the farmer's psychic attachment to the land may be worth. He may say, for example, that his attachment to the land requires the compensation of $10 million, even though the market price is $100,000, but of course he may be lying. However, the government or other outside observer has no scientific way of finding out one way or another.[9] Furthermore, the existence in the society of just one militant anarchist, whose psychic grievance against government is such that he cannot be compensated for his psychic disutility from the existence of government, is enough by itself to destroy the social-utility and compensation-principle case for any government action whatever. And surely at least one such anarchist exists.

Can praxeological economics, then, say nothing about social utility? Not quite. If we define an "increase in social utility" in the Paretian manner as a situation where one or more persons gain in utility while nobody loses, then praxeology finds a definite, but restricted, role for the concept. But it is a role where social utilities remain unmeasurable and incomparable between persons. Briefly, praxeology maintains that when a person acts, his utility, or at least his ex ante utility, increases; he expects to enjoy a psychic benefit from the act, otherwise he would not have done it. When, in a voluntary free-market exchange, for example, I buy a newspaper from a newsdealer for 15 cents, I demonstrate by my action that I prefer (at least ex ante) the newspaper to the 15 cents, while the newsdealer demonstrates by his action the reverse order of preference. Since each of us is better off by the exchange, both the newsdealer and I have demonstrably gained in utility, while *nothing* has demonstrably happened to anyone else. Elsewhere I have called this praxeological concept "demonstrated preference," in which action demonstrates preference, in contrast to various forms of psychologizing, which tries to measure other persons' value scales apart from action, and to behaviorism, which assumes that such values or preferences do not exist.[10] The compensation principle that

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[9]For a further analysis of this question, see Walter Block, "Coase and Demsetz on Private Property Rights: A comment," *Journal of Libertarian Studies* 1, no. 2 (Spring, 1977): 112–15.

[10]Murray N. Rothbard, "Toward a Reconstruction of Utility and Welfare Economics" in *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises*, Mary Sennholz, ed. (Princeton, N.J.: Van Nostrand, 1956), pp. 224–32, 243–63; included in this volume as chapter 17.

I have been criticizing rests on the illegitimate psychologizing notion that a scientific economist-observer can know *anything* about someone else's value scale except as it is demonstrated through such action as the purchase or sale of a newspaper. And since the compensation principle is necessarily divorced from demonstrated preference, it cannot be employed by scientific economists. Incidentally, I might note here that "demonstrated preference" is very different from Samuelson's famous concept of "revealed preference," for Samuelson, in illegitimate psychologizing fashion, assumed the existence of an underlying preference scale that forms the basis of a person's action and that remains constant in the course of his actions over time. There is, however, no warrant for the scientific economist to make any such assumption. All we can say is that an action, at a specific point of time, reveals some of a person's preferences *at that time*. There is no warrant for assuming that such preference orderings remain constant over time.[11]

Now since praxeology shows, by the concept of demonstrated preference, that both the newsdealer and I gain in utility from the exchange, and nothing has demonstrably happened to anyone else, we can conclude scientifically, as praxeological economists, that social utility has increased from the sale and purchase of the newspaper—since we have defined social utility in the Paretian manner. It is true, of course, that third parties may well be grinding their teeth in hatred at the exchange. There may be people, for example, who through envy suffer psychic loss because the newspaper dealer and/or I have gained. Therefore, if we employ the Paretian definition of "social utility" in the usual psychologizing sense, we can say nothing about social utility one way or the other. But if we confine the concept to its strict scientific compass in demonstrated preference, then we can state that social utility increases from the exchange. Still further, we may know as historians, from interpretive understanding of the hearts and minds of envious neighbors, that they do lose in utility. But we are trying to determine in this paper precisely what scientific economists can say

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[11]Ibid., pp. 228–30; also see Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Conn.: Yale University Press, 1949), pp. 102–04. Samuelson's views may be found, among other places, in Paul A. Samuelson, "The Empirical Implications of Utility Analysis," *Econometrica* 6 (October 1938): 334–56; and *Foundations of Economics* (Cambridge, Mass.: Harvard University Press, 1947), pp. 146–63.

about social utility or can advocate for public policy, and since they must confine themselves to demonstrated preference, they must affirm that social utility has increased.

Conversely, since every act of the State involves coercion, at least the coercion of taxation, and since in its every act there is at least one demonstrable loser in utility, we must also conclude that no act whatever of the State can increase social utility. Here, of course, is another good reason why the economic scientist cannot use the concept of "social utility" to establish any sort of unanimity principle or any other case for government action. It has been pointed out that, similarly, we cannot say that any action of the State *decreases* social utility, at least in the short term, and that too is correct.

