

March 17, 2005

Mises on the Aim, Scope and Procedure of Economic Theory: An Extension

Mises wrote that the goal of economics is to try “to influence public opinion in order to make sound policies prevail in the conduct of civic affairs” (Mises 1966: 869). Economics does not employ its own definition of “sound policies.” In other words, it does not aim to produce a body of knowledge of sound policies. Its aim is to assess the policy arguments of others by (1) identifying their goals and (2) determining whether the policies are likely to accomplish those goals.¹

Economists are not concerned with all policies. The scope of economics is limited. Mises writes that the scope of economics is determined by the traditional concern with “market phenomena.” The economist has already decided that he is concerned with catallactic problems.

Ever since people have been eager for a systematic study of economics or political economy, all have agreed that it is the task of this branch of knowledge to investigate the market phenomena, that is, the determination of the mutual exchange ratios of the goods and services negotiated on markets, their origin in human action and their effects upon later action (*ibid.*: 232).

The question emerges, says Mises, “of how to distinguish precisely, within the broader field of general praxeology, a narrower

¹It is worth noting that Mises regarded the statement of this goal as an important contribution. Israel Kirzner (1976: 81-2; 84; 2001, Ch. 6) confirms this interpretation although Rothbard (1976) believed that Mises sought to combine a value free economics with a kind of utilitarian liberalism. One who doubts that Mises’ s believed that the scientific character of a praxeology-based economics depends on its goal, however, should consult Mises’ s *Notes and Recollections*. There, he discusses what later became his respective books on socialism, liberalism and interventionism. He writes:

In my analysis of these problems I introduced a new point of view, the only one that allows a scientific discussion of these political questions. I inquired into the effectiveness of the chosen means to attain the avowed ends, that is whether the objectives which the recommended measures were to attain would actually be achieved by the means recommended and employed (Mises 1978a: 114).

orbit of specifically economic problems” (*ibid.*). Mises answers that “ [t]he subject matter of catallactics is all market phenomena with all their roots, ramifications, and consequences” (*ibid.*: 233). After some discussion, he concludes that

[a]ll that can be contended is this: Economics is mainly concerned with the analysis of the determination of money prices of goods and services exchanged on the market. In order to accomplish this task it must start from a comprehensive theory of human action (*ibid.*: 234).

This is followed by a definition of economics. We can say that economics

in the narrower sense is the analysis of the market phenomena. This is tantamount to the statement: Catallactics is the analysis of those actions which are conducted on the basis of monetary calculation. Market exchange and monetary calculation are inseparably linked together (*ibid.*: 234).

In short, economics aims to evaluate policy (i.e., interventionist) arguments relating to mutually determined market transactions in which individuals make decisions by using money to compare the alternative courses of action.

In an isolated two-person trade, a transaction is the consequence of two people mutually deciding to exchange. Both parties mutually determine it. In a market with many buyers and sellers, a price can also be the consequence of a mutual decision by two people. However, experience and our ability to conceptually interchange positions tell us that the actions of those two are, even in the simplest case we can imagine, influenced by the competing factor suppliers, producers, and consumers. Although the mutual exchange ratios in the market economy are perceived subjectively by the exchanging parties, we need not and indeed should not – if we aim to do economics – confine our images solely to subjective viewpoints of individuals making personal choices. The choice of one individual has effects on others. We know this partly from experience but also partly from our exercise of the human ability to conceptually interchange positions with others. It is true that we can imagine a person who lacks such ability and who still acts. But economics (and praxeology, to the extent that it aims to deal with economic phenomena) is not concerned with such people.

Those who make interventionist arguments take these points for granted. Praxeological economists who aim to evaluate their argu-

ments must also take them for granted. The problem we face as economists (in the traditional sense described by Mises) is how to build an image of this interaction without compromising the necessary subjectivism of praxeology.

