

MISES, ROTHBARD, AND THE METHODOLOGY OF
AUSTRIAN ECONOMICS

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In displaying an explicit interest in methodological issues, Austrian economics is somewhat unique within the different schools in economics. This interest in methodological issues was initiated by Menger, the founder of the Austrian School of economics, in the debate known today as the Methodenstreit, or debate over methods. This debate witnessed Menger disagreeing with Schmöller concerning the methods relevant for the study of social phenomena. Menger rejected the argument that economic theory should be informed by historical investigations, defending in contrast the position that the social sciences could replicate the methods of the natural sciences:

The contrast between the theoretical natural sciences and the theoretical social sciences is merely a contrast of the phenomena which they investigate from a theoretical point of view. It is by no means a contrast in methods. (Menger 1963, p. 59, footnote)

Although economics and the natural sciences investigated different phenomena, this did not entail that they adopted different methodological procedures. Menger thus differentiated between history and theoretical economics where the latter, following the methods of the natural sciences, sought to establish economic laws:

The historical sciences (history)...have the task of investigating and describing the individual nature and individual connection of economic

phenomena...theoretical economics...the task of investigating their general nature and general connection (their laws). (Menger 1963, pp. 38-39)

Although this question of the relationship between historical and economic investigations tended to dominate subsequent discussions concerning the methodological foundations of Austrian economics, most economists are probably more aware of the contribution made by Austrian economics to the debates about the possibilities of centrally planned economies, or the socialist calculation debates. However, although Mises is known for both his methodological work and his criticisms of centrally planned economies, it is not immediately clear that these two aspects of his work are in fact compatible.

Consequently, this investigation will examine the methodological positions of Mises and Rothbard in the context of the methodological status of the Austrian critique of centrally planned economies. As Menger's initial methodological claims are central to subsequent developments, a more detailed understanding of Menger's methodological position will prove useful.

Menger's Methodology

As noted, Menger's primary concern in his methodological writings was to establish a distinction between theoretical economics and history. In developing this distinction Menger argued that theoretical economics could be differentiated into exact theoretical science and realistic-empirical science. Whereas exact theoretical science was concerned to investigate the economic laws which governed ideal phenomena, realistic-empirical science studied real phenomena. Significantly, the exact sciences abstract from factors such as ignorance, error, and non-economic motives, whilst the realist-empirical sciences

allow for these phenomena. Menger stated that economic theory required both forms of inquiry:

Both the exact and the realistic orientation of theoretical research have the aim of making us understand theoretically all phenomena of the economy, each in its way ... the function of each of them consist in making us understand the total realm of economic phenomena. (Menger 1963, p.68)

Exact science assumes that individuals act according to self-interest and in a completely rational manner. However, individuals make mistakes, and this possibility is explored through the realistic orientation which admits that 'volition, error ... can ... and actually do, bring it about that human agents take different roads from a strictly set starting point' (Menger 1963, p.217). Moreover, Menger recognised that individual actions are not solely self-interested, thus acknowledging that 'the real phenomena of human economy ... are to no small extent of an uneconomic nature, and as a result of this fact are by no means strictly determined phenomena' (Menger 1963, p.218). Given this, Menger argued that other 'exact' sciences are required:

If humanity should ever arrive at a universal exact understanding of social phenomena in general ... then this could assuredly happen only by way of a majority of exact social sciences, the totality of which would have to open up for us the universal exact understanding of social phenomena. (Menger 1963, p.78)¹

Consequently investigations in the social sciences are capable of discovering exact laws that determine social phenomena. As individuals do not always act according to self-interest then other exact sciences besides theoretical economics are required. Further, as

individuals make mistakes under conditions of uncertainty, exact sciences require supplementing by realist-empirical sciences.