We must emphasize, however, that the praxeological conclusion that the free market maximizes social utility is not sufficient to enable the praxeological economist to advocate the free market while abstaining from value judgments or from an ethical system. In the first place, why *should* an economist favor increasing social utility? This in itself requires an ethical or value judgment. And, second, the social-utility concept has many other failings, including the fact that while the envious and the egalitarian or the admirer of coercion *per se* may not be included in the social-utility concept, the contemporary historian knows that he is there, lurking in the wings; it therefore requires an ethical judgment, which cannot be supplied by praxeology, to overrule him. Furthermore, many of the strictures against the unanimity principle apply here too; for example, should we really be eager to preserve the utility of the slaveholder against loss? And if so, why?

Let us now turn to the position of Ludwig von Mises on the entire matter of praxeology, value judgments, and the advocacy of public policy. The case of Mises is particularly interesting, not only because he was a leader in the modern Austrian School and in praxeology, but also because he was, of all the economists in the twentieth century, the most uncompromising and passionate adherent of *laissez-faire* and at the same time the most rigorous and uncompromising advocate of value-free economics and opponent of any sort of objective ethics. How then did he attempt to reconcile these two positions?[12]

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[12]For a posing of this question, see William E. Rappard, "On Reading von Mises," in *On Freedom and Free Enterprise*, Mary Sennholz, ed., pp. 17–33.

Essentially, Mises offered two very different solutions to this problem. The first is a variant of the unanimity principle. Essentially this variant affirms that an economist *per se* cannot say that a given governmental policy is "good" or "bad." However, if a given policy will lead to consequences, as explained by praxeology, that *every one* of the supporters of the policy will agree is bad, then the value-free economist is justified in calling the policy a "bad" one. Thus, Mises wrote:

> An economist investigates whether a measure *a* can bring about the result *p* for the attainment of which it is recommended, and finds that *a* does not result in *p* but in *g*, an effect which even the supporters of the measure *a* consider undesirable. If the economist states the outcome of his investigation by saying that *a* is a bad measure, he does not pronounce a judgment of value. He merely says that from the point of view of those aiming at the goal *p*, the measure *a* is inappropriate.[13]

And again:

> Economics does not say that . . . government interference with the prices of only one commodity . . . is unfair, bad, or unfeasible. It says, that it makes conditions worse, not better, *from the point of view of the government and those backing its interference*.[14]

Now this is surely an ingenious attempt to allow pronouncements of "good" or "bad" by the economist without making a value judgment; for the economist is supposed to be only a praxeologist, a technician, pointing out to his readers or listeners that they will all consider a policy "bad" once he reveals its full consequences. But ingenious as it is, the attempt completely fails. For how could Mises *know* what the advocates of the particular policy consider desirable? How could he know what their value scales are now or what they will be when the consequences of the measure appear? One of the great contributions of praxeology, as I have pointed out above, is that the praxeologist, the economist, doesn't know what anyone's value scales are except as those value preferences are demonstrated by a person's concrete action. In the case of my purchase of the

[13]Mises, *Human Action*, p. 879.

[14]Ibid., p. 758; italics in the original.

newspaper, historians or psychologists may make more or less informed estimates of the newsdealers' or my value scales through the process of interpretive understanding, but all that the economist can know scientifically and with certainty is the preference relative to 15 cents or the newspaper as demonstrated through concrete action. Mises himself emphasized that

> one must not forget that the scale of values or wants manifests itself only in the reality of action. These scales have no independent existence apart from the actual behavior of individuals. The only source from which our knowledge concerning these scales is derived is the observation of a man's actions. Every action is always in perfect agreement with the scale of values or wants because these scales are nothing but an instrument for the interpretation of a man's acting.[15]

Given Mises's own analysis, then, how can the economist know what the motives for advocating various policies really are or how people will regard the consequences of these policies?

