

HUMAN ACTION
A Treatise on Economics

BY

LUDWIG VON MISES

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Introduction Copyright © 1998 by The Ludwig von Mises Institute

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INTRODUCTION

1. Economics and Praxeology

ECONOMICS is the youngest of all sciences. In the last two hundred years, it is true, many new sciences have emerged from the disciplines familiar to the ancient Greeks. However, what happened here was merely that parts of knowledge which had already found their place in the complex of the old system of learning now became autonomous. The field of study was more nicely subdivided and treated with new methods; hitherto unnoticed provinces were discovered in it, and people began to see things from aspects different from those of their precursors. The field itself was not expanded. But economics opened to human science a domain previously inaccessible and never thought of. The discovery of a regularity in the sequence and interdependence of market phenomena went beyond the limits of the traditional system of learning. It conveyed knowledge which could be regarded neither as logic, mathematics, psychology, physics, nor biology.

Philosophers had long since been eager to ascertain the ends which God or Nature was trying to realize in the course of human history. They searched for the law of mankind's destiny and evolution. But even those thinkers whose inquiry was free from any theological tendency failed utterly in these endeavors because they were committed to a faulty method. They dealt with humanity as a whole or with other holistic concepts like nation, race, or church. They set up quite arbitrarily the ends to which the behavior of such wholes is bound to lead. But they could not satisfactorily answer the question regarding what factors compelled the various acting individuals to behave in such a way that the goal aimed at by the whole's inexorable evolution was attained. They had recourse to desperate shifts: miraculous interference of the Deity either by revelation or by the delegation of God-sent prophets and consecrated leaders, preestablished harmony, predestination, or the operation of a mystic and fabulous "world soul" or "national soul." Others spoke of a "cunning of nature" which implanted in man impulses driving him unwittingly along precisely the path Nature wanted him to take.

Other philosophers were more realistic. They did not try to guess the designs of Nature or God. They looked at human things from the viewpoint of government. They were intent upon establishing rules of political action, a technique, as it were, of government and statesmanship. Speculative minds drew ambitious plans for a thorough reform and reconstruction of society. The more modest were satisfied with a collection and systematization of the data of historical experience. But all were fully convinced that there was in the course of social events no such regularity and invariance of phenomena as had already been found in the operation of human reasoning and in the sequence of natural phenomena. They did not search for the laws of social cooperation because they thought that man could organize society as he pleased. If social conditions did not fulfill the wishes of the reformers, if their utopias proved unrealizable, the fault was seen in the moral failure of man. Social problems were considered ethical problems. What was needed in order to construct the ideal society, they thought, were good princes and virtuous citizens. With righteous men any utopia might be realized.

The discovery of the inescapable interdependence of market phenomena overthrew this opinion. Bewildered, people had to face a new view of society. They learned with stupefaction that there is another aspect from which human action might be viewed than that of good and bad, of fair and unfair, of just and unjust. In the course of social events there prevails a regularity of phenomena to which man must adjust his actions if he wishes to succeed. It is futile to approach social facts with the attitude of a censor who approves or disapproves from the point of view of quite arbitrary standards and subjective judgments of value. One must study the laws of human action and social cooperation as the physicist studies the laws of nature. Human action and social cooperation seen as the object of a science of given relations, no longer as a normative discipline of things that ought to be—this was a revolution of tremendous consequences for knowledge and philosophy as well as for social action.

For more than a hundred years, however, the effects of this radical change in the methods of reasoning were greatly restricted because people believed that they referred only to a narrow segment of the total field of human action, namely, to market phenomena. The classical economists met in the pursuit of their investigations an obstacle which they failed to remove, the apparent antinomy of value. Their theory of value was defective, and forced them to restrict the scope of their science. Until the late nineteenth century political

economy remained a science of the “economic” aspects of human action, a theory of wealth and selfishness. It dealt with human action only to the extent that it is actuated by what was—very unsatisfactorily—described as the profit motive, and it asserted that there is in addition other human action whose treatment is the task of other disciplines. The transformation of thought which the classical economists had initiated was brought to its consummation only by modern subjectivist economics, which converted the theory of market prices into a general theory of human choice.

For a long time men failed to realize that the transition from the classical theory of value to the subjective theory of value was much more than the substitution of a more satisfactory theory of market exchange for a less satisfactory one. The general theory of choice and preference goes far beyond the horizon which encompassed the scope of economic problems as circumscribed by the economists from Cantillon, Hume, and Adam Smith down to John Stuart Mill. It is much more than merely a theory of the “economic side” of human endeavors and of man’s striving for commodities and an improvement in his material well-being. It is the science of every kind of human action. Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a decision which picks out one thing and sets aside another. Nothing that men aim at or want to avoid remains outside of this arrangement into a unique scale of gradation and preference. The modern theory of value widens the scientific horizon and enlarges the field of economic studies. Out of the political economy of the classical school emerges the general theory of human action, *praxeology*.¹ The economic or catallactic problems² are embedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, *praxeology*.