Menger advanced his novel marginal economic theory in the book Principles of Economics. The book contained a section specifically devoted to ‘time and error’ where Menger again acknowledged that ‘uncertainty ... is of the greatest practical significance in human economy’ (Menger 1976, p.71). However Menger conceived of the work as being an exercise in exact theoretical science. Yet as any economic investigation also required the empirical sciences, the conclusions arrived at through exact science may not be determinate. Hence regarding the formation of prices Menger acknowledged that there is a ‘certain range of indeterminacy within which price formation can take place ... economic influences do not ... fix the point at which price formation, of necessity, must take place’ (Menger 1976, p.199).

Given this, then exact sciences alone could not arrive at determinate conclusions, but merely indicate a range within which results would occur. However, it is worth noting the subtlety that pervades Menger’s economic work is not always exemplified in his methodological claims. For instance, although acknowledging in his economic work that the exact theoretical sciences can only establish a range within which prices will be formed, his methodological work claims that:

Exact research in the realm of the phenomena of price teaches us, for example, that the increase in need for certain goods appearing in a definite trade area can under certain circumstances lead to a price increase which can be determined exactly according to measure. (Menger 1963, p.71, emphasis in original)

Menger immediately adds caveats to this claim, stating that it presupposes that individuals are guided solely by economic interests, error and uncertainty are absent, and they can act without impediment. However, despite these qualifications, Menger is claiming that the exact theoretical sciences can arrive at determinate results unaided by the realist-empirical approach. Similarly, he claims that ‘if ...the starting point and the goal are given in each concrete case by the economic situation, there can in each case be only ... one economic road to the pertinent goal’ (Menger 1963, p.218). Again, despite the qualification that this disregards ‘economically irrelevant differences’, the implication here is that the exact sciences alone can achieve determinate results. In this case, if ends are already determined, the ‘correct means’ to reach them can also be determined.²

Consequently, three main areas comprise the methodological legacy bequeathed by Menger to later adherents of the Austrian school. Firstly, theoretical economics was to be demarcated from historical studies; secondly uncertainty was a major factor that must be taken into account in economic investigations. In the third area Menger was more ambivalent: economic theory may be able to arrive at determinate conclusions. Mises and Rothbard both maintained these first two points, although in different forms from those established by Menger. However, they both rejected the possibility of economics arriving at determinate results as Menger had occasionally suggested.

Mises and the Status of Economic Theory

Initially Mises did not recognize the need to demarcate economic from sociological investigations, referring to ‘sociology and its hitherto best developed branch, economics’ (Mises 1981, p.108). However, human action formed the subject matter of history as well

as sociology, and Mises sought, following Menger, to differentiate sociology, including economics, from history. Unlike Menger, Mises sought to establish this demarcation in terms of the neo-Kantian distinction between general and individual methods, a distinction initially developed by Windelband and later adapted by Rickert. Whereas the natural sciences adopted a generalizing method (nomothetic), the cultural sciences, including history, adopted an individualizing method (ideographic). For Mises sociology was a nomothetic science, concerned to establish universally valid knowledge. Hence 'it is in sociology and above all in economics that we encounter the universally valid science of human action' (Mises 1981, p.17).

Economics, as a branch of sociology, advanced claims about human action that claimed universal validity. Mises's position followed the Marburg School of neo-Kantianism, developed by Cohen, focussing on the validity of logical propositions (Parsons 1990). Consequently economics is 'a priori, not empirical ... like logic and mathematics ... it is prior to experience' (Mises 1981, p.44). This definition of the science of human action as an exercise in logic led Mises to argue that 'in the last analysis, logic and the universally valid science of human action are one and the same' (Mises 1981, p.13). Menger's original position in the Methodenstreit was preserved through arguing that sociology and its sub-branch economics, unlike history, sought to establish universally valid propositions. However, as economics was regarded as a priori, not empirical, Menger's defence of the need for the realist-empirical approach was disregarded.

