

## The Relationship between Praxeology and Economics

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1. Ratiocination in Economic Theorem Building

In his 1966 treatise *Human Action* (HA) Ludwig von Mises taught that economics is a science (HA: 3) of the means.<sup>1</sup> This knowledge comes from the insight of the classical economists that market interaction enables individuals to multiply the amounts of material goods they produce due to the “great basic principle...of cosmic becoming” of the higher physical productivity of the division of labor (ibid.: 145). Mises called such knowledge the [division of labor law](#). It is useful to human beings in the pursuit of their aims to satisfy their material wants.<sup>2</sup> Once the economist acquires it,

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<sup>1</sup>The full meaning of the idea of a science of the means is explained in my essay “[Pure Praxeology the Vocabulary of Action and Aprioristic Reasoning](#).”

<sup>2</sup>Mises writes:

Because man is a social animal that can thrive only within society, all ideologies are forced to acknowledge the preeminent importance of social cooperation. They must aim at the most satisfactory organization of society and must approve of man's concern for an improvement of his material well-being. Thus they all place themselves upon a common ground. They are separated from one another not by world views and transcendent issues not subject to reasonable discussion, but by problems of means and ways. Such ideological antagonisms are open to a thorough scrutiny by the *scientific methods of praxeology and economics* (ibid.: 184, italics added).

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he recognizes that he has an advantage in evaluating proposals for market intervention over those who do not possess it. By choosing to evaluate such proposals according to whether they can achieve the aims of the proposer, he can attain the value freedom required in a scientific endeavor.<sup>3</sup>

Praxeology – the study of action in the abstract – entails *identifying the prerequisites and necessary characteristics of action*. A writer is tempted to replace this cumbersome phrase with one like “conceiving action.” However, as shown in Part One of this chapter, such a phrase is misleadingly simple and vague. I will not often use such a substitute.

When Mises, an already accomplished economist, studied abstract action in the 1930s; he discovered the mental tools required to trace economic theorems back to the prerequisites and necessary characteristics. He laid out these tools in part 4 of his treatise. The best economists who preceded him had already employed them. But none had described them as meticulously and thoroughly. One might say that Mises’s treatise contained the first study guide of the methods employed by economists to build the system of economic theorems that are ultimately required to evaluate intervention arguments in the new science. If all economists had conscientiously followed this guide, they could have completely avoided error in their theorem building.

In producing this guide, Mises solved a problem that had vexed his predecessors. Specifically, he advanced the knowledge of the functions, in capitalist interaction, of money saving and capital goods accumulation. Thus, his study led to a genuine breakthrough. A student of economics today must learn the relationship between praxeology and economics for three reasons: (1) to combat the critics of capitalism,<sup>4</sup> (2) to learn to trace economic theorems back to the prerequisites and necessary characteristics of action and (3) to understand and perhaps produce error-free economic theorems.

Mises used the term “praxeology” in two senses. This double meaning can be a source of confusion to one who does not understand the rationale for studying the praxeological foundations. First, he used it in a narrow sense to refer to the exclusive mental task of conceiving the prerequisites and necessary characteristics of action in the abstract. Second, he used it to refer to the hypothetical study of action under all possible particular circumstances faced by actors. In this second sense, praxeology consists of a class of studies that includes economics. Accordingly, he writes frequently that economics is the most fully developed *branch* of praxeology.

### **Three reasons for learning the relationship between praxeology and economics:**

1. To combat the critics of capitalism.
2. To learn to trace economic theorems back to the prerequisites and necessary characteristics of action.
3. To understand and perhaps produce error-free economic theorems.

**Pure Praxeology:** the study of action as a category or action in general. In other words, it is the study of the *acting character* of human beings.

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<sup>3</sup>See the section entitled “Economics as a Science” in my essay “[The New Science of Economics in Mises’s Treatise](#).”

<sup>4</sup>These critics are described in part three of my essay “[The New Science of Economics in Mises’s Treatise](#).”

To avoid potential confusion I introduce the term *pure praxeology* to refer to the study of action in the abstract. Mises used various other terms to refer to pure praxeology, including the study of action as a concept or category, the study of action in general, and the study of the meaning of action. Yet another substitute term is the study of the acting character of human beings.

