

Was Mises Right?

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Abstract This paper argues that Mises's methodological position has been misunderstood by both friends and foes alike. On the one hand, Mises's critics wrongly characterize his position as rejecting empirical work. On the other hand, his defenders wrongly interpret his stance as rejecting empirical analyses on the grounds that they contradict *apriorism* and push economics towards historicism. We show that Mises's methodological position occupies a unique place that is at once both wholly aprioristic and radically empirical.

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INTRODUCTION

The Austrian school's unique methodological stance separates it from the rest of the economics profession. Methodological subjectivism, recognition of radical uncertainty, and the notion of markets as processes are often cited as defining characteristics of the Austrian approach (see, for example, O'Driscoll and Rizzo 1985; Vaughn 1994; Boettke 1994; Boettke and Leeson 2003). Due to its controversial status, less frequently noted in the modern literature is *methodological apriorism*. Indeed, throughout the history of the Austrian school, many of its adherents have attempted to distance themselves from Menger's exact laws and Mises's *apriorism*, while at the same time building on the theoretical insights of these thinkers. Several of Mises's students from the Vienna years, for example Fritz Machlup, attempted to accomplish this two-step maneuver.¹ But to the Austrian

¹ Alfred Schutz (1967) and Felix Kaufmann (1944) were students of Mises who attempted to critically reconstruct Mises's methodology through the philosophy of Husserl (Schutz) and positivism (Kaufmann) and develop a general methodological stance for the social sciences.

economists who trained with Mises during his New York University period (1944–1969), like Murray Rothbard, adherence to methodological *apriorism* is *the* distinguishing characteristic of the Austrian school, and alternative methodological positions are interpreted as undermining Mises’s strong claim about the nature of economic reasoning.²

The Austrian position has long been associated with a bifurcation of knowledge—deductive versus historical method, *apriorism* versus positivism, etc. We want to suggest that these blunt divisions fail to capture the subtle position that was developed by Menger, Boehm-Bawerk and Mises in the attempt to carve out a unique niche for the human sciences. For most economists, economics was a science located between the natural sciences and the cultural discipline of history. For these Austrians, however, economics was a human science that could derive laws that had the same ontological status as the laws derived in the natural sciences, yet accounted for the complexity of the human experience. Mises did not originate the Austrian position but inherited it from Menger and Boehm-Bawerk and sought to provide an updated philosophical defense of that position (see, for example, Mises 1933).

While Menger and Mises resorted to epistemological argument, Boehm-Bawerk put his argument in more common-sense terms (see Boehm-Bawerk 1891). Here the deductive method is justified on the grounds that in the act of arranging the array of historical facts to construct a meaningful story, the historian must arrange according to some criteria of priority. The criteria, Boehm-Bawerk argued, are provided by theory. The purpose of theory is to aid in the act of historical investigation—not to fight against it. In making this argument, which was (is) the Austrian argument, Boehm-Bawerk carved out a niche where the advancement of human knowledge in the discipline of political economy was neither a product of pure deduction nor empirical induction, but a blending of both.

2 See, for instance, Rothbard (1957, 1972). Rothbard (1957), however, defends *apriorism* on slightly different grounds than Mises. He maintains that while the starting point of economic theory—the proposition that all humans behave purposively—may be known via introspection (per Mises), it can also be defended as *aprioristic* if it is learned by appealing to “broad empirical” observation. In this way, Rothbard introduces what he calls an “Aristotelian” derivation of the action axiom’s *aprioristic* status. Also on this issue, see Smith (1996) who defends the view of an ontological *a priori*—a “deep-lying a priori dimension on the side of the things themselves.” Kirzner (2001) recounts a story in which Mises allegedly told him that the action axiom was derived from “experience” as well. In his first book and doctoral dissertation (1960) written under the direction of Mises, however, Kirzner maintains the traditional Misesian argument that we know humans act by way of introspection.

On this basis we propose a tripartite division of economic inquiry: pure theory, institutionally contingent theory, and economic history and statistical analysis. Each realm of economic inquiry serves different purposes and the knowledge claims being made in each constitute different epistemological moments.³ Just as we must recognize the empirical component of economic inquiry, we must also recognize the importance of pure theory, which is constructed through logical deduction.

In a science dominated by what many have called “physics envy,” Austrian school writers who have insisted on the *a priori* nature of pure economics have often endured a greater marginalization of their status in the eyes of the profession than those economists who have distanced themselves from the *a priori* approach. We contend that this is a serious error born out of the confusion over the different realms of knowledge that constitute economic inquiry.

