Ricardo its establishment...

...consisted in the complete demolition of all metaphysical doctrines concerning the origin and operation of social cooperation. It consummated the spiritual, moral and intellectual emancipation of mankind inaugurated by the phi-
osophy of Epicureanism. It substituted an autonomous rational morality for the heteronomous and intuitionist ethics of older days. Law and legality, the moral code and social institutions are no longer revered as unfathomable decrees of Heaven. They are of human origin, and the only yardstick that must be applied to them is of expediency with regard to human welfare."

Since social cooperation is based on a utilitarian "autonomous rational morality", there need be no agreement among individuals concerning subjectively chosen ends to ensure cooperation. Society is not an end, but a means which enables man to attain the ends he wishes to attain. All men require certain goods for the preservation of life and it is in the pursuit of these that social cooperation is most helpful. And because "even the most sublime ends cannot be sought by people who have not satisfied the wants of their animal body...", the provision of material needs is necessary for the attainment of higher ends such as the "loftiest exploits of philosophy, art and literature" which, notes Von Mises, could never have been pursued by isolated individuals. Material needs, in that they are necessary for the attainment of higher ends, are common ends among men and it is this common interest plus the advantages of the division of labour which binds men together in society.

The Market

Von Mises contends that there are only two social systems which are guided by the division of labour: the market economy and socialism. However, Von Mises dismisses the latter as being "unthinkable" but not realiz-
able." Under socialism, the means of production are owned by the government and, as explained above, this puts the means of production beyond the realm of economic calculations. And without economic calculation, economic action is without adequate direction. According to Von Mises, there can be no mixture of these two systems as production is either directed by the market or by an authoritative body. An economy in which there are publically owned industries that still operate according to the dictates of the market is still to be considered a market economy. There can be no mixed system. "With regard to the same factors of production there can only exist private control or public control. If in the frame of a system of social cooperation only some means of production are subject to public ownership while the rest are controlled by private individuals, that does not make for a mixed system combining socialism and private ownership. The system remains a market society, provided the socialized sector does not become entirely separated from the nonsocialized sector and lead a strictly autarkic existence. (In the latter case there are two systems independently co-existing side by side - a capitalist and a socialist)."17 In contrasting the market system with socialism, it is not a matter of comparing an unplanned economy with a planned economy; rather the difference concerns who plans, an authoritative ruler or the individual.

The market is a process which is "actuated by the interplay of the actions of various individuals cooperating in the division of labour."18 In a market economy, the market is "supreme" and it "alone puts the whole social system in order and provides it with a sense and meaning."19 The market directs the actions of individuals through the process of economic calculation which results in the formation of relative prices. This price structure, which is "the totality of the exchange as established by the interaction of those eager to buy and those eager to sell", indicate what consumers desire.20 They provide information
to the acting man enabling him to determine how best to attain his desired ends. For the producer they are the "mental tools of economic planning." By producing and selling the goods which the consumers desire, the producer acquires the means by which he can pursue his own ends. As Von Mises summarized it. "The market directs him and reveals in what way he can best promote his own welfare as well as that of other people." In other words the market process adjusts the actions of the individual to the "requirements of mutual cooperation." It is the market which organizes individual actions in such a way that the good of society is attained.

Central to the market is the concept of capital. Capital is the money equivalent of all of an individual's assets minus the money equivalent of all of his liabilities. This total is the starting point of economic calculation as it is the standard by which an individual measures the success or failure of his actions. The end of acquisitive action is to increase or at least maintain the level of capital. The amount which can be used within a definite period of time without decreasing the amount of capital is called income. If consumption is greater than income, the result is capital depletion. When consumption is less than income, the result is called savings. The accumulation of additional capital goods is the "vehicle" of progress. The producers or entrepreneurs are the "agents" of progress. They use the concept of capital to measure their success in anticipating the wants of the consumer.

An important characteristic of the market is freedom. Man is free in the market because he only serves others as he serves himself. This freedom is not "a product of a bill of rights, laws and statutes." It can only be brought about by "supporting and defending the fundamental institutions of the market society." In fact Von Mises believed
that only a market society could allow the individual freedom to pursue his own best interest. He wrote, "There is no kind of freedom and liberty other than the kind which the market economy brings about. In a totalitarian hegemonic society the only freedom that is left to the individual, because it cannot be denied him, is the freedom to commit suicide." Von Mises attributed this freedom to competition. Even though competition is motivated by selfish interests, it ensures that only the most efficient producers will obtain profit, thereby insuring the consumer is not victimized by unnecessarily high prices. The same is true with respect to the ownership of private property. Ownership of the means of production was considered by Von Mises to be a social liability. "Capitalists and landowners are compelled to employ their property for the best possible satisfaction of the consumers. If they are slow and inept in the performance of their duties, they are penalized by losses. If they do not learn the lesson and do not reform their conduct of affairs, they lose their wealth. No investment is safe forever." Thus the dominance of the market which allows man the freedom to pursue their own interests also ensures that the means of production available in the economy are used efficiently in the provision of means for the attainment of ends.