The aim of this essay is to present the rudiments of pure praxeology and to relate praxeology as a broad field of study to its branch, economics. Another way to say this is that its aim is to identify the scope of economics in relation to praxeology. Part One presents the subject matter of pure praxeology. In the process, it introduces what Mises calls the method of imaginary constructions. This method, as it is employed in economics, is discussed in greater depth in my essay “Mises on the Method of Imaginary Constructions.” Part Two describes the scope of economics by exploring Mises’s idea that economics is a branch of the broader field of praxeology.

## 1. THE SUBJECT MATTER OF PURE PRAXEOLGY

Mises began his presentation of pure praxeology in chapter 1 of HA. He continued it in his chapters 4, 5, and 6.<sup>5</sup> He begins by identifying the acting character of human beings. The following description of subject matter draws mainly from those chapters.

For Mises, the study of economics – indeed, the study of human action in all its forms – begins with the acting character of human beings. Some human beings do not act. Some are not fully developed actors while others are senile or mentally deficient. The concern of economists with the acting character of human beings leads them to produce a science about individuals who possess this character.<sup>6</sup> The student of human action studies *homo agens*.

Man is...not only homo sapiens, but no less homo agens. Beings of human descent who either from birth or from acquired defects are unchangeably unfit for any action (in the strict sense of the term and not merely in the legal sense) are practically not human (HA: 13-14).

The phrase “practically not human” should be interpreted to mean “not human from the standpoint of the purpose of building the concepts and theorems of praxeology and economics.”

The pure praxeologist “asks: What happens in acting? What does it mean to say that an individual then and there, today and here, at any time and at any place, acts? What results if he chooses one thing and rejects another?” (HA: 45).

### **Praxeology, Thymology and the Non-action Determinants of Behavior**

It is important to distinguish pure praxeology from other studies of human beings. The pure praxeologist is not concerned “[1] with the accidental and environmen-

<p><b>Thymology:</b> the study of particular ends and perceived means.</p>
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<sup>5</sup>Chapters 2 and 3 are mainly aimed at defending economics against the metaphysical, philosophical, ideological, historical and emotional objections to the claim that economics provides useful knowledge.

<sup>6</sup>If no members of the species *homo sapiens* acted, there could be no study of action. Not only would there be no actors to study, there would be no scientists.

tal features of [a particular] action and [2] with what distinguishes it from all other actions, but only with what is necessary and universal in its performance” (HA: 44). Mises writes that praxeology is the study of “human action, not the psychological events which result in an action” (HA: 11-12). “Psychological events” refer to the particular ends and perceived means of achieving them that individuals regard as the human cause of their choosing one course of action over another.<sup>7</sup> In the final edition of HA and in his 1957 book on *Theory and History*, he used the term *thymology* to refer to the study of particular ends and perceived means (Mises 1957: 264-72). The results of thymological studies, he wrote, is “knowledge of human valuations and volitions” (*ibid.*: 265).

The “psychological events” are different for different people and for the same person at different times. In writing about such events, Mises refers to “changing content.” “Praxeology is not concerned with the changing content of acting, but with its pure form and its categorial structure. The study of the accidental and environmental features of human action is the task of history” (HA: 47).

One of Mises’s aims in introducing the term “thymology” is to direct the reader’s attention to the fact that the experimental and observational study of the actor’s behavior is a subclass in the class of the natural sciences. The experimental and observational studies are concerned with the non-action determinants of behavior. A second aim is to distinguish economics from history. Both economics and history are branches of the science of human action. But they are different subjects. Thymology is a body of knowledge employed by historians in their effort to apply the “specific understanding of the historical sciences of human action” (TH: 264). The historian aims to identify the particular ends and perceived means that motivated some action or set of actions. The knowledge with which he is concerned differs from the knowledge of the category of action, which is the starting point for all of the branches of praxeology.

A person’s choices of particular actions depends not only on her “psychological events,” i.e., on her particular thymological characteristics. They also depend on her perceived social and physical environment. Particular mores and laws may influence an individual to act in ways that are different from how she would act in their absence. Similarly, the opportunities to gain from specialization and exchange under the conditions of capitalism lead individuals to act differently from how they would act in the absence of these conditions. One must assume that when Mises writes of the accidental and environmental conditions of action, he was also referring to these social and legal conditions.

### **The Prerequisites and Necessary Characteristics of Action**

In this subsection, I describe what Mises regarded as the prerequisites of action and show how he used imaginary constructions to identify them. These prerequisites constitute Mises’s initial statements about the nature of the acting character of human beings. He writes in his opening chapter about the prerequisites.

Acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory. His mind imagines conditions which suit him better, and his action aims at bringing about this desired state. The incentive that impels a man to act is always some uneasiness (HA: 13).