In his later works Mises recognised that he needed to differentiate economics from sociology. It was now praxeology, not sociology, that was concerned with the a priori categories:

In 1929 ... I still believed it was unnecessary to introduce a new term to signify the general theoretical science of human action ... I thought it would be possible to employ for this purpose the term sociology ... Only later did I realise this was not expedient and adopted the term praxeology. (Mises 1981, p.xvi)

Mises thus redefines Menger's defence of theoretical economics as a defense of praxeology. It is worth noting that Mises's methodology reveals further differences from that originally formulated by Menger. Firstly, Mises accepted that economics could 'make predictions in the sense in which this ability is attributed to the natural sciences' (Mises 1981, p. 118). As noted, Menger's position on this question was somewhat ambivalent. Although his economic work argued that economics could only determine a range within which economic magnitudes such as prices could be determined, his methodological work appears to suggest that economics can arrive at quantitatively definite results. Mises rejects this possibility, arguing that the predictions made in economics cannot be 'quantitatively definite' (Mises 1981, p. 118).

Secondly, Mises emphasized the importance of understanding meaning in economics, claiming that 'what makes social science possible is the power to grasp or to comprehend the meaning of human action' (Mises 1990, p. 9). However, this emphasis on the significance of understanding meaning raised a potential problem for Mises, as historical research was also interested in the problem of comprehending meaning. Hence Rickert had observed that 'historical understanding ... must be a matter of the

interpretative re-creation of the meaningful mental life of other persons' (Rickert 1986: 164).

Consequently, in order to maintain the differentiation between economics and history, Mises needs to explain how the interest in the problem meaning in economics is different from the interest in meaning in the historical sciences. In order to accomplish this, Mises distinguished the comprehension of meaning into two kinds - conceiving the meaning of an action, which is the concern of economics, and understanding the meaning of action, which is the concern of history. To conceive the meaning of an action indicates that we identify or recognise any action as an action, and thus as purposeful in the sense that it is orientated towards some goal. This is the concern of economics:

"We conceive the meaning of action, that is to say, we take an action to be such...We conceive activity as such, its logical (praxeological) qualities and categories." (Mises 1990, p.9)

In order to appreciate Mises's point here it is necessary to recognize the dual role that Mises attributes to the a priori categories. These categories are regarded as pre-requisites of action, and this can either mean that an individual would be incapable of action in their absence, or incapable of recognizing the actions of others as such. Regarding this second aspect then, without the a priori categories, 'we would perceive motions, but neither buying, nor selling, nor prices, wage rates, interest rates, and so on' (Mises 1949, p. 40). Consequently, conceiving the meaning of action relates to the need to recognize motions as being actions.

However, this conceiving of meaning is not the concern of history. Rather, the historian is concerned with understanding the meaning of action where 'the

historian ... has to study the individual and unique conditions of the case in question' (Mises 1990, p. 12). Consequently, the distinction between conceiving meaning and understanding meaning is underpinned by the distinction between the generalizing and individualizing methods.

Yet Mises's appeal to a priori praxeological categories raises two questions. Firstly, how does Mises establish that there are a priori categories that are necessary in order to either act or recognize the actions of others, or how does he derive these categories? Secondly, what are the categories that Mises argues must be present, or what categories does he derive? Regarding the first question, the need to derive the categories, as the categories are a priori, they obviously cannot be arrived at empirically. Moreover, as the a priori categories are necessary in order that we can, say, experience actions, then they clearly cannot be contradicted by experience (Mises 1949, p. 27).

Mises's arguments justifying a priori categories are quite complex, and even such an astute reader of Mises's work as Rothbard partially misconstrues the argument. Rothbard's summation of Mises's argument is that 'Mises ... asserted that the concept of action is a priori to all experience, because it is, like the law of cause and effect, part of "the essential and necessary character of the logical structure of the human mind"' (Rothbard 1997, p. 64). Although Rothbard is correct to identify causality as an a priori category in Mises's system, it is misleading to classify the concept of action as 'prior to experience'. Mises claims that 'in dealing with the a priori we are dealing with the mental tools that enable us to experience, to learn, to know, and to act' (Mises 1962, pp. 18-19). Action is

thus not a priori, but is rather taken as a 'datum'. Mises's procedure in establishing the a priori truths of economics can thus be viewed as a form of transcendental argument. For example, Mises takes the claim that 'human beings act' to be a truth that everyone would agree on. The argument then becomes that of establishing what 'must be the case' in order that human beings can act. This procedure is clearly revealed when Mises attempts to establish that the concept of causality is a priori:

No thinking and acting would be possible to man if the universe were chaotic, i.e. if there were no regularity whatever in the succession and concatenation of events. In such a world of unlimited contingency nothing could be perceived but ceaseless kaleidoscopic change. There would be no possibility for man to expect anything...Then man could not act...The first and basic achievement of thinking is the awareness of constant relations among the external phenomenon that affect our senses. Whatever philosophers may say about causality, the fact remains that no action can be performed by men not guided by it...In this sense we speak of causality as a category or an a priori of thinking and acting. (Mises 1962, pp. 19-20)

Although Mises refers to thinking and acting, it is the assumption that individuals act that forms the premise of the argument. Hence the argument seeks to establish that individual action is only possible if causality is an a priori concept. Mises's argument can be reconstructed as follows:

- 1) there is human action;

- 2) all such action is teleological in that it aims at the realization of certain, individual, ends in the future;
- 3) in order for any such action to be possible, individuals must form expectations;
- 4) if the world were chaotic, displaying no regularity in the succession of events, then it would be impossible to form expectations concerning the future;
- (5) Given that (1), (2) and (3) hold - i.e. that individuals do act and that this action, being future directed (teleological), requires the formation of expectations, then the world must display regularity of succession;
- (6) this regularity of succession is only possible within a causal nexus;
- (7) therefore individuals must know, prior to any action, that all events can be placed in a causal nexus;
- (vi) therefore, causality must be an a priori category of action.

This argument may well be defensible. However, in order to appreciate the problems that Mises's methodology raises for his critique of centrally planned economies, it is necessary to explore the second question indicated above: what categories does Mises believe are necessary for either acting or conceiving of the action of others? Besides causality, Mises's classification of a priori categories is quite extensive. For example:

The starting point of praxeology is ... reflection about the essence of action.

There is no action in which the praxeological categories do not appear fully and perfectly. There is no mode of action thinkable in which means and ends and costs and proceeds cannot be clearly distinguished and precisely separated.

(Mises 1949, p.39-40)

Consequently, a priori categories include those of means, ends, costs, proceeds. The problem here is that the a priori categories include monetary categories such as costs and proceeds. Mises is quite clear on this, since ‘there is no human action that can be dealt with without reference to the categorical concepts of ends and means, of success and failure, of costs, profit and loss’ (Mises 1990, p.49). Consequently, the a priori ‘truths’ that form the premises of Mises’s science of human action presuppose a monetary economy. As a non-monetary economy would not operate with the concepts of ‘costs’ and ‘proceeds’ yet these concepts must appear ‘perfectly’ wherever there is human action, then human action is impossible in such an economy. This is an extreme conclusion, and as explored below, a position that Hayek recognized could not be defended. However, it is necessary to understand why Mises finds himself in this extreme position.

Praxeology and the Critique of Centrally Planned Economies

As noted, Mises’s attempted to reaffirm Menger’s position in the Methodenstreit through interpreting it via the Marburg School’s interest in the logic of propositions. Mises’s definition of economic theory advances two significant claims. Firstly, it claims to establish a science of human action that is universally valid. Secondly, it claims that this science can be secured on an a priori basis. Consequently if Mises’s critique of centrally planned economies is an exercise in economic theory it must conform to these claims.

However, if the science of human action is universally valid, the science is equally applicable to all economic systems, and different systems can only provide empirical instantiations of universally valid propositions.³ Menger had recognised this in

terms of his theory, stating that ‘we become aware of the basis of the existence ... of ...concrete phenomena by learning to recognise in it merely the exemplification of a conformity-to-law of phenomena in general’ (Menger 1963, p. 45). Mises’s arguments can be read as appearing compatible with Menger’s position. For example, he notes that:

The starting point of praxeology is a self-evident truth, the cognition of action, that is, the cognition of the fact that there is such a thing as consciously aiming at ends."