This paper will explore methodological *a priori*ism as laid out by its most recognizable defender, Ludwig von Mises. We argue that his position is more philosophically sophisticated than either friend or foe has cared to admit. Mises’s position is explained as grounded in the practical problems of economic inquiry and a common-sense rendering of these problems as we have just attributed to Boehm-Bawerk. We provide evidence to show how Mises was influenced in his attempt to justify pure theory by the philosophy of Immanuel Kant, and also demonstrate that Mises’s *application* of this idea to the science of economics moves beyond Kant. Specifically, we contend that building upon these developments, Mises eschewed the traditional analytic/synthetic dichotomy, successfully both revealing the illegitimacy of the positivist approach and defending the empirical relevance of ‘mere tautologies’ in economic science. Finally, we discuss the relevance of Mises’s methodological position for modern economic science.

3 Boehm-Bawerk (1884–1921: II 212–213) divides price theory into a first part, which is pure theory of exchange and price, and a second part of price theory which incorporates into that analysis different individual motivations, differing empirical circumstance and alternative concrete institutions. “The amount of attention devoted by economists to each of these two parts of the theory of price has varied with the prevailing phase in methods of research. As long as the abstractly deductive phase characteristic of the English school was in the ascendancy, the first part of the price problem was almost the only one to be treated, and much too nearly to the complete exclusion of the other. Later on, the historical method, originating in Germany, took over the lead. It was characterized by a fondness for emphasizing not only the general, but the particular as well, for noting not only the influence of broader types, but also that of national, social and individual peculiarities.” While Boehm-Bawerk saw his own main contributions to the area of pure theory, he argues that “I acknowledge that what I am offering indubitably calls for complementary treatment of the second part of the theory of price...” (1884–1921: 213).

KANT ON *APRIORISM*

The idea of the *synthetic a priori* is most famously connected with Immanuel Kant's, *Critique of Pure Reason* (1958: B1 – 30). Building on a distinction between the appearance of things and things in themselves, Kant argued that the transcendental deduction of concepts is the most important intellectual exercise for our understanding. Human cognition can be divided into those concepts we come to understand completely independent of experience and those that we come to understand only through experience. Kant argued that the problem that arises in human understanding is how our subjective conditions of thinking could obtain objective validity. This problem, he maintained, is solved through transcendental deduction.

The extreme rationalism of philosophers like Leibniz, Wolff, and Baumgarten, Kant maintained, was wrong. By itself reason cannot teach us anything about the actual world. Without the data of experience, pure logic is at a loss to impart information to us regarding the reality we live in. Similarly, the empiricism defended by scholars like Locke, Berkeley, and Hume, was also incorrect. Facts of the world are never presented to the mind *tabula rasa*. They can only be understood with the aid of concepts that exist in our mind prior to any experience. In response to both (pure) rationalism and (pure) empiricism, Kant develops the notion of a class of knowledge held by individuals that while known to us *a priori* nonetheless imparts information about the real world.

Kant contended that *a priori* axioms known to us apart from experience are embedded in us as categories of the human mind. These *a priori* concepts are necessary in order to use the human faculty of judgment to understand objects in the world. Indeed, understanding of the world is impossible except through these categories that enable us to make sense of our experiences. According to Kant then, our understanding of objective reality has objective validity via the employment of concepts known *a priori*. At the basis of all empirical cognition are *a priori* concepts, without which objective validity would be denied to us. As Kant argued, we do not derive concepts from nature, but interrogate nature with the aid of these concepts. He held that through introspection we are able to realize what our minds already know and can come to discover the *a priori* categories that shape our thinking and perceptions of the world (Kant 1958: A95 – 130).

This brief and elementary statement of Kant's position is not meant to be complete and clearly does not do justice to the many and complicated nuances of his philosophy. Instead it is meant merely to sketch a crude outline of Kant's epistemology as a means of analyzing the context in which

Mises develops his position concerning the nature of economic science—a task we take up in the following section.

Similarly, it is often argued that Kant's argument was motivated by a desire to provide the metaphysical foundation for Newtonian science. We have no particular interest in this question. Nor do we have any comments to offer on whether the effort was one to legitimate science while leaving room for morality and religious faith. Recognizing the Kantian background to Mises's defense of the nature of economic thought is our primary focus. Kant developed his argument concerning human action by reference to Locke's discussion of how belief gives rise to action. Locke argued that our understanding of human action arises only through our experience with nature. While Kant admits that empirical study may enable us to understand the occasional cause by which the pure categories and forms of intuition are brought into application, he argues for their strict *a priori* nature. It is this focus on the *a priori* categories of human action that would occupy Mises's philosophical attention.