Thus, Mises, *qua* praxeologist, might show that price controls (to use his example) will lead to unforeseen shortages of a good to the consumers. But how could Mises know that some advocates of price controls do not *want* shortages? They may, for example, be socialists, anxious to use the controls as a step toward full collectivism. Some may be egalitarians who prefer shortages because the rich will not be able to use their money to buy more of the product than poorer people. Others may be one of the legion of contemporary intellectuals who are eternally complaining about the excessive affluence of our society or about the great waste of energy; they may all delight in the shortages of goods. Still others may favor price controls, even after learning of the shortages, because they or their political allies will enjoy well-paying jobs or power in a price-control bureaucracy. All sorts of such possibilities exist, and *none* of them is compatible with the assertion of Mises, as a value-free economist, that all supporters of price controls—or of any other government intervention—must concede, after learning economics, that the measure is "bad." In fact, once Mises conceded that even a single advocate of price controls or any other interventionist measure may acknowledge the economic

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[15]Ibid., p. 95.

consequences and still favor it, he could no longer call any of these measures "bad" or "good" or even "appropriate" or "inappropriate" without inserting into his economic policy pronouncements the very value judgments that he himself held to be inadmissible as a scientist of human action.[16] He would no longer be a technical reporter to all advocates of a certain policy but an advocate participating on one side of a value conflict.

Moreover, there is another fundamental reason for advocates of "inappropriate" policies to refuse to change their minds even after hearing and acknowledging the praxeological chain of consequences. For praxeology may indeed show that all types of government policies will have consequences that most people, at least, will tend to abhor. But, and this is a vital qualification, most of these consequences take *time*, some a great deal of time. No economist has done more than Ludwig von Mises to elucidate the universality of time preference in human affairs—the praxeological law that everyone prefers to attain a given satisfaction sooner than later. And certainly Mises, as a value-free scientist, could never presume to criticize anyone's rate of time preference, to say that A's was "too high" and B's "too low." But, in that case, what about the high-time-preference people in society who retort to the praxeologist: "Perhaps this high tax and subsidy policy will lead to a decline of capital; perhaps even the price control will lead to shortages, but I don't care. Having a high time preference, I value more highly the short-run subsidies, or the short-run enjoyment of buying the current good at cheaper prices, than the prospect of suffering the future consequences." And Mises, as a value-free scientist and opponent of any concept of objective ethics, *could not* call them wrong. There is no way that he could assert the superiority of the long run over the short run without overriding the values of the high-time-preference people; and that could not be cogently done without abandoning his own subjectivist ethics.

In this connection, one of Mises's basic arguments for the free market is that, on the market, there is a "harmony of the rightly understood interests of all members of the market society." It is clear from his discussion that he could not merely mean "interests" after

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[16]Mises himself conceded at one point that a government or a political party may advocate policies for "demagogic," that is, for hidden and unannounced, reasons (ibid., p. 104*n*).

learning the praxeological consequences of market activity or of government intervention. He also, and in particular, meant people's long-run interests. As he stated, "For 'rightly understood' interests we may as well say interests 'in the long run.'"[17] But what about the high-time-preference folk, who prefer to consult their short-run interests? How can the long run be called "better" than the short run? Why is "right understanding" necessarily the long run?

We see, therefore, that Mises's attempt to advocate *laissez-faire* while remaining value-free, by assuming that all of the advocates of government intervention will abandon their position once they learn of its consequences, falls completely to the ground. There is another and very different way, however, that Mises attempted to reconcile his passionate advocacy of *laissez-faire* with the absolute value-freedom of the scientist. This was to take a position much more compatible with praxeology, by recognizing that the economist *qua* economist can only trace chains of cause and effect and may not engage in value judgments or advocate public policy. In so doing, Mises conceded that the economic scientist cannot advocate *laissez-faire* but then added that as a citizen he can do so. Mises, as a *citizen*, proposed a value system but it is a curiously scanty one. For he was here caught in a dilemma. As a praxeologist he knew that he could not as an economic scientist pronounce value judgments or advocate policy. Yet he could not bring himself simply to assert and inject arbitrary value judgments. And so, as a utilitarian (for Mises, along with most economists, was indeed a utilitarian in ethics, although a Kantian in epistemology), he made only one narrow value judgment: that he desired to fulfill the goals of the majority of the public (happily, in this formulation, Mises did not presume to know the goals of *everyone*).

As Mises explained in his second variant:

> Liberalism (i.e., *laissez-faire* liberalism) is a political doctrine. . . . As a political doctrine liberalism (in contrast to economic science) is not neutral with regard to values and ultimate ends sought by action. It assumes that all men or at least the majority of people are intent upon attaining certain goals. It gives them information about the means suitable to the realization of their plans. The champions of liberal doctrines are fully aware of the fact that their

[17] Ibid., p. 670 and note.