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<sup>7</sup>In early editions of HA, Mises used the term “psychology” to refer to the study of psychological events. He later introduced the term “thymology” as a substitute for “psychology” in order to avoid any confusion between the study of such events and studies in the fields of the experimental and behavioral psychology.

He goes on to call these “the general conditions of human action.” This seems misleading. The term “conditions” can have many meanings. What he should say, in order to avoid any ambiguity, is that these are the prerequisites of action as a category or of action in general. In writing of the acting character of actors, the praxeologist *means* that actors, by definition, possess these prerequisites.

How can Mises “prove” that these are prerequisites? The answer is that he can use the only method available, namely, the combination of aprioristic reasoning and imaginary constructions (HA: 236-7). Mises uses this method when he writes the following:

A man perfectly content with the state of his affairs would have no incentive to change things. He would have neither wishes nor desires; he would be perfectly happy. He would not act; he would simply live free from care (HA: 13-14).

And

In the absence of [the expectation that purposeful behavior has the power to remove or at least to alleviate the felt uneasiness] no action is feasible. Man must yield to the inevitable. He must submit to destiny (HA: 14).

The imaginary constructions in this case consist of “counterfactual” images. No actor can be perfectly content and no one can act if she does not expect her action to remove felt uneasiness. Thus, Mises uses the method of imaginary constructions to deduce three prerequisites: uneasiness, the power to alleviate the uneasiness, and the expectation that the uneasiness will be alleviated by an act of will.

He goes on in subsequent chapters to use imaginary constructions to induce other characteristics of action. In chapters 4-6, he demonstrates, respectively, that (1) ends and means, (2) time and (3) uncertainty are necessary characteristics. In each case, he uses counterfactual images of beings who do not possess these characteristics to confirm their necessary character. The reader who doubts Mises’s use of imaginary constructions is encouraged to explore these chapters.

To refer to these prerequisites and necessary characteristics of action, Mises used the term “category of action” (HA: 35, 64, 68). Regrettably, he also used this term to refer to particular prerequisites and necessary characteristics (HA: 22, 393). For example, he called the preference for the same good, albeit at different future times, a category of action (HA: 527). To avoid any ambiguity, I use the longer but more descriptive phrase.

**The prerequisites and necessary characteristics of action:** uneasiness, the power to alleviate the uneasiness, the expectation that the uneasiness will be removed by an act of will, which implies ends and means, time and uncertainty. This phrase is equivalent to Mises’s category of action and action in general. The characteristics are identified by aprioristic reasoning which entails the use of counterfactual images.

### **Aprioristic Reasoning**

The method used to identify the prerequisites and necessary characteristics of action is a combination of aprioristic reasoning and the counterfactual imaginary construction. In this subsection I discuss each in turn.

I define aprioristic reasoning as the use of the mental tools developed during the period of cognitive growth of the normal distinctly human actor to identify the prerequisites and necessary

characteristics of action.<sup>8</sup> Such mental tools help the praxeologist identify what such a person can know exclusively by reflecting on her own action. Correspondingly, they help her create a vocabulary for articulating what such a person can know exclusively by reflecting on her own action.

The praxeologist can identify acting character because she is a distinctly human actor herself. So far as is known, no human being is born a distinctly human actor. Each must develop the mental tools required to fit this designation. Such development generally occurs without help from medicines or other therapeutic procedures. The baby possesses senses that enable it to form a primitive concept of physical causality.<sup>9</sup> Perhaps

**Aprioristic reasoning:** the use of the mental tools developed during the cognitive growth of the normal distinctly human actor to identify the prerequisites and necessary characteristics of action.

the most primitive concept is its coming to associate particular noises and other sensations with an alleviation of hunger. As the child grows, it comes to differentiate between physical causality and human causality. For example, it comes to see its mother as different from the inanimate objects in its environment and to associate the mother's appearance with its being fed. As the child grows further, it develops a sense of ego, informing it that other human beings are different from it.

Nothing more is needed than this sense of ego – the individual's recognition that she alone can cause changes that she can observe. Her attainment of this stage of development is sufficient to put her in a position to comprehend and, assuming that she has developed language, to articulate the prerequisites and necessary characteristics of action. Once she has reached this stage, she is prepared to employ counterfactual images to deduce the prerequisites and necessary characteristics of action. When a person uses counterfactual images in this way, her mode of reasoning is *aprioristic*.