MISES AND THE NATURE OF ECONOMIC SCIENCE

For most of his career Mises found himself in a methodologically uncomfortable position.⁴ As a German-language economist, the discipline he was educated in was dominated by historicism. As a Viennese intellectual, Mises began to mature as a thinker within the philosophical culture of Wittgenstein and the Vienna Circle. When he published his first major statement concerning his methodological views (1933), logical positivism was starting to spread in economics.⁵ As Mises conceived it, logical positivism denied the existence of *a priori* knowledge and rejected all non-empirical forms of analysis (see Greaves 1974). According to this view, if economics is to progress as a science, indeed, if it is constitute a science at all, it must follow the methods of falsification employed by the physical sciences.⁶

4 And we should add that Mises was ideologically uncomfortable as well. Put the two together, and the claim to intellectual legitimacy by Mises was hard to maintain during the majority of his career. He was a man who was held to be both methodologically and ideologically suspect. But we would argue that Mises position (both methodologically and ideologically) is actually much more in line with the mainstream of political and economic thought historically contemplated than anyone cared to admit during his lifetime.

5 *Apriorism* was not alien to economics at this time as was evident in Robbins (1932) and Knight (1940). However, by the time Friedman published his essay (1953) it was standard for economists to argue that economic science required submitting falsifiable hypotheses to empirical test.

6 Hutchison (1938) was the most ardent supporter of this position. It is also important to remember that, as his work indicates, the vehemence with which positivism was presented in economics was in large part *ideologically motivated*—to be used as a philosophical hammer with which to defeat ideological systems such as Marxism and Nazism from intruding into the realm of science as they had in the 1930s.

Truth about the world, positivists maintain, is only accessible through experience. The sterile objectivity that truth demands cannot permit “non-facts” to pollute it. The positivist program thus aimed at purging subjective influence from the pure facts of the world. The brute facts, they maintained, untainted by the scientist’s preconceptions, could only be arrived at through the scientific method. According to this view, value freedom is entirely procedural in the sense that objective truth is a function of following the scientific procedure.⁷ While it is possible to disagree with this formulation of logical positivism, this is clearly how Mises conceived of it, and it is with his conception that we are concerned (see, for example, Mises 1978: 38, 120–124, 133; 1933: 7–12, 1949: 4, 31, 56).⁸

It was against this view of positivism, as well as the view of the older German historicists like Gustav Schmoller and later, his student, Werner Sombart, that Mises developed his argument for methodological *a priori*ism. The historicist and positivist programs, Mises pointed out, were fatally flawed from the outset in their failure to appreciate the necessarily theory-laden nature of all “facts.”⁹ This insight is not new to Mises but was emphasized by Goethe who stated: “everything in the realm of fact is already theory” (1995: 307). Mises employed a version of this argument when he pointed out that empiricists are “able to believe that facts can be understood without any theory only because they failed to recognize a theory is already contained in the very linguistic terms involved in every act of thought. To apply language, with its words and concepts to anything is at the same time to approach it with theory” (1933: 28). The choice is never between theory and no theory; it is between articulated and defended theory and unarticulated and non-defended theory.

The unavoidability of theory-laden facts renders impossible the procedural value freedom put forth by the positivists. If “pure” facts are required for objectivity, then objectivity is impossible. Objectivity in the social sciences, Mises argued, was ensured by restricting analysis to the assessment of the effectiveness of chosen means for given ends. The radical subjectivism

7 Contrast this with the position developed by Max Weber and Ludwig von Mises for assuring value-free analysis. Weber and Mises were pre-positivistic positive economists and their position is important to articulate as an alternative to the positivistic notion of value-freedom. For discussions of Weber’s development of his argument see Swedberg (1997) and Caldwell (2003). Also see Boettke (1995 and 1998b).

8 See also, Greaves (1974) who compiled a glossary of terms including “logical positivism” as a companion to Mises’s *Human Action*, which Mises oversaw and approved.

9 Mises’s point about the impossibility of unambiguous tests of theory can be understood as anticipating the more refined Duhem-Quine thesis which stated that the truth or falsity of a theoretical statement cannot be determined independently of a network of statements. See Boettke (1998a).

of Mises with regard to the ends individuals pursue enabled the objectivity of economic analysis.

To Mises, the theory-laden nature of the “facts of the social sciences” implied that we should strive to articulate theory and defend it in a clear and logical fashion. But this did not mean that theory was immune from criticism. The economist “can never be absolutely certain that his inquiries were not misled and that what he considers as certain truth is not error. All [he] can do is submit all his theories again and again to the most critical reexamination” (Mises 1949: 68).¹⁰ Nor did it deny the fundamental importance of empirical work for understanding the social world. In fact, in Mises’s system the entire purpose of theory was to aid the act of historical interpretation. He divided the realms of knowledge into—conception (theory) and understanding (history)—due to the separate epistemological issues involved in both endeavors (see Mises 1957). Although frequently overlooked by his critics, it is clear in Mises’s writings that historical understanding was the vital goal towards which the theoretical construct of economics was to be employed. Economic theory was the servant of empirical work; “aprioristic theory and the interpretation of historical phenomena are intertwined” (Mises 1949: 66).