> teachings are valid only for people who are committed to their valuational principles. While praxeology, and therefore economics too, uses the terms happiness and removal of uneasiness in a purely formal sense, liberalism attaches to them a concrete meaning. It presupposes that people prefer life to death, health to sickness . . . abundance to poverty. It teaches men how to act in accordance with these valuations.[18]

In this second variant, Mises successfully escaped the self-contradiction of being a value-free praxeologist advocating *laissez-faire*. Granting in this variant that the economist may not make such advocacy, he took his stand as a citizen willing to make value judgments. But he was not willing, as Simons was, to simply assert an *ad hoc* value judgment; presumably he felt that a valuing intellectual must present some sort of system to justify such value judgments. But for Mises the utilitarian, his system is a curiously bloodless one; even as a valuing *laissez-faire* liberal, he was only willing to make *the one* value judgment that he joined the majority of the people in favoring their common peace, prosperity, and abundance. In this way, as an opponent of objective ethics, and uncomfortable as he must have been with making any value judgments even as a citizen, he made the minimal possible degree of such judgments; true to his utilitarian position his value judgment is the desirability of fulfilling the subjectively desired goals of the bulk of the populace.

A full critique of this position must involve a critique of utilitarian ethics itself, and this cannot be done here. But a few points may be made. In the first place, while praxeology can indeed demonstrate that *laissez-faire* will lead to harmony, prosperity, and abundance, while government intervention leads to conflict and impoverishment,[19] and while it is probably true that most people value the former highly, it is not true that these are their *only* goals or values. The great analyst of ranked value scales and diminishing marginal utility should have been more aware of such competing values and goals. For example, many people, whether through envy or a misplaced theory of justice, may prefer far more equality of income than will be attained on the free market. Many people, *pace* the aforementioned intellectuals, may want less abundance in order to whittle down our

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[18]Ibid., pp. 153–54.

[19]Rothbard, *Power and Market*, pp. 194–96.

allegedly excessive affluence. Others, as I have mentioned, may prefer to loot the capital of the rich or the businessman in the short run, while acknowledging but dismissing the long-run ill effects, because they have high time preference. Probably very few of these people will want to push statist measures to the point of total impoverishment and destruction—although this may happen, as in the case of Communist China. But a majority coalition of the foregoing might well opt for *some* reduction in wealth and prosperity on behalf of these other values. They may well decide that it is worth sacrificing a modicum of wealth and efficient production because of the high opportunity costs of not being able to enjoy an alleviation of envy, or a lust for power, or a submission to power, or, for example, the thrill of "national unity," which they might enjoy from a (short-lived) economic crisis.

What could Mises reply to a majority of the public who have indeed considered all the praxeological consequences and still prefer a modicum—or, for that matter, even a drastic amount—of statism in order to achieve some of their competing goals? As a utilitarian, he could not quarrel with the ethical nature of their chosen goals: for he had to confine himself to the *one* value judgment that he favored the majority achieving their chosen goals. The only reply that Mises could make within his own framework was to point out that government intervention has a cumulative effect, that eventually the economy must move either toward the free market or toward full socialism, which praxeology shows will bring chaos and drastic impoverishment, at least to an industrial society. But this too, is not a fully satisfactory answer. While many programs of statist intervention—especially price controls—are indeed cumulative, others are not. Furthermore, the cumulative impact takes such a long time that the time preferences of the majority would probably lead them, in full acknowledgement of the consequences, to ignore the effect. And then what?

Mises attempted to use the cumulative argument to answer the contention that the majority of the public prefer egalitarian measures even knowingly at the expense of a portion of their own wealth. Mises's comment was that the "reserve fund" was on the point of being exhausted in Europe, and therefore that any further egalitarian measures would have to come directly out of the pockets of the masses through increased taxation. Mises assumed that once this became clear, the masses would no longer support interventionist measures.[20] In the first place, this is no argument against the *previous* egalitarian measures or in favor of their repeal. But secondly, while the masses *might* be convinced, there is certainly no apodictic certainty involved; the masses have in the past and presumably will in the future continue knowingly to support egalitarian and other statist measures on behalf of other goals, despite the knowledge that their income and wealth would be reduced. Thus, as William E. Rappard pointed out in his thoughtful critique of Mises's position:

> does the British voter, for instance, favor confiscatory taxation of large incomes primarily in the hope that it will redound to his material advantage, or in the certainty that it tends to reduce unwelcome and irritating social inequalities? In general, is the urge towards equality in our modern democracies not often stronger than the desire to improve one's material lot?[21]

Rappard also noted that in his own country, Switzerland, the urban industrial and commercial majority of the country have repeatedly, and often at popular referendums, endorsed measures to subsidize the minority of farmers in a deliberate effort to retard industrialization and the growth of their own incomes. The urban majority did not do so in the "absurd belief that they were thereby increasing their real income." Instead, "quite deliberately and expressly, political parties have sacrificed the immediate material welfare of their members in order to prevent, or at least somewhat to retard, the complete industrialization of the country. A more agricultural Switzerland, though poorer, such is the dominant wish of the Swiss people today."[22] The point here is that Mises, not only as a praxeologist but also as a utilitarian liberal, could have no word of criticism against these statist measures *once* the majority of the public take their praxeological consequences into account and choose them anyway on behalf of goals other than wealth and prosperity.