As the pursuit of profit is the motive force in the market economy, an essential feature of the market economy is inequality of wealth and income among its members. Von Mises wrote:

What pressure is needed to impel an individual to contribute his share to the cooperative effort of production is excercised by the price structure of the market. This pres-
sure is indirect. It puts on each individual's contribution a premium graduated according to the value which the consumers attach to the contribution. In rewarding the individuals effort, according to its value, it leaves to everybody the choice between more or less complete utilization of his own faculties and abilities. This method can, of course, not eliminate the disadvantages of inherent personal inferiority. But it provides an incentive to exert his faculties and abilities to the utmost.  

It is the desire to make a profit which is the aim of all action. If the incentive for obtaining a higher income is taken away by policies of economic redistribution, the motivation of action will be suppressed and the market economy will dissolve.

Von Mises felt the pursuit of profit was a sufficient motivation for the maintenance of social cooperation. He refuted the idea that the market economy must be formed on the basis of both the ownership of private property and on moral principles, which he felt would restrict the utilization of private property. He felt moral principles restraining greed or vice were not necessary to ensure the maintenance of social cooperation. Rather, moral principles which altered the functioning of the market were considered to be a form of interference precisely because it "does not ask anybody to deviate from those lines of conduct which best serves his own interest..." The imposition of moral principles affecting human action is merely a way in which the value judgments of some are imposed on all society.
All that is required for the maintenance of social cooperation is that individuals do not infringe "upon the persons of their fellow men and upon the right of private property." It is in everyone's best interest that these two principles are abided by and the sole function of the government and moral precepts is to ensure that they are adhered to. This is the task of liberalism. Liberalism and its implications for the nature of justice, the role of government, the place of religion, and the role of public opinion will be discussed in the next chapter.
Notes to Chapter Five


2 Ibid.

3 Ibid., p.145.

4 Ibid.


6 *Human Action*, p.160.

7 Ibid., p.146.


10 *Human Action*, p.185.

11 *Socialism*, p.293.

12 Ibid., pp.294-5.

13 *Human Action*, p.177.

14 *Socialism*, p.299.

15 *Human Action*, p.147.


17 *Human Action*, p.712.

18 Ibid., p.258.

19 Ibid.
20 Ibid.
21 Ibid., p.209-10.
22 *Human Action*, p.258.
23 Ibid.
24 Ibid., p.261.
26 Ibid., p.283.
27 Ibid.
28 Ibid., p.208.
29 Ibid., p.308.
31 Ibid., p.721.
32 Ibid., p.720.
Chapter Six

Political and Religious Implications of

Praxeology and Economics

According to Von Mises, the nature and function of the government is properly prescribed by the social system which it is required to maintain. He wrote: "As state and government are designed to make the social system operate safely, the delimitation of governmental functions must be adjusted to its requirements. The only standard for the appreciation of the laws and the methods of their enforcement is whether or not they are efficient in safeguarding the social order which it is designed to preserve." Since the social system and, consequently, the government are means and not ends in themselves, Von Mises considered the selection and determination of each to be issues best addressed by economics.

Justice and Social Utility

Von Mises rejected any attempt to organize social cooperation in accordance with some supposed eternal or absolute notion of justice. He felt an appeal to such a notion would be ineffectual if there was disagreement concerning the proper understanding of justice as, he believed, there would be no way of establishing the truthfulness of one conception as opposed to another. Moreover, Von Mises not only felt such a notion was unnecessary for the maintenance of social cooperation, but he believed an absolute notion of justice does not exist. He wrote, "There is no such thing as an absolute notion of justice not referring to a definite system of social organization. It is not justice that determines the decision in favour of a definite social system. It is on the contrary, the social system which determines what should be deemed right and what wrong. There is neither right nor wrong outside the social nexus. For
the hypothetical isolated and self-sufficient individual the notions of just and unjust are empty. Such an individual can merely distinguish between what is more expedient and what is less expedient for himself. The idea of justice always refers to social cooperation. Whatever preserves social cooperation is just. All action detrimental to social cooperation is unjust. The nature of social cooperation, hence the role of government, is not determined by a notion of justice but by its effectiveness in providing the means necessary for the attainment of the subjectively chosen ends of the individual. The only valid "standard of justice" and the "sole guide of legislation" is social utility.

The idea of justice, conceptions of right and wrong, and societal laws are all means contributing to the maintenance of social cooperation. "The notion of right and wrong" he wrote, "is a human device, a utilitarian precept designed to make social cooperation under the division of labour possible. All moral rules and human laws are means for the realization of definite ends. There is no method available for the appreciation of their goodness or badness other than to scrutinize their usefulness for the attainment of ends chosen and aimed at." However, maintenance of social cooperation does not require adherence to the same scale of values by all members of society. Social cooperation is a means common to all members of society. As long as all recognize that social cooperation is of benefit to them in preserving their own ends, then the problem of maintaining social cooperation can "be discussed without reference to judgements of value."