### The Counterfactual Imaginary Construct

In employing aprioristic reasoning to identify the prerequisites and necessary characteristics of action, the pure praxeologist must use what I have called counterfactual imaginary constructs. In each case, she uses counterfactual images of beings who do not possess these characteristics to confirm their necessary character. In doing this, she tries to build a concept of action that lacks a property that she has learned to associate with the words "more (less) satisfactory," "ability to attain a more satisfactory state," "expectation," "choice," "ends," "means," "time" and "uncertainty." She tries to imagine an action in which she does not expect a more satisfactory state, an action for which she has no means of improving her state of well-being, a timeless action and an action for which the outcome is certain. When she recognizes that she lacks the ability to conceive of an action in which one of these characteristics is absent, she confirms that the characteristic is part of the acting character. She can then feel confident that these words represent prerequisites and necessary characteristics of action. She needs these words to communicate her descriptions of action and interaction under any conceivable set of conditions, including capitalism.

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<sup>8</sup>The existence of these tools corresponds to the fact that the distinctly human mind has what Mises called a logical structure.

<sup>9</sup>This primitive concept of physical causality is later expressed in its most advanced form in the a priori sciences of geometry and mathematics (HA: 39-40).

### Origin of Aprioristic Reasoning

Why do distinctly human actors, as opposed to other animals, develop in this way? An obvious answer is natural selection. Some pre-human species contained members with the capacity to form primitive distinctions between physical causality and human causality, to form a sense of ego, and to think abstractly about their own development. In competition with their counterparts, they survived and passed on their traits to their offspring. From this point of view, the traits exist today due to the service they provided distinctly human actors in the competition for food, avoidance of predation, and surviving the elements.<sup>10</sup>

### Mises on the Method of Imaginary Constructions

One who aims to highlight Mises's imaginary constructions might be frustrated by the fact that in his elucidation of the prerequisites and necessary characteristics, he does not mention the method. To recognize that he uses it, the reader must page ahead. In his first reference to how the praxeologist comes to comprehend action, he writes:

All that is needed for the deduction of all praxeological theorems is knowledge of the essence of human action...No special experience is needed in order to comprehend these theorems, and no experience, however rich, could disclose them to a being who did not know a priori what human action is. The only way to a cognition of these theorems is logical analysis of our inherent knowledge of the category of action [the prerequisites and necessary characteristics of action]. We must bethink ourselves and reflect upon the structure of human action. Like logic and mathematics, praxeological knowledge is in us; it does not come from without (HA: 64).

In this statement, he is saying that the operations required to produce concepts and theorems about the prerequisites and necessary characteristics of action are not physical but mental.<sup>11</sup> He does not

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<sup>10</sup>Thus Mises writes that animals

are driven by impulses and instincts. Natural selection eliminated those specimens and species which developed instincts that were a liability in the struggle for survival. Only those endowed with impulses serviceable to their preservation survived and could propagate their species...[We may assume] that in the long way that led from the nonhuman ancestors of man to the emergence of the species *Homo sapiens* some groups of advanced anthropoids experimented, as it were, with categorial concepts different from those of *Homo sapiens* and tried to use them for the guidance of their conduct...Only those groups could survive whose members acted in accordance with the right categories, i.e., with those that were in conformity with reality and therefore – to use the concept of pragmatism – worked.

He goes on to point out, however, that whatever its source,

one thing is certain...[T]he a priori categories have enabled man to develop theories the practical application of which has aided him in his endeavors to hold his own in the struggle for survival and to attain various ends that he wanted to attain, these categories provide some information about the reality of the universe. They are not merely arbitrary assumptions without any informative value, not mere conventions that could as well be replaced by some other conventions. They are the necessary mental tool to arrange sense data in a systematic way, to transform them into facts of experience, then these facts into bricks to build theories, and finally the theories into technics to attain ends aimed at (UF: 16).

<sup>11</sup>A reader searches HA in vain for a definition of “praxeological theorem.” Mises uses the phrase at HA: 36 and 38-9. He also writes phrases such as the “inherent knowledge of the category of action.” This consists of knowledge that is acquired by means of aprioristic reasoning and the method of imaginary constructions, as I have indicated. But she cannot find a definition.

In my view, his use of this phrase contributes to ambiguity. Consider the theorems of logic and

mean, of course, that any kind of bethinking and reflecting will reveal the prerequisites of action. The right method – one that entails imaginary constructions – must be used.