Mises leveled another criticism at the logical positivists who championed methodological monism in the sciences. He pointed out that what distinguishes economics from other sciences is that our science deals with *conscious* actors. Unlike the unmotivated subject matter of the physical sciences, the subjects of economic study are rational, conscious agents with certain desires and beliefs about how to achieve them. In the physical sciences the ultimate causes of matter’s “behavior” can never be known. This fact is due to the relationship between the physical scientist and his subject of study, which differs radically for social scientists and their subject of study.

The physical scientist must remain an outside observer of his subject. He can never “get inside” the object of his inquiry and so can never have direct, intimate knowledge of the source of his subject’s primary properties. Indeed, by repeatedly observing his object of inquiry externally under varying conditions the physical scientist attempts to get closer to knowledge of the object under observation. While this process can bring him closer, his unalterable status as external observer prohibits him from ever having final knowledge of his subject’s ultimate cause.¹¹

10 On the issue of fallibility in Mises’s methodology see also our discussion of Smith (1990, 1994, 1996), evolution and Mises later in this section.

11 Austrian writers from Wieser (1927) to Mises (1949) to Hayek (1943) have emphasized ‘knowledge from within’ as a distinct characteristic of the human sciences.

The social scientist, on the other hand, is in a relatively better position, for *qua* man, he is himself the very subject of his study. This fortunate position allows him to get inside the mind of his subject. Thus, in the social sciences, the scientist *begins* with knowledge of the ultimate causes driving his subject's behavior. And it is in this sense that the social scientist is in a better position for the study of his field than the physical scientist in terms of understanding *causation*. This fundamental difference between the relationship of the physical scientist to his subject of inquiry and social scientist to his subject of study suggests a fundamental difference in the epistemological status of their insights and implies a methodological dualism in the realm of science.

Our understanding of the natural world improved tremendously when explanations of physical phenomena by way of "purpose" were replaced with explanations that discussed the physical laws of nature. Explanations that appealed to the whims of the gods to explain the changing seasons, for instance, were replaced by one which discussed the earth's rotation around the sun. The purging of "anthropomorphism" in the natural sciences thus led to the advancement of knowledge of the physical universe. But as Mises recognized, in attempting to mimic the natural sciences, if we purge human purposes and plans from the human sciences, we purge our very subject matter.¹² "Praxeological reality is not the physical universe," Mises argued, "but man's conscious reaction to the given state of this universe. Economics is not about things and tangible material objects; it is about men, their meanings and actions. Goods, commodities, and wealth and all the other notions of conduct are not elements of nature; they are elements of human meaning and conduct" (1949: 92).

Additionally, in contrast to the natural sciences, Mises argued that there were no constant relationships in human action. As such no universally valid *quantitative* laws were possible in the realm of human affairs. Standing between the claims of methodological monism on the one side and historicism on the other side, Mises sought to carve out a niche for the science of human action—one that agreed with the cultural critics of methodological monism that the human sciences were unique, yet resisted the implication of these critics that there were no nomological laws possible in the human realm. Mises's position was that while the science of human action (praxeology) was different from the natural sciences for the reasons enumerated above, it generated nomological laws that had the same ontological claim on our attention as that of the natural sciences.

¹² Besides Mises, see also Hayek's (1952) classic work *The Counter-Revolution of Science* on this point.

Economics' epistemological status had to be different by the nature of the subject of study, but scientific discovery and advance were indeed possible. While quantitative laws could not be derived, qualitative counterparts could be derived and were, in fact, essential to the enterprise of understanding social reality and public policy. "The experience with which the sciences of human action have to deal is always an experience of complex phenomena. No laboratory experiments can be performed with regard to human action. We are never in a position to observe the change in one element, only, all other conditions of the event being equal to a case in which the element concerned did not change" (Mises 1949: 31). Thus we cannot, "holding the rest of the world constant," change price to determine its relationship to quantity, as the scientific method touted by positivists requires.¹³ But this does not mean that we cannot understand the relationship between price and quantity. We can derive pattern predictions or explanation of the principle even if we cannot derive point predictions subject to refutation. These fundamental differences between the physical and human sciences, Mises tells us, require that we be methodological dualists.

Mises's methodological dualism established the framework for his *apriorism*. If historicists are wrong and economic laws are indeed evident and can be understood through scientific investigation, what must follow? And, if the positivists are wrong and the methods of the natural sciences are ill-suited to elaborate the laws of economics, what method must economics follow? In response to this question Mises, like Kant, uses the notion of (a) *a priori* axioms and logical categories of the human mind that are (b) known to individuals through a process of introspection, which (c) act as the means through which we understand the world, and then applies this idea to the science of economics.