As social utility is the principle governing social cooperation, and since social cooperation itself is a means for the individual to attain his subjectively chosen ends, there is no "irreconcilable conflicts between selfishness and altruism, between economics and ethics, between
the concerns of the individual and those of society.\textsuperscript{6}
Social cooperation, based on the division of labour and
governed by the market, is the most efficient way for man
to attain his chosen ends. Any conflict between the indivi­
duals pursuit of his own interest and public benefit is
an apparent conflict between short-run and long-run inter­
est. There is not irreconcilable conflict, rather, it is
in the individuals best interest that social cooperation be
maintained. Thus when a conflict arises, it is in his pro­
perly understood best interest to act in favour of the pub­
lc good. "For what the individual must sacrifice for the
sake of society he is amply compensated by greater advan­
tages. His sacrifice is only apparent and temporary; he
forgoes a smaller gain in order to reap a greater one later."\textsuperscript{7}
The idea of justice and the formulation of laws protecting
social cooperation do not conflict with an individual's sub­
jective scale of value because they are concerned with the
 provision of means, not the selection or attainment of ends.

**Liberalism**

Liberalism was considered by Von Mises to be the poli­
tical doctrine which results from the "application of the­
ories developed by praxeology and especially by economics
to definite problems of human action within society."\textsuperscript{8} Though
it is the product of a scientific analysis of human action,
liberalism itself is not neutral with respect to ultimate
ends. "It assumed that all men or at least the marjority
of people are intent upon attaining certain goals. It gives
them information about the means suitable to the realization
of their plans. The champions of liberal doctrine are fully
aware of the fact that their teachings are valid only for
people who are committed to these valuational principles."\textsuperscript{9}
The common goals of man with which liberalism is concerned
are material and concern the preference of "life to death,
health to sickness, nourishment to starvation, abundance to poverty.\textsuperscript{10} The desire of these is part of man's nature. "It is man's innate nature that he seeks to preserve and to strengthen his life, that he is discontented and aims at removing uneasiness, that he is in search of what is called happiness. In every living being there works an inexplicable and non-analyzable Id. This Id is the impulsion of all impulses, the force that drives man into life and action, the original and ineradicable craving for a fuller and happier existence."\textsuperscript{11} Man is a biological being, and as such has certain material needs such as food and shelter. The satisfaction of these wants are necessary for the pursuit of all ends. It is liberalism which instructs man as to how to act in accordance with these desires. "Liberalism is a doctrine directed entirely towards the conduct of men in this world. In the last analysis, it has nothing else in view than the advancement of their outward, material welfare, and does not concern itself directly with their inner spiritual and metaphysical needs. It does not promise men happiness and contentment, but only the most abundant possible satisfaction of all those desires that can be satisfied by the things of the outer world."\textsuperscript{12} Liberalism does not deny the validity of man's pursuit of higher or more noble values, but the pursuit of such ends still requires material good which are necessary to life. Whether material welfare is considered an end itself, or merely a means to another end, it is commonly sought by all men and this pursuit is the basis of social cooperation. Liberalism does not say men ought to seek material welfare, rather it recognizes that all men in fact seek it.

\textbf{Role of Government}

Von Mises felt there would always be individuals who "cannot grasp the benefits which social cooperation brings them", or those "whose moral strength and will power are so weak that they cannot resist the temptation to strive for an ephemeral
advantage by actions detrimental to the smooth functioning of the social system." The adjustment of action for the maintenance of social cooperation may involve temporary sacrifices. And even though in the long run these sacrifices are compensated for by the benefits of social cooperation, "in the very act of renouncing an expected enjoyment," wrote Von Mises, "they are painful, and it is not for everybody to realize their later benefits and to believe accordingly." To protect social cooperation from such disruptive action society may be required to resort to the threat or use of violent action. This power is given to the government. Von Mises wrote; "State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action. No individual is free to use violence or the threat of violence if the government has not accorded the right to him. The state is essentially an institution for the preservation of peaceful interhuman relations. However, for the preservation of peace it must be prepared to crush the onslaughts of peacebreakers." The sphere in which the government utilizes its powers of coercion and compulsion is determined by the social system which has been adopted by society. Laws and the method of their enforcement can only be judged in view of their utility in maintaining the social system. In the market economy, the market itself directs the activity of the members of the society and the only proper role of the government is to protect the operation of the market.

