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# Mises's *Human Action* and Its Place in Science and Intellectual Culture

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I consider Ludwig von Mises's *Human Action: A Treatise on Economics* the greatest work in economics and political economy in the twentieth century, and it ranks in the top five books of all time in the discipline, alongside *Wealth of Nations* by Adam Smith, *On the Principles of Political Economy and Taxations* by David Ricardo, *A Treatise on Political Economy* by Jean-Baptiste Say, and *Principles of Political Economy* by John Stuart Mill. It is probably accurate to say that without the contributions of Alfred Marshall, Philip Wicksteed, and Knut Wicksell, and certainly without Carl Menger, Eugen Böhm-Bawerk, and Friedrich von Wieser, Mises could not have written his magisterial work. But his work was more in line with the approach of the great classical political economists than with the scientific texts of early neoclassical economics. But make no mistake, he synthesized the best learning in the classics and the neoclassicals and forged that synthesis into a powerful work that countered the antieconomics arguments that emerged in the social sciences and the humanities from antiquity to modernity.

I consider it an honor and privilege to provide commentary on Mises's great work *Human Action* for *The Independent Review*'s symposium "Reconsidering the Classics of Political Economy." *Human Action* is a monumental achievement of the human mind. It makes fundamental contributions to methodology of the social sciences, the

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analytical tools best developed to study the pure logic of choice, the situational logic of the marketplace, and the social philosophy of radical liberalism. It is also, unfortunately, a work that has been subject to severe misinterpretation by friend and foe alike because of its unique history in the context of twentieth-century scientific and intellectual culture. At the core of Mises's work is simply a claim about the nature of critical reasoning in the human sciences. He is navigating an intellectual terrain between the English-language discussions of the logical status of economics exemplified by Mill and the German-language continental philosophical context out of which he was writing. Those allergic to continental philosophy (as most analytical philosophers are) misunderstand his claims about the nuances of economic theory, and those allergic to analytical philosophy (as many continental philosophers, German historicists, and English empiricists often are) misunderstand his claims about the logical status of economic theory. Before we get started, I want to attempt a simple clarification.

Mises is not making a dogmatic and extreme claim to certainty. He is simply making a rather elementary claim in logical reasoning. He is attempting to make truth-preserving arguments in striving for logically *sound* economic theory. By this standard, if the premises by which one commences an argument are true, and the logical derivations are correct, then the conclusions are true. However, early-twentieth-century economists were intellectually exhausted by seemingly endless debates about theory and policy. The biggest confusion in scientific discourse results when discourse partners use the same words to mean different things and different words to mean the same thing. So economists' intellectual temperament during Mises's time veered toward substituting mathematical models for verbal chains of reasoning in an effort to clear up ambiguity and confusion. All theorizing entails abstraction, but the older theorists in the classical and early neoclassical period took great pains to ensure that they constrained their flights of fancy so that abstractions were limited only to *adequate* abstraction for the purpose at hand and so that they never lost sight of the real world. In Mill, for example, this method was one of successive approximations in the move from pure theory to applied theorizing and eventually to considering questions of public policy.<sup>1</sup> As Frank Knight put it in *The Economic Organization*, pure theory is analogous to providing the skeletal structure of the economic "body" ([1933] 1967, 35), but advances in theorizing require accounting for the muscular, circulatory, and nervous system to get a true understanding of the system in operation.

By 1930s, this type of thought experiment was being pushed aside in the scientific literature for the beautiful abstractions of mathematical theory both in Europe (where the main scientific discussion was taking place) and in the United States (where the economics profession was fast emerging). And mathematical theory, rather than seen as providing a skeletal framing, was applauded as being institutionally antiseptic and

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1. This distinction between pure theory and applied theory can also be found not only in Eugen Böhm-Bawerk's writings (see, e.g., [1888] 1959, 212) but also in Alfred Marshall's work (see, e.g., [1920] 2013, 31 n. 1).

transcending time and place. The relationship between averages and marginals is true whether we are talking about student test scores or the costs faced by factory managers, and it is true whether those students and managers are located in China or in England and true whether we are discussing the decisions made in 1770 or those made in 1930. Math is math.

The only problem is that although mathematical reasoning can ensure syntactic clarity, it is incapable of ensuring semantic clarity. Our logic quest shifts from seeking to derive logically sound arguments to ensuring that our arguments are logically valid. The truth or falsehood of the original premise is no longer of concern, but mathematical reasoning will ensure that logical validity is obtained.