According to Mises our nature as actors—beings who purposefully act—is known through introspection. Reflection on what it means to be human reveals that purposeful behavior is our primary and distinguishing feature. This knowledge is *aprioristic*. We do not become aware of our uniquely human characteristic through experience because we cannot, in fact, "experience" without purpose. Thus, "man does not have the creative power to imagine categories at variance" with the category of action (Mises 1949: 35). In taking action as the starting point for all of economic

13 Economic laws are deduced from the axiom of action *aprioristically* with the aid of the *ceteris paribus* assumption that enables a sort of controlled mental experiment. And theoretical progress in the human sciences, according to Mises, occurs by way of these mental experiments. Mises goes as far as to say that the method of praxeology is the method of imaginary constructions (Mises 1949: 237–238).

theory, Mises roots the logic of choice in the broader logic of action he calls praxeology.

In the course of laying out his argument, Mises moves beyond Kant. Critics of the notion of a synthetic *a priori* worried that such a view would give license to any set of theories. According to these critics, by arbitrarily postulating any given axiom as *aprioristic*, any number of erroneous conclusions can be arrived at. A related line of criticism points out that even if we could agree on what axioms are truly known *aprioristically*, how are we to choose among the axioms to employ when different axioms yield differing or even contradictory results?

In response to criticisms about the alleged arbitrary selection of starting axioms Mises argued that the deductive procedure does not begin with an arbitrary choice of axioms, but rather with reflection on the essence of human action. As he stated it: “The starting point of praxeology is not a choice of axioms and a decision about methods of procedure, but reflection about the essence of action” (1949: 40). In our efforts to understand reality *we do not choose* the axiom we wish to begin with so much as it is *chosen for us* by the world in which we live. The axiom of action is in a sense imposed on us by the world. As the “filter” through which we make sense of our surroundings, we must necessarily begin our understanding processes with the concept of purposeful action. It is the only means available to us for this purpose, as we cannot help but see the world through the “lenses” conditioned by the unavoidable structure of our minds. If we desire to ground economics in the reality of the world, Mises maintained, we have no choice but start with the axiom of action. No other starting point can yield theory that illuminates the behavior of real individuals.

It is true, economic theory could begin with another axiom, and the laws thus deduced would be valid if no errors were made in the process of deduction and the assumptions posited corresponded to the circumstances at hand. But because for Mises economics is both *aprioristic* and interested in illuminating the real world, its starting axiom must be both known without reference to experience *and* fundamentally connected to the world of man. The action axiom fits both of these descriptions. In contrast, the competitive equilibrium world of Arrow-Hahn-Debreu is derived *aprioristically* but eschewed by Mises because unlike theory deduced from the axiom of action, it remains largely unconnected to the real world.¹⁴

14 This is why Cowen and Fink’s (1985) suggestion that the evenly rotating economy (ERE) is an inconsistent construct and that Arrow-Hahn-Debreu’s model of general competitive equilibrium serves as a better model can be challenged. It depends on the purpose for which the model construct is being used. Furthermore, Caldwell’s (1984) criticism that among competing *a priori* theories one is left powerless to

Like Kant, Mises suggests that action implies certain prerequisites of action—categories of the mind, which are also known *a priori*. He indicates six such categories without which purposeful behavior is impossible: temporality, causality, uncertainty, dissatisfaction, an imagined preferred state of affairs, and beliefs or expectations about the means available for the satisfaction of wants.

In examining the *a priori* nature of these logical categories, Mises (1949, 1978) offers a speculative history as to how they evolved as part of the human mind. According to Mises the *a priori* categories evolved along with humans in a Darwinian fashion. We have the categories of the mind that we do today precisely because they were best able to impart accurate information about the real world to us necessary for our survival. The categories are subject to future evolution as improved variations enable us to better understand the world or the underlying reality of the world itself changes. This hypothesized evolutionary process helps explain the necessary connection of the starting point of action, and the categories that it implies, to the real world. If they were not connected in this way to the world, humans possessing them could not have evolved as they have. There is a mutually interactive process between our minds and the world, forming a feedback loop between the evolution of our *a priori* mental categories that determine the world we experience, and the reality of the world that conditions our way of thinking and understanding reality.

Barry Smith's important work (1990, 1994, 1996) defends "extreme, fallible, apriorism," on the grounds that there are "a priori structures" in the world itself. He distinguishes between "impositionist" *apriorism*, which is subjectivist in its approach and maintains that individual actors impose structures on the world that give rise to knowledge, and "reflectionist" *apriorism*, which maintains that "we can have *a priori* knowledge of what exists, independently of all impositions or inscriptions of the mind, as a result of the fact that certain structures in the world enjoy some degree of intelligibility in their own right" (1990).