Forms of Interference
The role of the government within liberalism does not include the implementation of interventionist policies. Governments interfere in the operation of the market in order to correct what the government considers to be defects in the system. Through intervention, the government "wants production and consumption to develop along lines different than
those prescribed by an unhampered market, and it wants to achieve its aim by injecting into the working of the market orders, commands and prohibitions...." Interventionist policies concern isolated acts. "It is not the aim of the government to combine them into an integrated system which determines all prices, wages and interest rates and thus places full control of production and consumption into the hands of authorities." That is the characteristic of socialism, not interventionism. However, Von Mises considered interventionism to merely be the imposition of one person's or group's subjective value judgements on the whole society. On this level, interventionism is no different than socialism or moral and religious interference and is rejected by Von Mises for the same reason. He felt such interference was a direct challenge to the freedom and liberty of the individual. Such interference does not allow the individual to use his property freely in the pursuit of his own ends. In undertaking a course of interventionism, the government "moves beyond its role as preserver of private ownership and production against violent encroachment and interferes with the operation of business by means of orders and prohibitions." Von Mises distinguishes between two types of intervention. The first directly affects the consumption of goods. Though he is critical of such interference because it is the direct imposition of the value judgements of the government on the individual, he notes that this type of policy does not interfere directly with the operation of the market itself. It would have the same effect as a moral or religious taboo on the production or consumption of a particular good. The lack of demand would send appropriate signals through the market and resources would be directed to the production of something else.

It is policies which directly affect the use of means of production and money which disrupt the operation of the market. This type of intervention would include policies con-
cerning the restriction of production, price interference, price and wage controls or limits, currency and credit manipulation, and the redistribution of property. Von Mises believed specific policies must be judged with respect to their effectiveness in attaining the desired end. Yet in all cases, interventionist policies hamper the operation of the market and for maximizing social utility, nothing is more efficient than the unhampered market.

Place of Religion

Von Mises considered liberalism to be neutral with respect to religion. This neutrality could be maintained so long as religion does not "pretend to interfere with the conduct of social, political, and economic affairs." Religious and metaphysical doctrines make statements about "transcendent and unknowable things" as well as about action in the world. Doctrines about the latter he referred to as ideologies. Liberalism does not make assertions about doctrines concerning things unexaminable by the methods of the human sciences; praxeology and economics. For liberalism, "only those teachings are of real importance which result in precepts for action, not those doctrines which are purely academic and do not apply to conduct within the frame of social cooperation." With the exception of those maintaining a rigid asceticism, all ideologies, in recognizing man's material requirements, "are faced in some measure to take into account for the fact that the division of labour is more productive than isolated work. They must admit the need for social cooperation." Elsewhere he wrote: "Because man is a social animal that can thrive only within society, all ideologies are forced to acknowledge the preeminent importance of social cooperation. They must aim at the most satisfactory organization of society and must approve of man's concern for an improvement of his material well-being. Thus they all place themselves upon a common ground. They are separated
from one another not by world views and transcendent issues not subject to reasonable discussion, but by problems of means and ways. Such ideological antagonisms are open to thorough scrutiny by the scientific methods of praxeology and economics." As liberalism affirms what is common to all ideologies, liberal policies maintaining social cooperation in the pursuit of an improved material well-being; liberalism does not conflict with religion, rather it provides necessary requirements for the pursuit of religious ends. Conflict only arises when religion through the imposition of its valuations, hampers the market process and social cooperation. Liberalism opposes all forms of "theocracy" which attempts to "organize the earthly affairs of mankind according to the contents of a complex of ideas whose validity cannot be demonstrated by reasoning." Liberalism must oppose "all endeavours to silence the rational discussion of problems of social welfare by an appeal to religious intervention or revelation." Interference into the realm of social cooperation is beyond the proper scope of religion as Von Mises perceived it. Adopting the view of William James, Von Mises considered religion to be "a purely personal and individual relation between man and a holy, mysterious, and awe-inspiring divine Reality. It enjoins upon man a certain mode of individual conduct. But it does not assert anything with regard to the problems of social cooperation." Just as liberalism allows the individual freedom to pursue his own interests as long as he does not interfere with the operation of the market, likewise liberalism provides the basis for men to freely hold any religious belief insofar as those beliefs do not disrupt social cooperation and the market process. Von Mises believed that liberalism, by distinguishing between "church and State", is able to establish peace between the various religious factors and gives to each of them the opportunity to "preach the gospel unmolested." Liberalism enables the market to direct human action in the most efficient pursuit
of material welfare and it allows men to pursue higher ends unmolested by the subjective valuations of others in society.