Mises does not mention imaginary constructions until much later in HA. The reader who aims to link the identification of the prerequisites and necessary characteristics of action with the imaginary constructions must again page ahead. He writes:

The main formula for designing of imaginary constructions is to abstract from the operation of some conditions present in actual action. Then we are in a position to grasp the hypothetical consequences of the absence of these conditions and to conceive the effects of their existence. Thus we conceive the category of action by constructing the image of a state in which there is no action, either because the individual is fully contented and does not feel any uneasiness or because he does not know any procedure from which an improvement in his well-being (state of satisfaction) could be expected (HA: 237).

The use of imaginary constructions, along with aprioristic reasoning, puts the pure praxeologist in a position to define words that match concepts she already knew. These words put her in a position to articulate concepts that she had used in her everyday action but that she had not attempted to express in words. On the foundation of this core vocabulary, she can proceed to build additional vocabulary for economics that will enable her to trace back her economic theorems to the prerequisites and necessary characteristics of action. Linking such vocabulary helps her avoid errors in building theorems.

### The Logical Structure of the Human Mind

Every normal human being develops a mind with a logical structure. Each mind, one might say, “contains” the mental tools needed to employ a priori reasoning and to develop the fundamental concepts of the natural sciences and economics. The purpose of this subsection is to show the connections that Mises tried to establish between aprioristic reasoning and its use (1) in pure praxeology and (2) in the natural sciences. In doing this, I further justify my use of the term pure praxeology and explain Mises’s concept of methodological dualism.

In HA, Mises writes about this logical structure:

The human mind is not a tabula rasa on which the external events write their own history. It is equipped with a set of tools for grasping reality. Man acquired these tools, i.e., the logical structure of his mind, in the course of his evolution

<p><b>Logical structure of the human mind:</b> the mental tools possessed by all distinctly human actors that enables the actors to acquire knowledge of reality and to use that knowledge to help attain their ends.</p>
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mathematics. Students of these subjects employ theorems of the “if-then” variety. If this is what Mises has in mind by a theorem, then a praxeological theorem must incorporate *particular* ends and *particular* means. Such a theorem would take the following form: If an actor is to satisfy her thirst, she must identify the alternative sources of thirst-quenching liquid and other uses of the means required to obtain the liquids; she must weigh the alternatives; and she must make and act of will that she expects to result in her acquisition of the means. If Mises regards a theorem as an if-then statement, then he misuses this term in the quoted passage.

There is no point in carrying this analysis of Mises’s words further, since nothing important depends on the passage. The reader of HA must presume that Mises did not intend to distinguish between a prerequisite and necessary characteristic of action and a praxeological theorem.

from an amoeba to his present state. But these tools are logically prior to any experience<sup>12</sup>...[The prerequisites and necessary characteristics of action are] logically antecedent to any concrete act...[M]an does not have the creative power to imagine categories at variance with the fundamental logical relations and with the principles of causality and teleology...(HA: 35).

In this quote, Mises uses the term “causality” to mean the concept of cause studied by the natural scientists. This is evident from his use of the synonym “mechanistic causality.” I prefer the term “physical causality” because it evokes the image of physics, which provides the foundation for all of the other physical sciences. Teleology refers to the concept of cause studied by the scientists of human action.<sup>13</sup> It means “purposeful behavior” (HA: 11, 25).<sup>14</sup>

In the quoted passages, Mises writes of mental tools required to grasp reality which are “logically prior to experience.” This does not imply that he is making a chronological hypothesis about the evolution of the human species. He is not hypothesizing that the mental tools existed before humans had experiences. His claim is that through what a student of evolution might call experience in the world, some representatives of *homo sapiens* developed the tools, survived and had offspring who possessed these tools; while other representatives did not.

### **Imaginary Constructions and Reality**

It has sometimes been argued that because imaginary constructions are not deduced from realistic assumptions, they cannot be helpful. Such an argument certainly does not apply to pure praxeology. The counterfactual imaginary constructs are not real. But the prerequisites and necessary characteristics are real to every person who is in a position to bethink and reflect. Recognizing this, Mises writes:

The imaginary constructions of praxeology can never be confronted with any experience of things external and can never be appraised from the point of view of such experience. Their function is to serve man in a scrutiny which cannot rely upon his senses (HA: 237).

It does not apply to economics either, as Mises argues in his chapter 11, in which he explains his use of the image of direct exchange.

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<sup>12</sup>It is worth noting that he uses the term “logically prior” as opposed to “chronologically prior.” Thus he is writing that a human being cannot experience the world without the tools. Yet, he is not implying that what human beings today regard as the external world did not come into being until after they acquired the tools.