1. The term *praxeology* was first used in 1890 by Espinas. Cf. his article “Les Origines de la technologies,” *Revue Philosophique*, XVth year, XXX, 114-115, and his book published in Paris in 1897, with the same title.

2. The term *Catallactics or the Science of Exchanges* was first used by Whately. Cf. his book *Introductory Lectures on Political Economy* (London, 1831), p. 6.

2. The Epistemological Problem of a General Theory of Human Action

In the new science everything seemed to be problematic. It was a stranger in the traditional system of knowledge; people were perplexed and did not know how to classify it and to assign it its proper place. But on the other hand they were convinced that the inclusion of economics in the catalogue of knowledge did not require a rearrangement or expansion of the total scheme. They considered their catalogue system complete. If economics did not fit into it, the fault could only rest with the unsatisfactory treatment that the economists applied to their problems.

It is a complete misunderstanding of the meaning of the debates concerning the essence, scope, and logical character of economics to dismiss them as the scholastic quibbling of pedantic professors. It is a widespread misconception that while pedants squandered useless talk about the most appropriate method of procedure, economics itself, indifferent to these idle disputes, went quietly on its way. In the *Methodenstreit* between the Austrian economists and the Prussian Historical School, the self-styled “intellectual bodyguard of the House of Hohenzollern,” and in the discussions between the school of John Bates Clark and American Institutionalism much more was at stake than the question of what kind of procedure was the most fruitful one. The real issue was the epistemological foundations of the science of human action and its logical legitimacy. Starting from an epistemological system to which praxeological thinking was strange and from a logic which acknowledged as scientific—besides logic and mathematics—only the empirical natural sciences and history, many authors tried to deny the value and usefulness of economic theory. Historicism aimed at replacing it by economic history; positivism recommended the substitution of an illusory social science which should adopt the logical structure and pattern of Newtonian mechanics. Both these schools agreed in a radical rejection of all the achievements of economic thought. It was impossible for the economists to keep silent in the face of all these attacks.

The radicalism of this wholesale condemnation of economics was very soon surpassed by a still more universal nihilism. From time immemorial men in thinking, speaking, and acting had taken the uniformity and immutability of the logical structure of the human mind as an unquestionable fact. All scientific inquiry was based on this assumption. In the discussions about the epistemological character of economics, writers, for the first time in human history,

denied this proposition too. Marxism asserts that a man's thinking is determined by his class affiliation. Every social class has a logic of its own. The product of thought cannot be anything else than an "ideological disguise" of the selfish class interests of the thinker. It is the task of a "sociology of knowledge" to unmask philosophies and scientific theories and to expose their "ideological" emptiness. Economics is a "bourgeois" makeshift, the economists are "sycophants" of capital. Only the classless society of the socialist utopia will substitute truth for "ideological" lies.

This polylogism was later taught in various other forms also. Historicism asserts that the logical structure of human thought and action is liable to change in the course of historical evolution. Racial polylogism assign to each race a logic of its own. Finally there is irrationalism, contending that reason as such is not fit to elucidate the irrational forces that determine human behavior.

Such doctrines go far beyond the limits of economics. They question not only economics and praxeology but all other human knowledge and human reasoning in general. They refer to mathematics and physics as well as to economics. It seems therefore that the task of refuting them does not fall to any single branch of knowledge but to epistemology and philosophy. This furnishes apparent justification for the attitude of those economists who quietly continue their studies without bothering about epistemological problems and the objections raised by polylogism and irrationalism. The physicist does not mind if someone stigmatizes his theories as bourgeois, Western or Jewish; in the same way the economist should ignore detraction and slander. He should let the dogs bark and pay no heed to their yelping. It is seemly for him to remember Spinoza's dictum: *Sane sicut lux se ipsam et tenebras manifestat, sic veritas norma sui et falsi est.*

However, the situation is not quite the same with regard to economics as it is with mathematics and the natural sciences. Polylogism and irrationalism attack praxeology and economics. Although they formulate their statements in a general way to refer to all branches of knowledge, it is the sciences of human action that they really have in view. They say that it is an illusion to believe that scientific research can achieve results valid for people of all eras, races, and social classes, and they take pleasure in disparaging certain physical and biological theories as bourgeois or Western, But if the solution of practical problems requires the application of these stigmatized doctrines, they forget their criticism. The technology of Soviet Russia utilizes without scruple all the results of bourgeois physics, chemistry,

and biology just as if they were valid for all classes. The Nazi engineers and physicians did not disdain to utilize the theories, discoveries, and inventions of people of "inferior" races and nations. The behavior of people of all races, nations, religions, linguistic groups, and social classes clearly proves that they do not endorse the doctrines of polylogism and irrationalism as far as logic, mathematics, and the natural sciences are concerned.