Once we understand the intellectual context within which Mises was arguing and the methodological commitment to logical soundness in economic theory, we can better understand why he was being neither dogmatic nor extreme in his commitment to his defense of a free-market order. There is no doubt that Mises was committed to the principles of a free society, but, among economists, his alleged dogmatism regarding the free market was based not on an ideological critique per se but on a by-product of the *methodological* changes in economic science. For example, one of the great ironies in the history of economic thought was leveled against Mises by the market socialist Oskar Lange—the claim that Mises's argument was based on a rejection of neoclassical economic theory! As Lange argued,

It has been maintained, indeed, by Marx and by the historical school (in so far as the latter recognised any economic laws at all), that all economic laws have only historico-relative validity. But it is most surprising to find this institutionalist view supported by a prominent member of the Austrian school, which did so much to emphasize the universal validity of the fundamental principles of economic theory. Thus Professor Mises' denial of the possibility of economic calculation in a socialist system must be rejected. (1936, 55)

Lange further stated that Mises's denial of the possibility of economic calculation in a socialist economy implies a denial of rational choice, which is “plainly institutionalist” (1936, 55 n. 2). Lange made this statement in terms of the formal similarity of equilibrium, which by the very logic of perfect completion is valid across time and place, both under socialism and under capitalism. From this basis, it would seem that Mises's adherence to the superiority of capitalism over socialism was an ideological defiance of logic. “The impulse to interpret Mises in this way is so strong,” Don Lavoie writes, “that it sometime persists alongside powerful contradictory evidence” (1985, 12). Yet Mises states the following very clearly in *Human Action*:

The mathematical economists are almost exclusively intent upon the study of what they call economic equilibrium and the static state. Recourse to the imaginary construction of an evenly rotating economy is, as has been pointed

out, an indispensable mental tool of economic reasoning. But it is a grave mistake to consider this auxiliary tool as anything else than an imaginary construction, and to overlook the fact that it has not only no counterpart in reality, but cannot even be thought through consistently to its ultimate logical consequences. ([1949] 1966, 701–2)

The timing of the full adoption of the mathematical style of reasoning in economics coincided with a rise in the optimism of empirical testing in economics through statistical techniques and quasi-controlled experiments. But this optimism was borne out of a failure to pay attention to philosophical queries about the unambiguous rendering of critical tests, even in physics, associated with Pierre Duhem and later Willard Quine. If these tests do not produce unambiguous results on scientific hypothesis, then the economist's quest for exact thinking, where the array of logically valid arguments are subjected to empirical testing to determine empirical significance, is lost. Flights of fancy, such as fictions of maximizing behavior or perfectly competitive economies or social welfare functions, come to dominate economic theorizing, and the economy is lost. Economists debate properties of models, not the logical coherence of theories and their correspondence with the world they are trying to understand.

Mises was certainly not alone (he was accompanied, for example, by Knight and Lionel Robbins), but he was the most vociferous defender of economic theory in the era of formalism and empiricism. And, the first hundred pages or so of *Human Action* direct its argument at clearing this philosophical groundwork and clarifying the fundamental tenets of a theory of human action. Most skeptical readers of Mises gloss over his presentation of the uncertainty and the recognition of ignorance in the affairs of men and thus also over his presentation of the role of choice as well as of the rules of thumb to ameliorate the imperfections in human choosing. They want to focus on his vociferous tone against the historicists and institutionalist critics of economic theory as well as against the modern mathematical theorists and positivist statistical testers, and they stress his unwillingness to grant argumentative legitimacy to ideological critics of the market economy. So the skeptic's strategy is to dismiss Mises rather than to engage his actual argument. They attempt to pigeonhole his position as anachronistic and cranky and thus do not deal with the more nuanced presentation of economic theory he is providing in those sections of *Human Action*. But it is important to remember that Mises says repeatedly that *nothing* he is saying is new and that he is just following the way economists have always proceeded in theorizing about human action and interaction in commercial life.

Mises, like all economists, builds his model of individual choice from the recognition of scarcity and the trade-offs associated with choice against given constraints, but there is nothing mechanical about this exercise in his model of man. The choice is agonizing, and it represents a voyage into the unknown future guided by the human imagination. For Mises, the study of human action is grounded in the subjective evaluation of the situation by the individual chooser on all sides of social interaction. His

is a thoroughgoing subjectivism of values, costs, and expectations. Mises presents his readers in those opening chapters with a vision of the open-endedness of choice and thus lays the groundwork for his analysis of the market process and his comparative analysis of system of social cooperation.

These features of Mises's work are universal, and it is vital that all students of society study his work thoroughly. Central to Mises's argument is social cooperation under the division of labor and the institutional preconditions that either enable or hinder individuals' ability to realize the gains from productive specialization and peaceful cooperation. In the process, Mises provides, perhaps better than any economic thinker in history, a detailed discussion of the role of private-property rights, the guiding role of price signals, the lure of profit, and the penalty (and discipline) of loss in his development of market theory and the price system.