<sup>13</sup>Mises tells the reason for the term “science of human action” at UF: 62. In HA, he used the terms “science of human action” and “sciences of human action” more or less interchangeably.

<sup>14</sup>The advanced reader might wish to refer to Mises’s statement that actors cannot “imagine categories at variance with...the principles of causality and teleology” (HA: 35). By “principles” of causality and teleology, he means the distinctions made by actors between two different classes of causality of observable events – physical causality and distinctly human action. Thus he writes that aprioristic reasoning is required because “man does not have the creative power to imagine categories at variance with the fundamental logical relations and with the principles of causality and teleology...” (HA: 35). (HA: 35). Also see his reference to the “principle of action” at EP: 15.

## 2. THE SCOPE OF ECONOMICS

I now turn to the scope of economics. Mises first mentions the scope in his chapter 2 on epistemology in a section entitled “The Procedure of Economics.” He writes that after extracting and deducing the “concepts and theorems” of pure praxeology, one goes on to define “the less general conditions required for special modes of acting” (HA: 64). Because the end of science is to “know reality,” the praxeologist “restricts [his] inquiries...” (HA: 65).

This statement is similar to that made in his 1933 book. It would be possible, he writes there, to

construct, by the use of the axiomatic method, a universal praxeology so general that its system would embrace not only all the patterns of action in the world that we actually encounter, but also patterns of action in worlds whose conditions are purely imaginary and do not correspond to any experience ([Mises 1933: 15](#)).

However, “we are satisfied with the less universal system that refers to the conditions given in the world of experience.” What “we owe to experience is the demarcation of those problems that we consider with interest from problems that we wish to leave aside because they are uninteresting from the point of view of our desire for knowledge” ([ibid.: 16](#)).

Both sets of quotations tell the reader, in essence, that economics is a branch of praxeology and that its students are concerned with “special conditions” that are of interest to the economist. In his 1933 book, Mises does not go on to demarcate the “economic problems.” In HA, he devotes his entire chapter 14 to the scope and method of economics.<sup>15</sup> The economic problems refer to the economists’ ultimate goal of evaluating arguments in favor of or against market intervention.

Strictly speaking, it is incorrect to say that it is possible to use the “axiomatic method” to deduce *all* of the patterns and conditions entailed in market interaction. We can conceive of this being done because we can conceive of deducing every particular pattern we can identify. But there is an infinite number of these patterns and conditions due partly to the fact that there is an infinite number of iterations of incomplete private property rights. Our interests as economists dictate which of the patterns and conditions we assume. Once we decide this, we build imaginary constructions that enable us to deduce the desired patterns. From among the infinite possible problems that present themselves the economist, constrained by time and the limited capacity of the human mind, must restrict his interests to the study of some of these.

### Definition of Economics

In Part One of chapter 14, Mises writes that economists have always agreed that economics is about “the determination of the mutual exchange ratios of the goods and services negotiated on markets, their origin in human action and their effects upon later action” (HA: 232). In other words, economists have traditionally been interested in choices that result from and are affected by prices and markets.

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<sup>15</sup>Some interpreters of Mises have relied entirely on this section for their interpretation of the relationship between economics and praxeology. However, his discussion there is designed to distinguish between the procedure of praxeology in its most inclusive sense and the procedure of the narrower field of economics, which requires building an image of pure capitalism. I discuss this section in the Appendix to this essay.

But problems arise because the choices that determine these things cannot be separated from other choices for which prices and markets are not of primary concern. The praxeologist knows that choices of all kinds are related. It is not possible in reality to separate “economic choices” from “non-economic” choices. As a result, the economist “must not restrict [his] investigations to those modes of action which in mundane speech are called ‘economic’ actions, but must deal also with actions which are in a loose manner of speech called ‘noneconomic’” (HA: 234). Mises explains this in the following way:

In studying interpersonal exchange one cannot avoid dealing with autistic exchange [action that is isolated from the action of others or is non-cooperative]. But then it is no longer possible to define neatly the boundaries between the kind of action which is the proper field of economic science in the narrower sense, and other action. Economics widens its horizon and turns into a general science of all and every human action, into praxeology. The question emerges of how to distinguish precisely, within the broader field of general praxeology, a narrower orbit of specifically economic problems (HA: 232).