But it is quite different with praxeology and economics. The main motive for the development of the doctrines of polylogism, historicism, and irrationalism was to provide a justification for disregarding the teachings of economics in the determination of economic policies. The socialists, racists, nationalists, and etatists failed in their endeavors to refute the theories of the economists and to demonstrate the correctness of their own spurious doctrines. It was precisely this frustration that prompted them to negate the logical and epistemological principles upon which all human reasoning both in mundane activities and in scientific research is founded.

It is not permissible to dispose of these objections merely on the ground of the political motives which inspired them. No scientist is entitled to assume beforehand that a disapprobation of his theories must be unfounded because his critics are imbued with passion and party bias. He is bound to reply to every censure without any regard to its underlying motives or its background. It is no less impermissible to keep silent in the face of the often asserted opinion that the theorems of economics are valid only under hypothetical assumptions never realized in life and that they are therefore useless for the mental grasp of reality. It is strange that some schools seem to approve of this opinion and nonetheless quietly proceed to draw their curves and to formulate their equations. They do not bother about the meaning of their reasoning and about its reference to the world of real life and action.

This is, of course, an untenable attitude. The first task of every scientific inquiry is the exhaustive description and definition of all conditions and assumptions under which its various statements claim validity. It is a mistake to set up physics as a model and pattern for economic research. But those committed to this fallacy should have learned one thing at least: that no physicist ever believed that the clarification of some of the assumptions and conditions of physical theorems is outside the scope of physical research. The main question that economics is bound to answer is what the relation of its statements is to the reality of human action whose mental grasp is the objective of economic studies.

It therefore devolves upon economics to deal thoroughly with the assertion that its teachings are valid only for the capitalistic system of the shortlived and already vanished liberal period of Western civilization. It is incumbent upon no branch of learning other than economics to examine all the objections raised from various points of view against the usefulness of the statements of economic theory for the elucidation of the problems of human action. The system of economic thought must be built up in such a way that it is proof against any criticism on the part of irrationalism, historicism, panphysicalism, behaviorism, and all varieties of polylogism. It is an intolerable state of affairs that while new arguments are daily advanced to demonstrate the absurdity and futility of the endeavors of economics, the economists pretend to ignore all this.

It is no longer enough to deal with the economic problems within the traditional framework. It is necessary to build the theory of catallactics upon the solid foundation of a general theory of human action, praxeology. This procedure will not only secure it against many fallacious criticisms but clarify many problems hitherto not even adequately seen, still less satisfactorily solved. There is, especially, the fundamental problem of economic calculation.

3. Economic Theory and the Practice of Human Action

It is customary for many people to blame economics for being backward. Now it is quite obvious that our economic theory is not perfect. There is no such thing as perfection in human knowledge, nor for that matter in any other human achievement. Omniscience is denied to man. The most elaborate theory that seems to satisfy completely our thirst for knowledge may one day be amended or supplanted by a new theory. Science does not give us absolute and final certainty. It only gives us assurance within the limits of our mental abilities and the prevailing state of scientific thought. A scientific system is but one station in an endlessly progressing search for knowledge. It is necessarily affected by the insufficiency inherent in every human effort. But to acknowledge these facts does not mean that present-day economics is backward. It merely means that economics is a living thing—and to live implies both imperfection and change.

The reproach of an alleged backwardness is raised against economics from two different points of view.

There are on the one hand some naturalists and physicists who censure economics for not being a natural science and not applying the methods

and procedures of the laboratory. It is one of the tasks of this treatise to explode the fallacy of such ideas. In these introductory remarks it may be enough to say a few words about their psychological background. It is common with narrow-minded people to reflect upon every respect in which other people differ from themselves. The camel in the fable takes exception to all other animals for not having a hump, and the Ruritanian criticizes the Laputanian for not being a Ruritanian. The research worker in the laboratory considers it as the sole worthy home of inquiry, and differential equations as the only sound method of expressing the results of scientific thought. He is simply incapable of seeing the epistemological problems of human action. For him economics cannot be anything but a kind of mechanics.