Procedure

To achieve the goal of evaluating interventionist arguments, the economist must follow a specific procedure. Regarding this procedure, Mises wrote:

Economics does not follow the procedure of logic and mathematics. It does not present an integrated system of pure aprioristic ratiocination severed from any reference to reality. In introducing assumptions into its reasoning, it satisfies itself that the treatment of the assumptions concerned can render useful services for the comprehension of reality. It does not strictly separate in its treatises and monographs pure science from the application of its theorems to the solution of concrete historical and political problems. It adopts for the organized presentation of its results a form in which aprioristic theory and the interpretation of historical phenomena are intertwined.

It is obvious that this mode of procedure is enjoined upon economics by the very nature and essence of its subject matter. It has given proof of its expediency. However, one must not overlook the fact that the manipulation of this singular and logically somewhat strange procedure requires caution and subtlety, and that uncritical and superficial minds have again and again been led astray by careless confusion of the two epistemologically different methods implied (*ibid.*: 66).

Mises' s statements about the procedure of economics are satisfactory only at a most general level. I have offered a more detailed description in terms of a [series of five steps](#). I proceeded in a way suggested by Mises. I defined praxeological entrepreneurship by making a contrast with a robot economy – a system that contains no action. A robot economy is needed in order to elucidate the properties of praxeological entrepreneurship. By using this image as a counterfactual, we determine that action under the conditions of the market economy implies the personal properties of entrepreneurship.

To take the next step, we build the image of the pure entrepreneur economy. This is the simplest image of interactive entrepreneurship. Due to complexity, we proceed step by step to build images of other entrepreneur economies, depending on the interventionist argument we aim to evaluate. We use these images in conjunction with the image of fully synchronized plans to give examples of entrepreneur-

ship. The latter images use a conception of an endpoint that assumes something about the ends and means of actors. However, the process of giving examples is not complete until we contrast these images with real actors who we assume possess imagination, creativity, and inventiveness that may be beyond our capacity to comprehend. At each step we try to guarantee that all of the interactive phenomena we describe – competition, consumer sovereignty, selection of the factors of production, the employment compact – can be traced back to the fundamental concept of action, viewed subjectively.

We cannot derive interactive entrepreneurship solely from the a priori assumption that individuals act and from subsidiary assumptions about the situation that is subjectively perceived by the actor. We must make additional assumptions about how others perceive one person's actions and how they act when they believe that her action will or may affect them. For example, we cannot describe competition without building an image of innovation and copying.

As members of a body of professional economists and teachers, our goal at first, in the step-by-step procedure of building economic theory, is to identify the most fundamental types of interaction – types that are present in the vast majority of arguments for and against market economy intervention. Later, we may proceed to identify less fundamental types.

Economic theory consists of a set of examples some of which are very general and some of which are more specific. We also use examples to help us communicate the properties of action. It is true that we can define the abstract properties of action without making assumptions about an isolated actor's specific ends and means. But to explain to others what we mean by these properties, we often give specific examples. The difference is that examples in economic theory are used not only to communicate economic theory but also to evaluate intervention arguments. For some of these arguments, we need the images of the entrepreneur economies.

References

Kirzner, Israel. (1976) "Philosophical and Ethical Implications of Austrian Economics." In E. Dolan (ed.) *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.

Kirzner, Israel M. (2001) *Ludwig von Mises: The Man and His Economics*. Wilmington, DE: ISI Books.

von Mises, Ludwig, *Human Action: A Treatise on Economics*, Chicago: Henry Regnery Company, 1966. (earlier version originally published in German in 1940 under the title *Nationaloekonomie*).

Mises, Ludwig von. (1978) *Notes and Recollections*. South Holland, IL: Libertarian Press.

Rothbard, Murray N. (1976) "Praxeology, Value Judgments, and Public Policy." In E. Dolan (ed.) *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.

Copyright ©2005 by James Patrick Gunning

Gunning' s Address

J. Patrick Gunning
Professor of Economics/ College of Business
Feng Chia University
100 Wenhwa Rd, Taichung
Taiwan, R.O. C.
Please send feedback
Email: gunning@fcu.edu.tw

[Go to Pat Gunning's Pages](#)

[Mirror Site of Pat Gunning's Pages](#)