Public Opinion

"Liberalism", wrote Von Mises, "is rationalistic. It maintains that it is possible to convince the immense majority that peaceful cooperation within the framework of society better serves their rightly understood interests than mutual battling and social disintegration. It has full confidence in man's reason. It may be that this optimism is unfounded, and that the liberals have erred. But then there is no hope left for mankind's future." This is the main threat to liberalism as Von Mises understood it. Even though the market system gave the world a higher standard of living, Von Mises realized that even a beneficial system cannot function without the support of public opinion. Common men "do not conceive any ideas, sound or unsound" wrote Von Mises. "They only choose between the ideologies developed by the intellectual leaders of mankind." He felt economists were the best qualified to determine the suitability of a system of social cooperation. Thus it was incumbent upon economists to "conceive sound social and economic theories" and, with the help of others, to make "these ideologies palatable to the majority." So long as people understand their rightly understood interests, Von Mises believed that liberalism, based on the science of human action, could maintain the requirements necessary for social cooperation and unhampered operation of the market.
Notes to Chapter Six


2 Ibid., p. 717.


4 Human Action, p. 716.

5 Theory and History, p. 52.

6 Ibid., pp. 54-5.

7 Human Action, p. 146.

8 Ibid., p. 153.

9 Ibid., 159.

10 Ibid.

11 Ibid., p. 878.


13 Human Action, p. 148.

14 Ibid.

15 Ibid., p. 149.

16 Ibid., p. 714

17 Ibid.

18 Ibid.
19 Ibid., p.155
21 Ibid.
22 Ibid., p.114.
23 Ibid., p.155.
24 Ibid., p.156.
25 Ibid.
26 Ibid., p.157.
27 Ibid.
28 Ibid., p.860.
29 Ibid.
Assessment

Von Mises developed a general science of human action in order to establish the proper place and role of economics as a science. By establishing such a foundation, Von Mises felt the true nature and significance of economics could be scientifically grounded and rationally defended against criticism arising from political bias. This grounding would also provide a similar rational defence of liberalism, the political doctrine which he considered to be consistent with the prescriptive conclusions of economic science. In his conception of economics, Von Mises combined concepts of theory and value characteristic of two different patterns of reasoning, essentialism and nominalism. This combination of elements produced an isolated and domineering conception of economics, an economic science containing a reductionistic view of man, and an elitist view of economists. This combination also resulted in contradictions concerning the distinction between means and ends and the role of science. His attempt to provide a rational and scientific basis for the individual's pursuit of subjectively chosen ends resulted in an unrealistic vision of economic action and society.

In his study of the history of economic reasoning, Prigobram investigated the relationship between the two dominant patterns of reasoning, essentialism and nominalism, in the development of economic theory. It was his contention that differences between various economic theories could be understood in terms of the way in which elements of both patterns of reasoning were combined. He wrote:

In view of the polar opposition which exists between these two patterns of reasoning, a variety of mixed modes of cognition has developed, uniting ele-
ments of both patterns in different combinations. At least a tentative attempt can be made to distinguish and analyze schools of economics with a view to defining the specific methods of thought adopted and observed by their members in their approach to the study of economic phenomena. In light of that distinction, it can easily be shown why wide divergencies have obtained between the leading schools as to the setting of their problems; why certain problems which have played a predominant role in the doctrines of some schools have been considered irrelevant and have been disregarded by others.¹

There is further implication of Pribram's analysis. If the two patterns of reasoning are in polar opposition to each other, and if schools of economics contain elements of both, then the combination of these elements should result in contradictions.

The two main components of Von Mises' understanding of economics, the subjective theory of value and the a priori foundation of economic theory, are each characteristic of a different pattern of reasoning. The subjective theory of value is characteristic of the nominalist tendency in modern economics. In reference to the marginal revolution which incorporated a subjective theory into economics, Pribram wrote: "The simultaneous emergence of the idea that, in the last analysis, the origin of all economic values is to be looked for in individual estimates of the importance of individual goods was probably due to the abandonement of the substance concept of goods and to the final elimination of the scholastic principle that "equivalence" was a prerequisite to all exchange transactions."² The
more or less arbitrarily divorced from its intrinsic relation with all other spheres of human activity.\textsuperscript{7} The failure to provide other aspects, such as the political, social, or religious dimensions of human activity with a similar foundation resulted in the nature and scope of the other aspects being determined by the economic aspect in the application of the science of human action to human behavior and social phenomena. Not only was economics 'divorced' from other disciplines, it became predominant.\textsuperscript{8}

According to Von Mises, concepts of justice and liberty, and the place and role of government and religion, are determined by the form of social cooperation adopted by society, and the form of social cooperation is selected strictly on the basis of economic expediency. Notions of right and wrong and the idea of justice are merely utilitarian precepts which are useful in conforming man's behaviour to the requirements of social cooperation. Liberty and freedom are products of the structure of the market which allows men to pursue their own interests by serving others. The function of political society and government is to maintain, through force or threat of force, the system of social cooperation and religious beliefs and practices are tolerated insofar as they do not interfere with the economic process. As a consequence of Von Mises' emphasis on the economic aspect, moral values are given content only in relation to the economic structure of society, and the political and religious spheres are prescribed by the requirements of the economic sphere. This singular emphasis of the economic aspect resulted in the predominance of economics in the determination of the nature and scope of other aspects. This emphasis also produced a reductionistic view of man and society as only the economic dimension was considered in his analysis of them.