Furthermore, there are other types of statist intervention that clearly have little or no cumulative effect and that may even have very little effect in diminishing production or prosperity. Let us, for

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[20]Mises, *Human Action*, pp. 851–55.

[21]Rappard, "On Reading von Mises," pp. 32–33.

[22]Ibid., p. 33.

example, assume—and this assumption is not very farfetched in view of the record of human history—that the great majority of a society hate and revile redheads, perhaps, to cite Simons again, because they find redheads "evil or unlovely." Let us further assume that there are very few redheads in the society. This large majority then decide that they would like very much to murder all redheads. Here they are; the murder of redheads is high on the value scales of the great majority of the public; there are few redheads so that there will be little loss in production on the market. How could Mises rebut this proposed policy either as a praxeologist or as a utilitarian liberal? I submit that he could not do so.

Mises made one further attempt to establish his position, but it was even less successful. Criticizing the arguments for state intervention on behalf of equality or other moral concerns, he dismissed them as "emotional talk." After reaffirming that "praxeology and economics . . . are neutral with regard to any moral precepts," and asserting that "the fact that the immense majority of men prefer a richer supply of material goods to a less ample supply is a datum of history; it does not have any place in economic theory," he concluded by insisting that "he who disagrees with the teachings of economics ought to refute them by discursive reasoning, not by . . . the appeal to arbitrary, allegedly ethical standards."[23]

But I submit that this will not do; for Mises would have to concede that no one can decide upon *any* policy whatever unless he makes an ultimate ethical or value judgment. But since this is so, and since according to Mises all ultimate value judgments or ethical standards are arbitrary, how then could he denounce these *particular* ethical judgments as "arbitrary"? Furthermore, it was hardly correct for Mises to dismiss these judgments as "emotional," since for him as a utilitarian, reason cannot establish ultimate ethical principles, which can therefore only be established by subjective emotions. It was pointless for Mises to call for his critics to use "discursive reasoning" since he himself denied that discursive reasoning can be used to establish ultimate ethical values. Furthermore, the man whose ultimate ethical principles would lead him to support the free market

[23]Ludwig von Mises, "Epistemological Relativism in the Sciences of Human Action," in *Relativism and the Study of Man*, Helmut Schoeck and James W. Wiggins, eds. (Princeton, N.J.: D. Van Nostrand, 1961), p. 133.

could also be dismissed by Mises as equally "arbitrary" and "emotional," even if he takes the laws of praxeology into account before making his ultimately ethical decision. And we have seen above that the majority of the public very often have other goals which they hold, at least to a certain extent, higher than their own material well-being.

The burden of this paper has been to show that, while praxeological economic theory is extremely useful for providing data and knowledge for framing economic policy, it cannot be sufficient by itself to enable the economist to make any value pronouncements or to advocate any public policy whatsoever. More specifically, Ludwig von Mises to the contrary notwithstanding, neither praxeological economics nor Mises's utilitarian liberalism is sufficient to make the case for *laissez-faire* and the free-market economy. To make such a case, one must go beyond economics and utilitarianism to establish an objective ethics that affirms the overriding value of liberty and morally condemns all forms of statism, from egalitarianism to the murder of redheads, as well as such goals as the lust for power and the satisfaction of envy. To make the full case for liberty, one cannot be a methodological slave to every goal that the majority of the public might happen to cherish.

6

In Defense of "Extreme Apriorism"

The stimulating methodological controversy between Professors Machlup and Hutchison proves that there are sometimes more than two sides to every question.[1] In many ways, the two are debating at cross-purposes: Professor Hutchison is primarily tilting against the methodological (and political) views of Professor Ludwig von Mises; his most serious charge is that Professor Machlup's entire position is, at bottom, an attempt to cloak the Misesian heresy in the garments of epistemological respectability. Professor Machlup's reply, quite properly, barely mentions Mises; for, in fact, their methodological views are poles apart. (Machlup's position is close to the central "positivist" tradition of economic methodology.) But, in the meanwhile, we find that Professor Mises and "extreme apriorism" go undefended in the debate. Perhaps an extreme apriorist's contribution to this discussion may prove helpful.