While Smith views Mises as being of the subjectivist or "impositionist" variety, our argument places Mises unclearly in either camp, or perhaps more accurately, as having one foot in both. On the one hand, as discussed above,

choose between them must also be challenged. Criteria of choice are provided by relevance for the task the scientist hopes to put the thought experiment toward. Note the difference here between our response to Caldwell, which utilizes what Smith (1996) calls the Kant–Mises "subjectivist" *apriorism*, and Smith's own response, which is closer to Rothbard's position and overcomes Caldwell's criticism by pointing to an "objectivist" *apriorism*—"an a priori in the real world" (1996: 191).

like Kant, Mises clearly believed in logical categories of the mind that actors use to understand the world and was thoroughly subjectivist in this regard. As Mises put it: “He who wants to deal with [economics] must not look at the external world; he must search for them in the meaning of acting men” (1949: 92).

On the other hand, his evolutionary explanation of the emergence of these categories, which conditions them on the reality of the world, suggests a “reflectionist” view since *a priori* knowledge evolves over time with the evolution of individuals’ mental categories. In this sense, there is a Smith-like “fallibilistic” element to Mises’s conception of *a priori* knowledge, which, though “true” for acting man at the present may ultimately be revealed to be mistaken (i.e., inconsistent with objective reality) with further developments in the evolution of man’s mind.

From these categories implied in the axiom of action, Mises contends we can deduce the pure logic of choice. The theories thus arrived at, because they represent the elucidation and teasing out of the implications of the fact that man acts “are, like those of logic and mathematics, *a priori*” (Mises 1949: 32). If no logical error has been made in the process of deduction from the axiom of action, the theories arrived at are *aprioristically* true and apodictically certain. Their *aprioristic* quality, however, does not render them irrelevant to the real world. “The theorems attained by correct praxeological reasoning are not only perfectly certain and incontestable, like the correct mathematical theorems. They refer, moreover with the full rigidity of their apodictic certainty and incontestability to the reality of action as it appears in life and history. Praxeology conveys exact and precise knowledge of real things” (Mises 1949: 39).

Of course, Mises points out, while in principle all of economic theory can be logically spun out of the axiom of action in this fashion, for practical purposes we limit our activities to elucidating those theories that are relevant for the world in which we live. We could, for instance, imagine all possible states of the world and develop theories that logically follow from the assumptions posited. Such theories, assuming no errors were made in the process of deduction, would accurately describe processes and outcomes whenever the assumptions posited actually held. For example, we could imagine a world in which instead of labor bringing about disutility, it brought about joy. The labor theory deduced from this assumption would be correct but hold only in a world in which labor brings about joy. However, since our purpose is to understand the world in which we actually live, we observe the conditions of our world (in our example the disutility of labor) and use this empirical subsidiary postulate to circumscribe the bounds of our

theorizing.¹⁵ As Mises put it, “the end of [economic] science is to know reality. It is not mental gymnastics or a logical pastime. Therefore praxeology restricts its inquiries to the study of acting under those conditions . . . which are given in reality” (1949: 65).

Mises’s *apriorism* implied an important insight regarding the possibility of value freedom. The deductive logic entailed in examining economic chains of events must always take ends as given. The role of the economist is to employ *a priori* theory in evaluating the efficacy of the means chosen in light of the stated ends. The economist then has nothing to say about the ends themselves but is instead in the position of commenting upon the coherence of various means towards the achievement of those ends. As Mises put it: “The ultimate judgments of value and the ultimate ends of human action are given for any kind of scientific inquiry; they are not open to any further analysis. Praxeology deals with the way and means chosen for the attainment of such ultimate ends. Its object is means, not ends” (1949: 21). Thus, in contrast to the procedural value freedom of positivist methodology, *aprioristic* methodology is *analytically* value free.¹⁶ Means-ends analysis in light of *aprioristically* deduced economic law both avoids the fatal positivist failure to recognize that all facts are theory-laden and avoids the importation of value judgments into economic elucidation.

Mises points out that the *aprioristic* character of the pure logic of choice implies that economic theory can never be empirically validated or invalidated. The laws of economics “are not subject to verification or falsification on the ground of experience and facts” (Mises 1949: 32). Attempts to empirically *test* economic theory are not only fruitless, but indicate the wrong-headedness of the scientists who attempt to do so. Such scientists are in the same position as those who believe that they can validate or invalidate the Pythagorean theorem by measuring right triangles in the real world. Both fail to grasp the *aprioristic* nature of the theory they try in vein to test. Like the laws of mathematics, the laws of economics “are both logically and temporally antecedent to any comprehension of historical facts” (Mises 1949: 32). This fact in conjunction with the impossibility of controlled experiments in the real world makes it impossible to empirically test economic theory as positivist philosophers of economics claim one should.¹⁷

15 It should be noted that such use of empirical subsidiary postulates does not alter the *aprioristic* nature of the theories thus arrived at.