Here, he is saying that the image of an actor whose action is non-cooperative helps the economist draw the boundary line between the traditional interests of economists and those broader interests. The use of this image thereby helps the economist build the imaginary construction of pure capitalism, which contains only cooperative action. Imaginary constructions are thus required in order to define the scope of economics.

### **The Economic Problems and the Ultimate Goal of Economics**

What does Mises mean by the term “specifically economic problems?” In this case, he is referring to the effects of market intervention. He writes about these problems immediately after introducing the imaginary construction of the pure or unhampered market economy. The economist begins by trying

to elucidate the operation of a pure market economy. Only at a later stage, having exhausted everything which can be learned from the study of this imaginary construction, does [he] turn to the study of the various *problems raised by interference with the market* on the part of governments and other agencies employing coercion and compulsion (HA: 238, italics added).

The economic problems refer to the economist’s ultimate goal of evaluating intervention arguments.

### **The Sphere of Capitalism and Economic Freedom**

I use the term “sphere of capitalism” to refer to a necessarily amorphous boundary between the actions of all sorts that individuals take in everyday life and actions under the conditions of pure capitalism. The term is based on Mises’s own usage. He refers, for example, to the “sphere of the unhampered market” (HA: 565), the “sphere of private property and the market” (HA: 725), “the sphere of private property and the laws protecting it against encroachments on the part of violent or fraudulent action (HA: 726). The meaning is similar to the pure market economy and pure capital-

**Sphere of capitalism:** an amorphous boundary between the actions of all sorts that individuals take in everyday life and actions under the conditions of pure capitalism.

**Economic freedom:** a state of being that individuals experience when the range of government action is limited to protecting people against “violent or fraudulent aggression on the part of antisocial individuals.”

ism, with the added emphasis on the possibility that such a sphere may exist in an economy where there is substantial intervention. My meaning is perhaps best captured by the following quotation:

The system of the hampered market economy or interventionism aims at preserving the dualism of the distinct *spheres* of government activities on the one hand and economic freedom under the market system on the other hand. What characterizes it as such is the fact that the government does not limit its activities to the preservation of private ownership of the means of production and its protection against violent or fraudulent encroachments. The government interferes with the operation of business by means of orders and prohibitions (*ibid.*: 719, italics added).

The term “sphere of capitalism” is useful in representing the notion, *ceteris paribus*, of an increase or decrease in market intervention. Thus Mises writes that if “it is in the jurisdiction of the government to decide whether or not definite conditions of the economy justify its intervention, no sphere of operation is left to the market” (HA: 724).

The companion concept to the sphere of capitalism is *economic freedom*. Under capitalism, Mises writes, “there is a sphere within which the individual is free to choose between various modes of acting without being restrained by the threat of being punished. If, however, the government does more than protect people against violent or fraudulent aggression on the part of antisocial individuals, it reduces the sphere of the individual’s freedom...(HA: 281).<sup>16</sup> He also writes: “Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of what is called economic freedom” (HA: 285).

It is obvious that, in reality, the scope of government actions required to assure economic freedom depends on the particular inter-human and environmental circumstances that exist. For individuals who operate in a sphere of capitalism and who face an immanent invasion by plunderers, enslavers and killers; that scope may be large indeed. Referring to the time period around the 1960s, Mises wrote that even conscription may be necessary (HA: 282).

### **Economics as a Branch of Praxeology**

Mises’s ultimate goal of evaluating intervention arguments reflects his invention of the idea that economics is a science of the means. Like the knowledge of the means in the natural sciences, the special knowledge possessed by the economist enables humankind to attain their ends more fully than they could without that knowledge.

Economics differs from the natural sciences, however, because the phenomena it studies and describes are the consequence of purposeful action. The phenomena of the natural sciences cannot think and choose. As a result, economics has a foundation that the natural sciences lack. When the economist builds the theorems needed to evaluate intervention arguments, he refers to thinking and acting under particular conditions. The conditions vary depending upon the intervention argument that he aims to evaluate. But regardless of conditions, he always makes the assumption that the phenomena result from purposeful action. The prerequisites and necessary characteristics of action are present in every economic theorem. But so are other subsidiary assumptions that enable the economist to build the imaginary constructions required to evaluate intervention arguments. On this basis, one can say that economics is an application of praxeology or, as Mises wrote, economics is a *branch* of praxeology.