The unhampered market economy is able to engage in rational economic calculation, which enables economic growth and development. Economic calculation serves to sort from the array of technologically feasible projects those that are economically viable. It is this process of economic calculation that weeds out systemic waste and selects in least-cost methods of production and low transaction-cost methods of exchange. It is important for readers of *Human Action* to understand that this economic-calculation argument is not limited to his critique of socialism.

Monetary calculation is at the core of Mises's entire theory of how markets work, why interventionists' efforts often produce unintended consequences, and of course why rational economic planning is, strictly speaking, impossible. In short, Mises's theory of the business cycle as a consequence of the manipulation of money and credit and thus of distortions to relative prices is grounded in this economic-calculation argument, as is his theory of wage-and-price controls producing shortages and surpluses that are self-defeating from the point of view of the interveners' goals to improve the welfare of the least advantaged and improve the human condition. Like his philosophical clearing of the ground for the development of praxeology in the first hundred pages of *Human Action*, the next hundred pages lay the analytical groundwork for his presentation of catallaxy and eventually of liberalism.

Mises's core message is timeless and applicable to our experiences with financial crises and our frustrations with efforts to manage macroeconomic demand management, to regulate microeconomic efficiency, and to orchestrate economic development abroad. But given the centrality of Mises's analysis of socialism to his entire body of thought, modern readers must see the relevance of his analysis to the post-Communist world. His work is vital for understanding not only what was done right but also, more importantly, what went wrong in the experience after 1989.

The Communist period, rather than delivering the promised move from the "Kingdom of Necessity" to the "Kingdom of Freedom," resulted in economic deprivation and political tyranny throughout eastern and central Europe and the Soviet Union. So the fall of communism provided a critical moment for reflection on and application of the central Misesian tenets concerning private property, rational

economic calculation, and the organization and coordination of economic activity through time. In a fundamental sense, the postcommunism transition was about establishing a private-property order embedded in a rule of law and the evolution of an advanced market economy based on profit and loss. Corresponding institutions such as sound money, fiscal responsibility, and free trade domestically as well as internationally would fill out the appropriate policy recipe for a successful transition.

Of course, political maneuvering and manipulation raised serious problems in the implementation of the necessary reforms. Public policy must be incentive compatible and must be implemented following incentive-compatible strategies. But what is considered incentive compatible is a function of the climate of public opinion at any point in time. As Mises points out in *Human Action*,

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history. The customary discussions concerning the role the individual plays in history miss the point. Everything that is thought, done and accomplished is a performance of individuals. New ideas and innovations are always an achievement of uncommon men. But these great men cannot succeed in adjusting social conditions to their plans if they do not convince public opinion. The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority. ([1949] 1966, 863–64)

Ideas give rise to institutions, and institutions engender economic performance. Economic science enables the analyst to access how alternative institutional arrangements affect individuals' ability to realize productive specialization and peaceful cooperation. Ideas, Mises argued, serve as the spark in a combustible combination of institutions that provide high-powered incentives and information so individuals can engage in the necessary capital accumulation to experience long-term economic growth. But make no mistake about it, in the Misesian analysis ideas are the prime mover, and ideas represent the biggest challenge for the effort at sustained reform.

Mises was not ignorant of vested interests and the power of what would later be dubbed “public-choice analysis.” In fact, he thought one of the jobs of economists was to clearly expose to daylight the vested interests benefitting from bad public policies so that citizens could examine the costs of policy errors. But two things in his intellectual sensibilities cut against limiting the analysis to a discussion of vested interests.<sup>2</sup> First, his commitment to value-free analysis meant that his argumentative strategy was to take his

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2. See Mises's rather subtle discussion on the problems with the comparative analysis of liberalism and socialism that result when theorists deploy the assumptions of benevolence and omniscience in their examination of systems of social cooperation ([1949] 1966, 689–93).

intellectual opponents' stated aims at face value and thus to limit his analysis to the critical examination of the efficacy of chosen means to given ends. Second, Mises had great faith in the power of ideas, and he believed that in the end ideas would sway individuals in favor of the true liberalism that he favored. Just as liberalism ushered in an era of religious toleration to substitute for the conflicts over dogma, the power of ideas would usher in an era of cosmopolitan liberalism based on productive specialization and peaceful social cooperation.