Von Mises argued that the distinguishing characteristic of man is his ability to act. The logical structure of
actions to principles from these laws.

The combination of subjective theory of value and a science of human action based on a priori reasoning resulted in economics becoming a science which studied individual action from the aspect of exchange. The isolation and analysis of an aspect of complex phenomena is an essential part of study. However, if the relevance of other aspects is ignored and the conclusions of the analysis are not reintegrated with insights drawn from other disciplines, then the analysis will be bias towards one aspect and will remain one-dimensional. This will result in an unrealistic perception of the role and significance of the aspect under investigation and in a distorted perception of the phenomenon being studied.

Though Von Mises understood economics to be only one of various branches of human action, he considered economics to be the "best elaborated" branch and he confined his analysis to economics. He did not explain what the other branches might be nor how they would relate to economics within the framework of a general science of human action or in the study of individuals or social phenomena. Von Mises developed the general science of human action to provide economics with an epistemological foundation. Human action as presented by Von Mises was not a general science as such, but merely a philosophical framework which provided his conception of economics with a philosophical basis. It provided no fundamental link between economics and other disciplines.

Pribram identified the singular emphasis of economic considerations as characteristic of the spread of nominalism. He wrote, "The progressive isolation of these economic problems from any considerations connected with other aspects of social life was itself symptomatic of the use of nominalistic methods, since no real existence outside the observer's mind was assigned to the economic sector which was
determination of value by the individual is consistent with the atomistic tendency of nominalism and the nominalistic belief that "reason was unable to provide absolutely valid norms for the distinguishing between good and bad, true and false notions...."³

Value, then, is not inherent in an object. The selection of ends, thus the determination of value, is purely subjective and as such reason is not applicable in its determination. There are no laws or eternally valid notions which pertain to the determination of value. However, reason is useful in the selection of means necessary to obtain the end chosen.

The other main component of Von Mises' analysis, which pertains to the selection of means, the science of human action founded on a priori reasoning, is characteristic of essentialism. Proponents of nominalism denied that the mind could establish absolutely valid notions. They considered experience and observation to be the only source of knowledge.⁴ Essentialistic thinkers, however, believed the faculty of reason could supply absolutely valid rules of economic conduct. Pribram mentions the Physiocrats as an example of the influence of essentialistic reasoning upon economics. Having been influences by the Cartesian belief that reason could "establish externally valid concepts revealing absolute truth...", Pribram said that the Physiocrats "transformed economics into a science capable of expressing, in a self-evident mathematical form, the normative principles taught by the sovereign laws of nature. Violation of these principles out of ignorance was to be prevented by adjusting the positive laws to the invariable rules of the natural laws."⁵ Though the search for general laws governing human action and social cooperation in itself is not essentialistic, Von Mises maintained that such laws were derived from a prioris and as such, externally valid. He also argued that it was in man's best interest to adjust his
man's mind allows him to recognize regularity in nature and his ability to think rationally enables him to utilize this knowledge in his attempt to better his condition. This desire is a basic impulse in man's very nature; it is "the force that drives man into life and action, the original and ineradicable craving for a fuller and happier existence." It is this ability of man to rationally determine a course of action designed to attain a happier existence which separates man from animals. It is this ability which "enables him to create and produce all that is called human civilization." However, the distinguishing characteristic of man becomes, in Von Mises' presentation, the essence of man's character.

Von Mises rejected the classical representation of man as the perfect egoist, one solely concerned with the accumulation of wealth. He perceived man as the calculating entrepreneur who seeks to attain his own ends by supplying others with what they desire. Yet this view of man is still fundamentally hedonistic as it is the hedonistic impulse which is considered the sole motivating factor governing human action. Other factors which may influence action, such as notions of justice, patriotism, and religious beliefs are not considered by Von Mises to be motivators of action. Rather they merely conform man's behavior to those institutions which enable man to most effectively pursue his own interests. A person's course of action is directed by a rational calculation of the most effective utilization of means necessary for the attainment of a given end.

This is the perception of man which coincided with the development of the market economy and liberal democracy. In describing the concept of the individual in seventeenth-century liberalism, C. B. Macpherson provides an accurate description of Von Mises' view of man.

The individual was seen neither as a moral whole, nor as a part of a larger social
whole, but as an owner of himself. The relation of ownership, having become for more and more men the critically important relation determining their actual freedom and actual prospect of realizing their full potentialities, and was read back into the nature of the individual. The individual, it was thought, is free inasmuch as he is proprietor of his person and capacities. The human essence is freedom from dependence on the wills of others, and freedom is a function of possession.\textsuperscript{11}

Von Mises derived this view of man from what he considered to be self-evident principles. However this conception of man was first developed within the framework of a specific form of social cooperation. It was within the context of a developing market economy and a liberal democracy, the form of social cooperation and government which Von Mises considered prescriptions of economic science, that this conception of man becomes tenable. The form of economics consistent with the formulation of the market economy was the sole determinant in the development of Von Mises' view of man.