(Mises 1962: 5-6)

As both market and centrally planned economies would involve human action, then the praxeological ‘starting-point’ would be equally applicable to both economic systems. However, if the science is equally applicable to all economic systems, it cannot be utilised in order to criticize certain types of economic system, as different systems merely exemplify the universal science. This, of course, was the position taken by Mises’s opponents. As Walrasian theory claimed universal validity, it could indicate how economic co-ordination could be achieved whatever the form of economy under consideration.

In order to advance a criticism of centrally planned economies given his methodological stance Mises has two options. One strategy would be to build the criticisms in as ‘a priori truths’. The second strategy would be to admit that the criticisms are not exercises in economic theory. Mises appears to attempt both strategies without explicitly admitting either. The use of the first strategy has already been indicated, where Mises claims that concepts of ‘profit’ and ‘loss’ are universal categories of human action. If this were so, human action would be impossible in a non-monetary economy. Mises does not shy from this conclusion:

Without economic calculation there can be no economy ... Rational conduct would be divorced from the very ground which is its proper domain. Would there, in fact, be any such thing as rational conduct at all, or, indeed, such a thing as rationality and logic in thought itself? (Mises 1935, p.105)

Mises can only criticize different economic systems through building into the very premises of his economic theory certain characteristics that consequently define systems that do not share these characteristics as being 'impossible'. Hayek acknowledged that 'Mises had occasionally used the somewhat loose statement that socialism was "impossible"' (Hayek 1948, pp.145-6) yet recognised that this position is simply not tenable:

It must be admitted that this is not an impossibility in the sense that it is logically contradictory ... It is only necessary to attempt to visualize what the application of this method would imply in practice in order to rule it out as humanely impracticable and impossible. (Hayek 1948, pp.152-3)

Hayek essentially concedes that Mises's critique is not an exercise in economic theory. Lange, one of the proponents of centrally planned economies, declared that the Austrians now admitted that a centrally planned economy was theoretically possible, and that the debate now concerned the practical possibility of such an economy. Hayek was thus viewed as 'having given up the essential point of Professor Mises's position and retreated to a second line of defence' (Lange 1938, p.63). For Lange, Hayek had admitted 'in principle' that 'the problem is soluble' (Lange 1938, p.63).

Hence the second strategy is to follow Hayek's suggestion and redefine Mises's critique of centrally planned economies so that it is not an exercise in economic theory

according to Mises's understanding. Although Mises does not explicitly adopt this strategy, it tends to be the procedure followed by commentators on the debate sympathetic to Mises. For example, take Boettke's characterization of Mises's argument, where 'economic science was to establish that this decision-making is dependent on the institutional context of private property' (Boettke 1998, p. 134).

An argument about the 'institutional context of private property' is not a theoretical argument according to Mises's own methodology. The aim of economic theory is to elucidate the a priori categories required in order to either act or understand economic action. However, the institution of private property is historically specific and can hardly be regarded as constituting an 'a priori category of all action'. Lange could thus comment on Mises's position that 'it is surprising to find this institutionalist view supported by a prominent member of the Austrian school, which did so much to emphasise the universal validity of economic theory' (Lange 1938: 62). As Lange correctly notes here, a universally valid economics cannot base its arguments on the historically specific institution of private property. Hence the problem with this strategy is that it destroys the distinction between theoretical economics and history that Menger sought to defend.

A second example of the attempt to implicitly re-define Mises's criticisms as not constituting, by his own account, an exercise in economic theory is provided by Lavoie. Whereas Boettke emphasises the significance of private property, Lavoie claims that 'an important feature of the Austrian paradigm ... is the particular stress of these writers on the importance of time and change in economics' (Lavoie 1985, p.65). Although this claim is quite compatible with Menger's position, Mises argues that economic theory, as

praxeology, 'is not concerned with the changing content of acting, but with its pure form and its categorial structure ...the study of the accidental and environmental features of human action is the task of history' (Mises 1949, p.47). As economic theory is only interested in the 'pure form' of action and hence 'not concerned with the changing content of acting' Mises's viewpoint entails that issues such as how human action may be modified under conditions of uncertainty are automatically excluded from praxeological consideration.