This focus on the importance of ideas remains *Human Action's* main contribution to the broader intellectual community. In Mises's writings, the ideology that follows from the teachings of economic science is liberalism. And the liberal vision of the good society must capture the population's imagination if the full benefits of capitalism are to be realized.

*Human Action* represents a monumental achievement in economic science that was the catalyst for the counterrevolution to the Samuelsonian neoclassical synthesis of macroeconomic demand management and microeconomic market-failure theory. This counterrevolution in the second half of the twentieth century was carried out by the property-rights economics of Armen Alchian, the law and economics of Ronald Coase, the public-choice economics of James Buchanan, and the elaboration of market-process economics by Mises's students F. A. Hayek and Israel Kirzner. All of these efforts have roots in Mises's work, and all of these individuals pursued the methodologically individualistic approach consistently and persistently. Mises argued that all *economic* explanations must be traced back to the individual's decision calculus. Although there may be macroeconomic phenomena, such as unemployment, inflation, growth, and development, there are only microeconomic explanations for these phenomena. But Mises's model is not a simplistic deterministic maximizing model of man. His purposive actor instead confronts an uncertain world, and this actor relies on various aids to the human mind to steer a course between alluring hopes and haunting fears. Purposive human actors face, Mises explains in the first hundred pages of *Human Action*, the agony of choice. But in that agony of choice, the purposive actor also has the power of imagination, and the entrepreneur in particular has the creative imagination to envision opportunities for pure profit.

It is this entrepreneurial aspect of purposive human action that animates Mises's mature development of the theory of the competitive market process. Again, his depiction of the market economy has little resemblance to the textbook model of perfect competition. So the Misesian contribution to economic science follows from neither maximizing nor equilibrium but from entrepreneurship and the market process. If you add to this entrepreneurial market-process perspective the "Austrian" view of capital as a complex structure consisting of heterogeneous goods that have multiple specific uses that must be fit together into productive combinations, then Mises's rejection of the mechanical interpretation of the quantity theory of money and thus of the proposition of the neutrality of money seems to follow naturally from the logic of the presentation. Because money is one-half of all exchanges, distortions caused by the manipulation of

money and credit can alter all exchange and production relations throughout the economy, including the capital structure of production. And, finally, the Misesian theory of the price system—in particular the role of relative prices as guides, of profits as a lure, and of losses as penalty within this capital-using and money-using economy—enables us to appreciate better how alternative institutions affect economic actors' ability to realize gains from trade and gains from innovation. Mises united microeconomics and macroeconomics well before they were the terms of art in the economics profession, and he presented his readers with a coherent and unified body of theory grounded in the logic of choice, the role of relative prices, and the practice of rational economic calculation. Purposive human actors are at the center of the analysis from the first to the last page of this treatise, and along the way the reader is provided step by step with the intellectual tools necessary for understanding the operation of the unhampered market economy, the dysfunctions of interventionist attempts to pursue wage-and-price controls, the negative consequences of the manipulation of money and credit in terms of industrial fluctuations and unemployment, and the impossibility of rational economic calculation in the socialist commonwealth, which results in chaos and economic deprivation. In my opinion, there has never been a book in the field of economics and political economy that has promised its readers so much and actually delivered on that promise as Mises's *Human Action* does.

The economics profession and the discipline of political economy have still not caught up to Mises methodologically, analytically, and social philosophically. It is my sincere hope that this short commentary will bring new readers to Mises's body of work. His vision of the good society is inspiring, and his analysis of the workings of the economy is scientifically rigorous. *Human Action* is one of the great works in the grand tradition of political economy from Adam Smith on. Read Mises to be inspired, take the science of economics seriously, and envision all that is entailed in the establishment of a private-property market economy embedded in a rule of law and within a constitutional order of liberal government.

In the battle of ideas that Mises's alludes to, perhaps the best tool at the individual's disposal is in fact Mises's writings. It is up to the new generation of readers to use this work effectively to achieve what previous generations were unable to fully achieve in realizing the agenda of utilizing the power of ideas to usher in an era of cosmopolitan liberalism based on productive specialization and peaceful social cooperation in science and in society. Perhaps there are no better words to end with here than those with which Mises chose to end his great work:

The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage



of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race. ([1949] 1966, 885)

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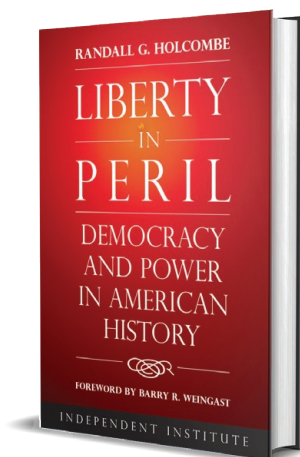
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