Likewise in Von Mises' conception of society, it is the prescription consistent with the requirements of solely economic considerations which determine the nature and role of society. Society is defined in terms of the cooperative action of individuals. The structure of society, specifically the form of social cooperation utilized by the society, is determined on the basis of its effectiveness in maintaining the necessary conditions for free exchange individuals. As in the case of the individual, his conception of society is identical to the seventeenth-century liberal view as described by Macpherson.
Society becomes a lot of free equal individuals related to each other as proprietors of their own capacities and of what they have acquired by their exercise. Society consists of relations of exchange between proprietors. Political society becomes a calculated device for the protection of this property and for the maintenance of an orderly relation of exchange.\footnote{12}

Society is a means; it is a vehicle for the individual's pursuit of his own interests. Society is merely the arena of action for Von Mises' economic man and thus it is reduced to being a function of the requirements of Von Mises' economic man, the calculating entrepreneur.

Another feature of this reductionism is Von Mises' view of history. His conception of theory based on a priori reasoning renders economics a-historical. He defined the a prioristic role of theory in the determination of laws and facts concerning human action and social cooperation. Though he did not deny the validity of the historical sciences, he argued that historical investigation required a prioristic categories to provide a necessary framework with which to study history. Theory, he said, was necessary for all conceptualization. By developing an externally valid, a prioristic foundation for his investigations, he insulated praxeology and economics from historical critique. These premises were considered self-evident, they were knowable by reason alone. They cannot be corrected by historical investigation. This isolation of economic theory from history rendered history irrelevant for the development and practice of economic science. History made no necessary contribution to the study of human action and social cooperation.
This ahistorical approach also idealizes a specific form of social cooperation. Human history is perceived by Von Mises as the gradual recognition of the "great cosmic principle of becoming," the realization that cooperation through the division of labour results in higher productivity. This principle of economic efficiency is used to guide all forms of social cooperation. As it is a law of nature, the form of social cooperation adopted by society ought to recognize the benefits which can be derived from conforming action to the dictates of the law. Since the market economy is the only economically effective form of social cooperation based on the principle of the division of labour, the market economy is considered by Von Mises to be the ideal form of social cooperation.

The effectiveness of the market economy is defended by a study of praxeology and economics. The premises upon which praxeology and economics are constructed were considered by Von Mises to be self-evident. Yet is was not until the widespread development of markets and the increasing use of money and the subsequent discovery of the benefits provided by the division of labour through the market process that the study of these phenomena resulted in the development of a new discipline. Though the need for sciences of economics and praxeology was recognized within a specific historical context, the theoretical nature ascribed to these sciences protects them from historical scrutiny.

This theoretical nature of praxeology and economics enables economists to judge all social formations in light of these self-evident categories and the laws deduced from these categories. However, these categories were formulated and given content in the study of the market economy. They only became self-evident through the development of the market. Their support for the market process is implicit in their formulation. They are irrefutable and are analyzed not in terms of their effectiveness to explain phenomena or historical de-
velopment, but by the use of imaginary constructions. These constructions are not intended to represent reality. These constructions are used to isolate and analyze components of economic theory. They accept fundamental categories as given. Thus economic categories are defined and analyzed in relation to their function in the market economy. The formulation of economic categories is done in isolation from historical or even cultural influences.

The combination of an a prioristic basis for economic science and a subjective theory of value resulted in a reductionistic view of man and society. The theoretical nature of economics gives it a predominant position among the social sciences and its ahistorical approach contributes to the idealization of a specific form of social cooperation. This combination also resulted in contradictions concerning the distinction between ends and means and the role of science resulting in an elitist view of economists.

Von Mises argued that ultimate ends were irrationally selected and as such were beyond the scope of science. Science does not tell men what they should seek to attain. Science takes as given the subjectively chosen ends of man. He wrote, "Science seeks to know what is, and to formulate existential propositions describing the universe as it is. With regard to judgements of value it cannot assert more than they are uttered by some people, and inquire what the effects of action guided by them must be. Any step beyond these limits is tantamount to substituting a personal judgement of value for knowledge of reality. Science and our organized body of knowledge teach only what is, not what ought to be."\textsuperscript{14} However, economic science as described by Von Mises is prescriptive. It prescribes the role of religion and the proper role of government. It also gives content to moral values. Though he claimed
it did not prescribe the ultimate ends man should pursue, Von Mises interpreted all ends in terms of the pursuit of happiness or pleasure. He asserted that all men desire to be happy, and action - the employment of means for the attainment of ends - can be judged according to its effectiveness and efficiency in contributing to the attainment of a given end. Thus economics becomes prescriptive concerning the selection of means. However, the determination of what is an end, thus what constitutes a means, is considered to be subjective. Yet, what one man may consider an end, another may consider a means to another end. Von Mises avoided this dilemma by restricting the application of economics to means which are common to all ends. These he identifies as the material requirement of life. Economics indicates what is the most effective way to provide these material needs. Yet this restricts men's subjective valuation to selection of ends as long as those ends do not prescribe how they ought to be attained. Man is free to determine what ultimate ends he wishes to pursue but his pursuit of those ends is prescribed by economic science. Thus the process by which an end is attained cannot itself be considered an end. A desire to live life according to a certain notion of justice or a set of religious values which will affect action in the marketplace cannot be considered ends within Von Mises' framework. They are merely notions which conform man's actions to the requirements of social cooperation and are themselves determined by the form of social cooperation employed; and the selection of the appropriate form of social cooperation is, in Von Mises' opinion, best left for economists to determine.