Mises assumes that issues of change and uncertainty are removed from theoretical economic concern. Consequently Mises admits that 'the fact that the passage of time is one of the conditions under which action takes place is established empirically and not a priori' (Mises 1981, pp.24-25). Hence if Mises's critique is conceived as an exercise in economic theory, it cannot address issues raised by change and uncertainty.

These problems could possibly have been avoided if Mises had included Menger's realist-empirical approach in his definition of economic theory. He could then have claimed that whilst praxeology elucidates the 'pure form' of action, at an empirical level human action would face considerable difficulties replicating this 'pure form' in a non-monetary economy. The sociologist Weber advanced a critique of centrally planned economies that can be interpreted from this perspective. In his essay on marginal utility theory Weber noted that 'marginal utility theory ... treats human action as if it ran its course from beginning to end under the control of commercial calculation' (Weber 1975, p. 31). Economic sociology thus indicates how, at an empirical level, such calculations can be performed under different economic systems (Weber 1978: chapter two).

However, any such approach would have involved two significant alterations to Mises's arguments. Firstly, he would have to admit that the a priori science of human action as a form of logic requires supplementing – it is a necessary, but not sufficient, component of economic theory. Secondly, he would need to expunge characteristics specific to certain economies, such as 'profits', from the domain of a universally valid economic theory.⁴ As Mises defined economic theory, as a priori, in opposition to the empirical, any such modifications would have involved major theoretical reconsideration.

The tensions inherent in Mises's critique can be appreciated in terms of the following commentary on the debate:

The socialist calculation debate began in 1920 with the publication of an essay by the Austrian economist Ludwig von Mises which argued that socialist economic arrangements precluded the possibility of rational economic calculation and thus could not allocate goods as efficiently as markets. (Bockman & Eyal 2002, p. 317)

On the one hand there is the question of 'the possibility of rational calculation'. From the perspective of Mises's economic theory, this issue can only be resolved through claiming it is either possible or impossible: there cannot be degrees of possibility. Mises acknowledged this, stating that 'human action is necessarily always rational. The term "rational action" is therefore pleonastic and must be rejected' (Mises 1949, p.18). The question of degrees of rationality of action cannot be addressed in economic theory, hence 'the significance of monetary calculation for rational actions and social co-operation ... is ... a task ... for sociology' (Mises 1990, p.65).⁵

However, on the other hand the claim that socialism ‘could not allocate goods as efficiently as markets’ is a claim that allows for differences in degree. Yet it is not a claim that can be made from the perspective of economic theory. Economic theory can indicate what conditions are necessary in order for efficient allocation of goods to occur. Moreover, if the theory is universally valid, these conditions must apply across all economic forms. However, the issue as to what extent different economic forms can replicate these conditions is an empirical issue, hence not one for economic theory according to Mises’s account.

Mises’s critique of socialism is thus caught within the tension between his methodological and substantive claims. From a methodological perspective if the critique is an exercise in economic theory it can only criticize socialism through claiming that it is ‘impossible’ - rational economic calculation is hence ‘impossible’. However, on substantive grounds Menger can advance claims about private property, efficient goods allocation, or that ‘neither calculations of past profit nor estimates of future profits are guarantees of future realised profit’ (Lavoie 1985, p.57). Yet these claims can only be advanced from a perspective other than economic theory. It is thus not surprising to find the later opinion that ‘Lange’s book ... buried the Austrian critique of socialism’ (Blaug 1992, p.33).

Rothbard

Whereas Menger had argued that the difference between the theoretical natural sciences and the theoretical social sciences was ‘by no means a contrast in methods’ (Menger

1963, p. 59, footnote) Rothbard rejects this position as embodying a form of ‘scientism’ characterised as ‘the profoundly unscientific attempt to transfer uncritically the methodology of the physical sciences to the study of human action’ (Rothbard 1997, p. 3). For Rothbard this ‘scientism’ is mistaken in not realising that the methods of the social sciences are inappropriate in investigating human action as this action involves ‘free will and consciousness’, and ‘the true science decrees determinism for physical nature and free will for man’ (Rothbard 1997: 8).