16 On the Austrian argument for value-freedom see Boettke (1998a and 1998b).

17 We think it is important to distinguish between philosophers of economics (such as Hutchinson, Blaug, Hausman, Rosenberg, etc.) and practicing economists. As has been pointed out by several scholars, most notably McCloskey, the practice of economists is quite divorced from the official rhetoric of economics. Some philosophers of economics, e.g. Rosenberg, believe this reflects the intellectual failing of the discipline

The critics of Mises are quick to point to this as evidence of his denial of the importance of empirical work and the real world. As we noted earlier however, though typically ignored, Mises is explicit in asserting that *a priori* economic deduction is to be the servant of empirical examinations of the world. Thus, in Mises's eyes, Carl Menger's institutionally contingent historical explanation of the emergence of money accurately represents the "fundamental principles of praxeology and its methods of research" (Mises 1949: 402). We are interested in economic theory because it illuminates the world outside the window. The institutional arrangements of the world that frame the rules within which the logic of choice in human decision-making operates are the fundamental elements towards which economic theory is aimed. Thus, every argument in Mises, from the impossibility of rational economic calculation under socialism, to the movement of the business cycle, is institutionally embedded and contingent.

The function of *aprioristic* theory in these analyses is to put parameters on people's utopias. So while an examination of the emergence of money is necessarily an empirical inquiry into the institutional features that enable or disable its emergence, the demand for money always slopes downward. In this fashion *a priori* theory bounds our behavioral possibilities while making it possible for us to examine real features of the empirical world. "Theory and the comprehension of living and changing reality are not in opposition to one another" but rather enjoy a symbiotic relationship (Mises 1949: 38). Viewed this way, rather than hyper-theoretical, Mises's *apriorism* is actually radically empirical.¹⁸ The pure logic of choice is a necessary component of economic explanation, but not sufficient.

Mises's critics were also fond of pointing out that if he is correct, the pure logic of choice is "mere tautology." Traditionally, philosophy distinguished between analytic and synthetic propositions. While the former were purely tautological, the latter, it was held, conveyed to us information about the real world. Kant's notion of a synthetic *a priori*—a class of knowledge known to us apart from experience that nonetheless imparts information about the real world shattered traditionally held beliefs about necessity of *a priori* claims

of economics, while others, e.g. McCloskey, believe it demonstrates the intellectual bankruptcy of prescriptive methodology by the philosophers. If the positivist philosophers' advice cannot be followed in practice in the discipline of economics because the subject matter cannot be so treated, then the use of positivistic criteria to demarcate science from non-science is a non-starter. In the case of someone like Mises, his methodological writings have been misunderstood by friend and foe precisely because of the mischaracterization of the philosophical misconceptions that he eschewed.

¹⁸ Theories are not refuted or failed to be refuted by empirical analysis; they are either applicable or inapplicable—relevant or irrelevant to the task of empirical interpretation.

as analytic truths. Kant thus accepted the traditional analytic/synthetic distinction but argued that some *a priori* truths formerly thought to be analytic could in fact be synthetic. Although Mises can be understood as building upon Kant, he ultimately goes beyond Kant by rejecting the traditional analytic/synthetic distinction altogether.

According to Mises it is true that like the laws of geometry, the pure logic of choice is entirely tautological. Nevertheless these “mere tautologies” have incredible empirical significance. Who would deny, for instance, that the *aprioristic* propositions of geometry are applicable to the real world? All architectural structures from bridges to buildings rely on these tautological propositions to be effectively constructed. Similarly, in economics we rely upon the law of demand for instance—which is tautological at its foundation—to analyze the coherence of various means for the attainment of various ends. Just because observation cannot falsify this law does not mean that the law is empirically irrelevant. Like all *aprioristic* propositions derived from the axiom of action, it is extremely empirically relevant. Indeed, without it we would be entirely unable to understand the functioning of the economy. The application of the *aprioristic* laws of economics to the real world yields empirical, institutionally-contingent propositions about economic reality. Thus, Mises points out, tautologies deduced from an axiom inextricably linked to the real world are no vice. On the contrary, they are the indispensable mental constructs that make it possible for us to understand the real world.

THE RELEVANCE OF MISES’S POSITION FOR MODERN ECONOMICS

Mises’s radical methodological and epistemological positions have been the source of considerable criticism. With the rise of positivism and empiricism the desire to imitate the methods of the physical sciences in the social sciences has largely proved too strong to resist for the profession of economics. Influential economists from Paul Samuelson to Milton Friedman argued that in order for economics to have the status of a “real” science it needed to take a formalist and quantitative turn. Others, like T.W. Hutchison, pushed for a purely positivistic approach. Over time the lures of mathematical elegance and the desire for precise predictive power won over the hearts of most economists. As a result Mises was largely viewed as out of step with the times. This is what led the well-known historian of economic thought and methodologist, Mark Blaug, to dismiss Mises’s methodological position as “cranky and idiosyncratic.”