Von Mises did not believe the individual is able to correctly perceive what his properly understood interests are. Economists can, and it is their task to supply the appropriate ideologies. Though he acknowledged that the ultimate choice between systems of social cooperation is made by public opinion, only economists can determine which system is in the best interest of all individuals. The implication is that the ends people
choose may not be in their own best interest, which Von Mises identifies as being in the best interest of society. Though the selection of ends is considered to be irrational and beyond the realm of science, economic science informs man as to what is in his best interest. Though ends are held to be subjectively chosen by the individual, it is economic science which prescribes what can be considered an end and it is the economist who can best determine what is in the best interest of the individual. The appropriate ends to be sought are those which are consistent with the form of social cooperation and political ideology which is prescribed by the conclusions of economic science. Thus the prescriptive nature of economics infringes upon the freedom of the individual to choose a desired end as the selection of the end is not entirely subjective. At this point the essentialistic nature of economic science conflicts with the nominalistic conception of value. The science of economics prescribes the bounds of what can be subjectively chosen by the individual. An end can be pursued as long as it is consistent with the maintenance of the market system; the market system being a form of social cooperation, hence, a means which is to facilitate the attainment of ends and not determine what may be considered an end.

As a result of Von Mises' attempt to provide a scientific defense of liberalism, economic science became unrealistic and prescriptive. Von Mises admitted that liberalism is a doctrine which recognizes the material pursuit of men and their ultimate desire to be happy, and these values are inherent in his determination of economic science. Man is reduced to a rational calculating entrepreneur who strives to better his condition, and society is considered merely a means which facilitates this pursuit. By attempting to defend economic science and liberalism from criticism arising from political bias, he produced a polemical defense of his own bias.
Notes to Chapter Seven


2 Ibid., p.21.

3 Ibid., p.6.

4 Ibid., p.5.

5 Ibid., p.8.


7 "Prolegomena", p.5.

8 In reference to other branches of praxeology, Von Mises mentions only sociology yet he does not elaborate as to what aspect of human action sociology would analyze.

9 "Prolegomena", p.4.

10 Ibid., p.8.


12 Ibid.


Conclusion

Even at a relatively young age, Ludwig Von Mises was pessimistic about the influence his theories would have on economists and economic policy. He wrote:

Occasionally I entertained the hope that my writings would bear practical fruit and show the way for policy. Constantly I have been looking for evidence of a change in ideology. But I have never allowed myself to be deceived. I have come to realize that my theories explain the degeneration of a great civilization: they do not prevent it. I set out to be a reformer, but only became the historian of decline.¹

Convinced of the merits of liberalism, Von Mises sought to scientifically establish the proper nature and significance of economic science. This would enable him to prove the affinity between economics and liberalism. Von Mises did more than provide a description and analysis of economics as an aspect of human action. He presented an ideology which he believed could harmonize the activities of individuals despite the divergent ends they desired to attain, an ideology consistent with the vision of man and society which C.B. Macpherson attributes to seventeenth-century liberals. Lester Thurow's warning about a movement towards a more pure form of his classical theory is applicable to Von Mises' understanding of economic science. It does have implications extending far beyond the conventional scope of economics.²

The prescriptive implications of Von Mises' economics is implicit in its formulation and epistemological foundation. The science which Von Mises used to defend liberalism is itself
product of liberal notions of man, political society and religion. The non-intervention of government into the economic sphere, as well as individual freedom and the private ownership of property are important principles. Certainly his commitment to these principles appeals to various business interests and religious groups. However, these principles cannot be seen in isolation from the total coherence of human action and social cooperation. They are aspects of an integrated vision of man and society and as such they must be considered in light of the ideological framework within which they are given form and content.

Von Mises is to be admired for his uncompromising commitment to liberalism. However, his view of liberalism must be assessed in terms of its ideological content and implications, not on the basis of the principles it defends. A rejection of this ideology does not imply the rejection of these principles. It does require a reassessment of these principles and a new ideological framework within which they can be maintained.
Notes to the Conclusion

1. Ludwig Von Mises, Notes and Recollections (South Holland: Libertarian Press, 1978), p.115. He wrote this shortly after he moved to the United States.

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