First, it should be made clear that neither Professor Machlup nor Professor Hutchison is what Mises calls a *praxeologist*, that is, neither believes (a) that the fundamental axioms and premises of economics are absolutely true; (b) that the theorems and conclusions deduced by the laws of logic from these postulates are therefore absolutely true; (c) that there is consequently no need for

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[1]Terence W. Hutchison, "Professor Machlup on Verification in Economics," *Southern Economic Journal* (April 1956): 476–83; Fritz Machlup, "Rejoinder to a Reluctant Ultra-Empiricist," ibid., pp. 483–93.

empirical "testing," either of the premises or the conclusions; and (d) that the deduced theorems could not be tested even if it were desirable.[2] Both disputants are eager to test economic laws empirically. The crucial difference is that Professor Machlup adheres to the orthodox positivist position that the *assumptions* need not be verified so long as their deduced consequents may be proven true—essentially the position of Professor Milton Friedman—while Professor Hutchison, wary of shaky assumptions takes the more empirical—or institutionalist—approach that the assumptions had better be verified as well.

Strange as it may seem for an ultra-apriorist, Hutchison's position strikes me as the better of the two. If one must choose between two brands of empiricism, it seems like folly to put one's trust in procedures for testing only *conclusions* by fact. Far better to make sure that the assumptions also are correct. Here I must salute Professor Hutchison's charge that the positivists rest their case on misleading analogies from the epistemology of physics. This is precisely the nub of the issue. All the positivist procedures are based on the physical sciences.[3] It is physics that knows or can know its "facts" and can test

[2]The praxeological tradition, though named only recently, has a long and honored place in the history of economic thought. In the first great methodological controversy in our science, John Stuart Mill was the positivist and Nassau Senior the praxeologist, with J.E. Cairnes wavering between the two positions. Later on, the praxeologic method was further developed by the early Austrians, by Wicksteed, and by Richard Strigl, reaching its full culmination in the works of Ludwig von Mises. Mises's views may be found in *Human Action* (New Haven, Conn.: Yale University Press, 1949), and in his earlier *Grundprobleme der Nationalökonomie* [translated into English as *Epistemological Problems of Economics* (Princeton, N.J.: D. Van Nostrand, 1960)]. On the similarity between Senior and Mises, see Marian Bowley, *Nassau Senior and Classical Economics* (New York: Augustus M. Kelley, 1949), chap. 1, esp. pp. 64–65. Lionel Robbins's *Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932) was emphatically praxeologic, although it did not delve into the more complex methodological problems.

[3]On the differences between the methodologies of praxeology and physics, see Murray N. Rothbard, "Toward a Reconstruction of Utility and Welfare Economics," in *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises*, Mary Sennholz, ed. (Princeton, N.J.: D. Van Nostrand, 1956), pp. 226ff.; included in this volume as chapter 17.

its conclusions against these facts, while being completely ignorant of its ultimate assumptions. In the sciences of human action, on the other hand, it is impossible to test conclusions. There is no laboratory where facts can be isolated and controlled; the "facts" of human history are complex ones, resultants of many causes. These causes can only be isolated by theory, theory that is necessarily *a priori* to these historical (including statistical) facts. Of course, Professor Hutchison would not go this far in rejecting empirical testing of theorems; but, being commendably skeptical of the possibilities of testing (though not of its desirability), he insists that the assumptions be verified as well.

In physics, the ultimate assumptions cannot be verified directly, because we know nothing directly of the explanatory laws or causal factors. Hence the good sense of not attempting to do so, of using false assumptions such as the absence of friction, and so on. But false assumptions are the reverse of appropriate in economics. For human action is not like physics; here, the ultimate assumptions are what is clearly known, and it is precisely from these given axioms that the corpus of economic science is deduced. False or dubious assumptions in economics wreak havoc, while often proving useful in physics.[4]

Hence, Professor Hutchison is correct in wishing to establish the assumptions themselves. But these premises do not have to be (indeed, cannot be) verified by appeal to statistical fact. They are established, in praxeology, on a far more certain and permanent basis as definitely true. How, then, are these postulates obtained?

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[4]This holds also for Professor Machlup's "heuristic principles" which area allegedly "empirically meaningful" without being verifiable as true.