Then there are people who assert that something must be wrong with the social sciences because social conditions are unsatisfactory. The natural sciences have achieved amazing results in the last two or three hundred years, and the practical utilization of these results has succeeded in improving the general standard of living to an unprecedented extent. But, say these critics, the social sciences have utterly failed in the task of rendering social conditions more satisfactory. They have not stamped out misery and starvation, economic crises and unemployment, war and tyranny. They are sterile and have contributed nothing to the promotion of happiness and human welfare.

These grumblers do not realize that the tremendous progress of technological methods of production and the resulting increase in wealth and welfare were feasible only through the pursuit of those liberal policies which were the practical application of the teachings of economics. It was the ideas of the classical economists that removed the checks imposed by age-old laws, customs, and prejudices upon technological improvement and freed the genius of reformers and innovators from the straitjackets of the guilds, government tutelage, and social pressure of various kinds. It was they that reduced the prestige of conquerors and expropriators and demonstrated the social benefits derived from business activity. None of the great modern inventions would have been put to use if the mentality of the precapitalistic era had not been thoroughly demolished by the economists. What is commonly called the "industrial revolution" was an offspring of the ideological revolution brought about by the doctrines of the economists. The economists exploded the old tenets: that it is unfair and unjust to outdo a competitor by producing better and cheaper goods;

that it is iniquitous to deviate from the traditional methods of production; that machines are an evil because they bring about unemployment; that it is one of the tasks of civil government to prevent efficient businessmen from getting rich and to protect the less efficient against the competition of the more efficient; that to restrict the freedom of entrepreneurs by government compulsion or by coercion on the part of other social powers is an appropriate means to promote a nation's well-being. British political economy and French Physiocracy were the pacemakers of modern capitalism. It is they that made possible the progress of the applied natural sciences that has heaped benefits upon the masses.

What is wrong with our age is precisely the widespread ignorance of the role which these policies of economic freedom played in the technological evolution of the last two hundred years. People fell prey to the fallacy that the improvement of the methods of production was contemporaneous with the policy of *laissez faire* only by accident. Deluded by Marxian myths, they consider modern industrialism an outcome of the operation of mysterious "productive forces" that do not depend in any way on ideological factors. Classical economics, they believe, was not a factor in the rise of capitalism, but rather its product, its "ideological superstructure," i.e., a doctrine designed to defend the unfair claims of the capitalistic exploiters. Hence the abolition of capitalism and the substitution of socialist totalitarianism for a market economy and free enterprise would not impair the further progress of technology. It would, on the contrary, promote technological improvement by removing the obstacles which the selfish interests of the capitalists place in its way.

The characteristic feature of this age of destructive wars and social disintegration is the revolt against economics. Thomas Carlyle branded economics a "dismal science," and Karl Marx stigmatized the economists as "the sycophants of the bourgeoisie." Quacks—praising their patent medicines and short cuts to an earthly paradise—take pleasure in scorning economics as "orthodox" and "reactionary." Demagogues pride themselves on what they call their victories over economics. The "practical" man boasts of his contempt for economics and his ignorance of the teachings of "armchair" economists. The economic policies of the last decades have been the outcome of a mentality that scoffs at any variety of sound economic theory and glorifies the spurious doctrines of its detractors. What is called "orthodox" economics is in most countries barred from the universities and is virtually unknown to the leading statesmen, politicians, and writers. The

blame for the unsatisfactory state of economic affairs can certainly not be placed upon a science which both rulers and masses despise and ignore.

It must be emphasized that the destiny of modern civilization as developed by the white peoples in the last two hundred years is inseparably linked with the fate of economic science. This civilization was able to spring into existence because the peoples were dominated by ideas which were the application of the teachings of economics to the problems of economic policy. It will and must perish if the nations continue to pursue the course which they entered upon under the spell of doctrines rejecting economic thinking.

It is true that economics is a theoretical science and as such abstains from any judgment of value. It is not its task to tell people what ends they should aim at. It is a science of the means to be applied for the attainment of ends chosen, not, to be sure, a science of the choosing of ends. Ultimate decisions, the valuations and the choosing of ends, are beyond the scope of any science. Science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.

It seems to many people that this is very little indeed and that a science limited to the investigation of the *is* and unable to express a judgment value about the highest and ultimate ends is of no importance for life and action. This too is a mistake. However, the exposure of this mistake is not a task of these introductory remarks. It is one of the ends of the treatise itself.

Résumé

It was necessary to make these preliminary remarks in order to explain why this treatise places economic problems within the broad frame of a general theory of human action. At the present stage both of economic thinking and of political discussions concerning the fundamental issues of social organization, it is no longer feasible to isolate the treatment of catallactic problems proper. These problems are only a segment of a general science of human action and must be dealt with as such.