Nonetheless, it is worth noting that for many years a more or less methodological *apriorism* as described by Mises was common among economists. In fact a deductive “common sense” approach was the dominant way of doing economics for quite some time. As Mises put it, “We do not maintain that the theoretical science of human action should be aprioristic, but that it is and always has been so” (1949: 40). Nassau Senior, Destutt Tracey, J.B. Say, John Cairnes, Carl Menger, Lionel Robbins, Frank Knight, and many others were all *apriorists* of some sort or another. Economic theorems, these writers contended, were derived from “self-evident” axioms. Far from out of step, this is the way that economic theorizing was done by classical and neoclassical economists for more than one hundred years.

Since this time, however, economics has made several turns in its preferred approach to economic inquiry.¹⁹ In opposition to Mises’s methodological stance, in the 1950s the economics profession adopted ‘model and measure’ as its mantra. With the later development of game theory and the introduction of the Folk Theorem the possibility of an infinite number of equilibria led to the emergence of a sort of formalistic historicism that used formal tools to describe particularistic economic phenomena. What both of these approaches have in common is an implicit rejection of the economic methodology employed by the classical economists as laid out and defended by Mises that inadvertently purges the peculiarly human element from economic science.

Because it began with the axiom of action, Mises’s *apriorism* necessarily moved the human element to the forefront of economic analysis. The logical categories implied in the action axiom emphasized time, uncertainty, and change in process of man’s attempts to pursue his ends. Absent this *aprioristic* approach the importance of the real world conditions that acting man confronts are all but lost. In its place is substituted man as machine, operating in a sterile environment characterized by ideal conditions that in no way reflect reality.

Recent demands for new empirical methods of research illustrate the bankruptcy of the non-*aprioristic* approach. Ironically it is Mises’s radical *apriorism* that provides the answer to this burgeoning empirical problem. As Mises’s approach implies, economic understanding increases by framing questions in terms of the particular but analyzing in terms of the logic of choice. Interpreting the particular by way of the universal yields the *analytical narrative*, which brings the real-world human chooser

19 For a description of this movement see Boettke *et al.* (2003).

back to forefront of economic analysis.²⁰ The analytical narrative makes the *a priori* deduced pure logic of choice the handmaiden of institutionally focused ethnographic research. Borrowing from sociology and anthropology, economics may employ survey, interview, and participant observe techniques to glean new empirical knowledge from its subjects (the narrative) to be analyzed in light of *a priori* rational choice theory (the analytic), leading to analytically rigorous but institutionally rich examinations. It is this research methodology that emerges out of Mises's unique methodological approach to economic science, which offers the way out of the problems generated by the empiricist/positivist approach to economic questions.

CONCLUSION

Far from embarrassing, we have argued that Mises's methodologically position was ahead of its time. His focus on the givenness of ends and the analysis of means to achieve these ends provides us with an alternative, pre-positivistic notion of value-freedom. His clear statement on how the theory-ladenness of facts destroys any notion of unambiguous empirical tests anticipated developments in post-positivist philosophy and yet does not slip into the epistemological abyss of post-modernism. Finally, his focus on the universal applicability of the science of human action (praxeology) paved the way for a unified social science grounded in methodological individualism.

Furthermore, Mises's work is not the armchair theorizing many have made it out to be. The entire purpose of the theoretical task is to enable better empirical investigation but these two tasks represent distinct epistemological moments (conception for theory, understanding for history). Mises was able to develop a system for analysis, which today is being discussed as the *analytical narrative* approach to political economy. It is this movement, we contend, that will save economics from its irrelevance by linking economic explanation back to the human actor—the *alpha* and *omega* of all of economic life. Mises's *Human Action* was a monumental achievement in technical economics, social philosophy and public policy, but just as

20 The analytic narrative we propose here is rooted in the praxeological approach that places creative, uncertain human decision-making at the center of its analysis. Although the analytic narrative advocated by Bates *et al.* (1998) is similar in that it seeks to employ economic theory for the purpose of historical interpretation, theirs is rooted in a purely game-theoretic approach that substitutes a world of complete and perfect information in which agent choices are deterministic for one in which actors imperfectly seek changing goals under conditions of constant change.

important is its contribution to the philosophy of the human sciences. Here Mises argued forcefully that the laws of economic science are deduced *a priori* and prove their relevance in the act of interpretation of historical phenomena. Without these *a priori* laws, we would be blind to the empirical world.

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