I do not wish to deny that false assumptions *are* useful in economic theory, but only when they are used as *auxiliary constructs, not* as premises from which empirical theories can be deduced. The most important such construct is the *evenly-rotating economy*, or "equilibrium." It is not intended that this state be considered as *real*, either actual or potential. On the contrary, the empirically *impossible* ERE is constructed precisely in order to analyze theoretically a state of no-change. Only by analyzing a fictive changeless state can we arrive at a proper analysis of the changing real economic world. However, this is not a "false" assumption in the sense used by the positivists, because it is an absolutely true theory of a changeless state, if such a state could exist.

Actually, despite the "extreme a priori" label, praxeology contains one Fundamental Axiom—the axiom of *action*—which may be called *a priori*, and a few subsidiary postulates which are actually empirical. Incredible as it may seem to those versed in the positivist tradition, from this tiny handful of premises the whole of economics is deduced—and deduced as absolutely true. Setting aside the Fundamental Axiom for a moment, the empirical postulates are: (a) small in number, and (b) so broadly based as to be hardly "empirical" in the empiricist sense of the term. To put it differently, they are so generally true as to be *self-evident*, as to be seen by all to be obviously true once they are stated, and hence they are not in practice empirically falsifiable and therefore not "operationally meaningful." What are these propositions? We may consider them in decreasing order of their generality: (1) the most fundamental—variety of resources, both natural and human. From this follows directly the division of labor, the market, etc.; (2) less important, that *leisure is a consumer good*. These are actually the only postulates needed. Two other postulates simply introduce limiting subdivisions into the analysis. Thus, economics can deductively elaborate from the Fundamental Axiom and Postulates (1) and (2) (actually, only Postulate 1 is necessary) an analysis of Crusoe economics, of barter, and of a monetary economy. All these elaborated laws are absolutely true. They are only *applicable* in concrete cases, however, where the particular limiting conditions apply. There is nothing, of course, remarkable about this; we can enunciate as a law that an apple, unsupported, will drop to the ground. But the law is applicable only in those cases where an apple is actually dropped. Thus, the economics of Crusoe, of barter, and of a monetary economy are applicable when these conditions obtain. It is the task of the historian, or "applied economist," to decide which conditions apply in the specific situations to be analyzed. It is obvious that making these particular identifications is simplicity itself.

When we analyze the economics of indirect exchange, therefore, we make the simple and obvious limiting condition (Postulate 3) that indirect exchanges are being made. It should be clear that by making this simple identification we are not "testing the theory"; we are simply choosing that theory which applies to the reality we wish to explain.

The fourth—and by far the least fundamental—postulate for a theory of the market is the one which Professors Hutchison and

Machlup consider crucial—that firms always aim at maximization of their money profits. As will become clearer when I treat the Fundamental Axiom below, this assumption is by no means a necessary part of economic theory. From our Axiom is derived this absolute truth: that every firm aims always at maximizing its *psychic* profit. This may or may not involve maximizing its *money* profit. Often it may not, and no praxeologist would deny this fact. When an entrepreneur deliberately accepts lower money profits in order to give a good job to a ne'er-do-well nephew, the praxeologist is not confounded. The entrepreneur simply has chosen to take a certain cut in monetary profit in order to satisfy his consumption-satisfaction of seeing his nephew well provided. The assumption that firms aim at maximizing their *money* profits is simply a convenience of analysis; it permits the elaboration of a framework of *catallactics* (economics of the market) which could not otherwise be developed. The praxeologist always has in mind the proviso that where this subsidiary postulate does *not* apply—as in the case of the ne'er-do-well—his deduced theories will not be applicable. He simply believes that enough entrepreneurs follow monetary aims enough of the time to make his theory highly useful in explaining the real market.[5]

We turn now to the Fundamental Axiom (the nub of praxeology): *the existence of human action*. From this absolutely true axiom can be spun almost the whole fabric of economic theory. Some of the *immediate* logical implications that flow from this premise are: the means-ends relationship, the time-structure of production, time-preference, the law of diminishing marginal utility, the law of optimum returns, etc. It is this crucial axiom that separates praxeology from the other methodological viewpoints—and it is this axiom that supplies the critical "a priori" element in economics.

First, it must be emphasized that whatever role "rationality" may play in Professor Machlup's theory, it plays no role whatever for

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[5] I do not mean to endorse here the recent strictures that have been made against the monetary-profit maximization assumption—most of which ignore *long-run* as opposed to short-run maximization.

The curious idea that failure to pursue monetary goals is "irrational," or refutes economics, is similar to the old notion that consumers were being irrational, or "uneconomic," when they preferred to pay higher prices in stores nearer to them, or with a more congenial atmosphere.