Given the emphasis on free will Rothbard agree with Mises that economics can only provide qualitative, not quantitative, laws (p. 16). Free will and consciousness are also significant as Rothbard argues that the existence of individual consciousness is axiomatic. Moreover ‘Mises has shown that the entire structure of economic thought can be deduced from this axiom (with the help of a very few subsidiary axioms)’ (Rothbard 1997, p. 16). However, whereas the ‘starting point’ or fundamental axiom for Mises was human action, Rothbard appears unsure concerning the nature of this axiom. For example, at times he claims that axiom consist in the claim that individuals are conscious, hence ‘the fundamental axiom, then, for the study of man is the existence of human consciousness’ (Rothbard 1997, p. 16).

However, at other times the axiom, as with Mises, consists in the claim that individuals act, hence ‘praxeology is the distinctive methodology of the Austrian school ... praxeology rests on the fundamental axiom that individual human beings act’ (Rothbard 1997, p. 58). Rothbard also seems to appeal to existence, as in:

What are these axioms with which the economist can so confidently begin? They are the existence, the nature, and the implications of human action. Individual human beings exist. (Rothbard 1997, p. 32)

It is thus not exactly clear what the starting point, or fundamental axiom, of the investigation actually is. If Rothbard were using these axioms as initial assumptions of a transcendental argument in the manner of Mises, then the actual axiom being adopted would clearly be important: the preconditions for existence might well be different from the preconditions for action. However, Rothbard rejects Mises's Kantian approach, as:

I would deny, as an Aristotelian and neo-Thomist, any such alleged 'laws of logical structure' ... Instead, I would call all such laws 'laws of reality', which the mind apprehends from investigating and collating the facts of the real world.

(Rothbard 1997, p. 64)

However, although Rothbard refers to apprehending laws from observations, he rejects what he terms 'modern empiricism', and hence 'this type of 'empiricism' is so out of step with modern empiricism that I may just as well continue to call it a priori' (Rothbard 1997, p. 105). Rothbard proceeds to offer three reasons why his empiricism differs from its modern form (Rothbard 1997, pp. 105-6). Firstly, although laws of reality are empirically true, they cannot be falsified. Secondly, they rest on inner, not outer, experience, and are arrived at reflectively. Thirdly, they are a priori to complex historical events. As an example of the relationship between the fundamental axiom and a law of reality, Rothbard offers the example of utility maximization, where:

From the Fundamental Axiom is derived the truth that everyone tries always to maximize his utility ... And this fact, being deduced directly from the Action Axiom, is absolutely true. (Rothbard 1997, p. 106)

Consequently there is an axiom that human action exists and from this axiom it can be reflectively inferred that individuals always attempt to maximize their utility. Rothbard characterizes this move from the axiom of action to the empirical law that individuals attempt to maximize their utility as an exercise in logic. Hence:

Since the fundamental and other axioms are qualitative by nature, it follows that the propositions declared by the laws of logic from these axioms are also qualitative. The laws of human action are therefore qualitative. (Rothbard 1997, p.. 16)

Here, laws of human action are logically deduced from basic axioms, and ‘the proper theoretical methodology ... is the axiomatic-deductive method’ (p. 17). Similarly ‘beginning with the certain knowledge of the basic explanatory axiom A, he deduces the implications of A: B, C, and D’ (Rothbard 1997, p. 31). Rothbard describes this deductive process as follows:

One of the basic tools for the deduction of the logical implications of the axiom of human action is the use of the ... thought experiment ... The economist finds, for example, that the price of a product is determined by the two variables, the demand for it and the supply at any given time. He then mentally holds the supply constant, and finds that an increase in demand ... will bring about an increase in price. (Rothbard 1997, p. 35).