Professor Mises. Hutchison charges that Mises claims "all economic action was (or must be) rational."[6] This is flatly incorrect. Mises assumes nothing whatever about the rationality of human action (in fact, Mises does not use the concept at all). He assumes nothing about the wisdom of man's ends or about the correctness of his means. He "assumes" only that men *act*, that is, that they have some ends, and use *some* means to try to attain them. This is Mises's Fundamental Axiom, and it is this axiom that gives the whole praxeological structure of economic theory built upon it its absolute and apodictic certainty.

Now the crucial question arises: how have we obtained the truth of this axiom? Is our knowledge *a priori* or empirical, "synthetic" or "analytic"? In a sense, such questions are a waste of time, because the all-important fact is that the axiom is self-evidently true, self-evident to a far greater and broader extent than the other postulates. For this Axiom is true for all human beings, everywhere, at any time, and could not even *conceivably* be violated. In short, we may conceive of a world where resources are not varied, but not of one where human beings exist but do not act. We have seen that the other postulates, while "empirical," are so obvious and acceptable that they can hardly be called "falsifiable" in the usual empiricist sense. How much more is this true of the Axiom, which is not even conceivably falsifiable!

Positivists of all shades boggle at self-evident propositions. And yet, what is the vaunted "evidence" of the empiricists but the bringing of a hitherto obscure proposition into *evident* view? But some propositions need only to be stated to become at once evident to the self, and the action axiom is just such a proposition.

Whether we consider the Action Axiom "a priori" or "empirical" depends on our ultimate philosophical position. Professor Mises, in the neo-Kantian tradition, considers this axiom a *law of thought* and therefore a categorical truth *a priori* to all experience. My own epistemological position rests on Aristotle and St. Thomas rather than Kant, and hence I would interpret the proposition differently. I would consider the axiom a *law of reality* rather than a law of thought, and hence "empirical" rather than "a priori." But it should be obvious that this type of "empiricism" is so out of step with modern empiricism that

[6]Hutchison, "Professor Machlup on Verification in Economics," p. 483.

I may just as well continue to call it *a priori* for present purposes. For (1) it is a law of reality that is not conceivably falsifiable, and yet is empirically meaningful and true; (2) it rests on universal *inner* experience, and not simply on external experience, that is, its evidence is *reflective* rather than physical;[7] and (3) it is clearly *a priori* to complex historical events.[8]

The epistemological pigeon-holing of self-evident propositions has always been a knotty problem. Thus, two such accomplished Thomists as Father Toohey and Father Copleston, while resting on the same philosophical position, differ on whether self-evident propositions should be classified as "a posteriori" or "a priori," since they define the two categories differently.[9]

From the Fundamental Axiom is derived the truth that everyone tries always to maximize his utility. Contrary to Professor Hutchison,

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[7]See Professor Knight's critique of Hutchison's Significance and Basic Postulates of Economic Theory. Frank H. Knight, "What is Truth in Economics?" *Journal of Political Economy* (February 1940): 1–32.

[8]Professor Hutchison may have had me in mind when he says that in recent years followers of Professor Mises try to defend him by saying he really meant "empirical" when saying "a priori." Thus, see my "Praxeology, Reply to Mr. Schuller," *American Economic Review* (December 1951): 943–44; included in this volume as chapter 7. What I meant is that Mises's fundamental axiom may be called "a priori" or "empirical" according to one's philosophical position, but is in any case *a priori* for the practical purposes of economic methodology.

[9]Thus, Copleston calls self-evident principles "synthetic propositions *a priori*" (though not in the Kantian sense)—synthetic as conveying information about reality not contained logically in previous premises; and *a priori* as being necessary and universal. Toohey virtually obliterates the distinctions and terms self-evident propositions synthetic—a posteriori, because, while being necessary and universals, they are derived from experience. See F.C. Copleston, S.J., *Aquinas* (London: Penguin Books, 1955), pp. 28 and 19–41; John J.H. Toohey, S.J., *Notes on Epistemology* (Washington, D.C.: Georgetown University, 1952), pp. 46–55. All this raises the question of the usefulness of the whole "analytic-synthetic" dichotomy, despite the prominence implicitly given it in Hutchison's "Significance and Basic Postulates of Economic Theory," *Journal of Political Economy* 49 (1934). For a refreshing skepticism on its validity, and for a critique of its typical use to dispose of difficult-to-refute theories as either disguised definitions or debatable hypotheses, see Hao Wang, "Notes on the Analytic-Synthetic Distinction," *Theoria* 21 (Parts 2–3, 1955): 158ff.