This 'law' that if demand increase with supply constant, price will rise is 'absolutely true' (1997 p. 102) 'self-evident' (1997 p. 103) a 'law of reality' (Rothbard 1997 p. 105) 'rests on universal inner experience' (Rothbard 1997 pp. 105-6).

However, it is difficult to appreciate how claims about utility maximisation or supply and demand relations can be 'logically deduced' from the axiom that individuals act. Take the claim concerning utility maximisation. In contemporary economics individuals are assumed to have preferences that comply with certain axioms. However, in order to derive a utility function from a preference ordering it is necessary to introduce the axiom of continuity which states that, for any two alternatives, it will always be possible to accept an amount of the second alternative in order to compensate for the loss of a small amount of the first alternative.

This axiom is controversial as it is not at all clear that individuals will always be prepared to engage in trade-offs. Moreover, Rothbard explicitly rejects the continuity assumption, although it has been argued that his economic theory, in particular his use of supply and demand schedules, presupposes this assumption (Caplan 1999). However, it seems difficult to maintain that this assumption somehow 'logically follows' from the assumption that individuals act. Yet it similarly seems difficult to maintain that this assumption does not 'logically follow'. There might well be reasons why this assumption ought to be rejected. However, it would seem rather strange to claim that this reasons are somehow logically entailed by the fact that individuals act.

The problem with the procedures of both Mises and Rothbard is that they assume that the arguments and procedures of the Austrian school of economics can be derived simply from the assumption that individuals act. It may be plausible to claim that action

presupposes regularity, hence the category of causality is a priori. However, it is difficult to appreciate how all actions presupposes the category of profits, or how claims about continuity flow logically from the assumption of action.

Rothbard's account of how empirical laws apply to human action thus seems generally questionable. For example, another illustration of these empirical laws deduced by Rothbard is 'since all action is determined by the choice of the actor, any particular act demonstrates a person's preference for this action'. However, investigations by the philosopher Donald Davidson (1980), amongst others, into the problems raised by 'wayward causal chains' seems to indicate that this 'empirical law' is simply false

Say I am driving along the road and notice an individual who I despise crossing the road in front of me. Sorely tempted by the opportunity an offer, I decide to accelerate and run the individual over. However, I then step back from this decision, shocked by the fact that I even contemplated running down the individual. Yet my state of shock is such that my foot accidentally presses down on the accelerator with the consequence that I run the individual down. Here I perform an action – running over the individual – but, in a state of acute remorse for my action, strongly prefer that I had not done so. The act is not determined by my choice, and does not demonstrate my preference.

Conclusions

Austrian economics tends to identify itself both in terms of its unique methodological position and its distinctive claims about the economy, as exemplified in the socialist calculation debate. However, in the case of Mises, the methodological defence of economic theory, or praxeology, appears to indicate that the Austrian contribution to the

debate was not a praxeological exercise. Moreover, it is difficult to appreciate how claims about private property, uncertainty, and calculation can be logically inferred from the assumption that individuals act in the manner claimed by Rothbard.

NOTES

¹ Note Menger refers here to universal exact understanding.

² The Austrian economist Lachmann suggested that Menger's deterministic views here may suggest a relapse to an earlier period of thought – see Lachmann 1970, pp. 57-58.

³ 'For economists who stand in the neo-Kantian tradition ... economic laws have the force of synthetic a priori propositions which apply to all economic experience' (Dobb 1955, p. 107)

⁴ The argument that all human action must refer to concepts such as 'profits' is difficult to defend – see Parsons (1997)

⁵ It was noted earlier that Rothbard appears to misunderstand the role that human action plays in Mises's argument, although as Mises's argument is complex, this error is understandable. However, it is somewhat baffling to find the following in Rothbard's defence of Mises against Hutchison 'Hutchison charges that Mises claims "all economic action was (or must be) 'rational'. This is flatly incorrect. Mises assumes nothing whatever about the rationality of human action (in fact, Mises does not accept the concept at all)' (Rothbard 1997, pp. 104-5)

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