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<sup>16</sup>Also see part 2 of my essay “[Mises on Freedom and the Praxeological Law.](#)”

## APPENDIX

## MISES ON THE PROCEDURE OF ECONOMICS

Mises's first discussion of "The Procedure of Economics" is in his chapter 2. He begins his section by pointing out that the economist, as pure praxeologist, produces the prerequisites and necessary characteristics of action by employing aprioristic reasoning. Then he goes on to discuss the theorems of economics. To deduce these theorems, he writes, "one must go further and define – of course, in a categorial and formal sense – the less general conditions required for special modes of acting." It would be possible to build theorems for action under "all thinkable conditions." "But the end of science is to know reality" (HA: 64-5). He does not say why this is the "end" of the science of economics. Nor does he tell the aspects of reality – which, of course, is impossible to fathom in its totality – that the economist aims to study. The following edited excerpt tries to capture the true thrust of his discussion in a way that anticipates what Mises writes in his chapter 14:

Experience...directs our curiosity toward certain problems and diverts it from other problems. It tells us what we should explore...In our actual world...[studies that assume the disutility of labor and indirect exchange] are an essential part of economic theory. [Economists' interest in indirect exchange and other real conditions under which actors operate] does not alter the aprioristic character of its reasoning. But it marks the way in which economics, up to now the only elaborated part of praxeology, presents the results of its endeavors...In introducing assumptions into its reasoning, it satisfies itself that the treatment of the assumptions concerned can render useful services for the application of its theorems to *the solution of concrete historical and political problems*. It adopts for the organized presentation of its results a form in which aprioristic theory and the interpretation of historical phenomena are *intertwined*...From the unshakable foundation of the category of human action praxeology and economics proceed step by step by means of discursive reasoning. Precisely defining assumptions and conditions, they construct a system of concepts and draw all the inferences implied by logically unassailable ratiocination" (HA: 65-67, italics added).<sup>17</sup>

Three points must be made about the excerpt. First, when Mises uses the term "aprioristic theory," he is referring to the aprioristic reasoning that he had introduced in his derivation of the prerequisites and necessary characteristics of action. When he writes of historical phenomena, he is thinking of the historical conditions that he summarizes in his definition of capitalism. He expects that elucidating interaction under such conditions will help achieve either the ultimate goal of evaluating intervention arguments or the goal of interpreting historical events. Thus economic theorems represent a logical intertwining of (1) the prerequisites and necessary characteristics of action and (2) assumptions that he will later make about the conditions under which the market interaction occurs.

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<sup>17</sup>Indirect exchange refers to exchange that entails first acquiring money and then exchanging the money for the thing that is desired. It is discussed at length in my essay "[The Basic Economic Functions and Roles in Mises's Economics](#)."

The second point relates to his reference to historical and political problems. Presumably, “political problems” refers to problems associated with evaluating intervention arguments—i.e., “the various problems raised by interference with the market on the part of governments and other agencies employing coercion and compulsion” (HA: 238). But a question arises as to why he refers to historical problems. The answer seems to be that one of his main concerns in other parts of his chapter is how to interpret historical events. He seems to be acknowledging that the image of pure capitalism—i.e., the set of theorems of interaction under the conditions of pure capitalism—is the starting point for doing economic history and the evaluation of intervention arguments. He sees no reason to explain the apparent paradox that even though history is a separate branch of the science of human action from praxeology and economics, the economic historian must begin with an image of pure capitalism.<sup>18</sup>

The third point is that he writes nothing here about *how* to intertwine aprioristic theory and historical phenomena. His statements are abstract and general. To learn about this intertwining, a reader must page ahead. If a reader goes on to his chapter 14 on the method of economics, it is evident that he is referring to the use of theorems to build the imaginary construction of interaction under the conditions of pure capitalism. The economist knows that the conditions of capitalism enable an expansion of the division of labor and he wants to produce theorems for a situation in which those conditions are present. When Mises writes of historical phenomena that are intertwined, he is referring to the historical conditions of capitalism which he uses as an element in producing economic theorems.

### **Ratiocination in Economic Theorem Building**

Mises writes that “praxeology and economics proceed step by step by means of discursive reasoning. Precisely defining assumptions and conditions, they construct a system of concepts and draw all the inferences implied by logically unassailable ratiocination” (HA: 67, italics added). I define ratiocination in pure

**Ratiocination in Pure Praxeology:** the mental process used to derive the prerequisites and necessary characteristics of action.

praxeology as the mental process used to derive the prerequisites and necessary characteristics of action. Ratiocination puts the pure praxeologist in a position to define words that match concepts she already knew. These words put her in a position to articulate concepts that she had used in her everyday action but that she had not attempted to express in words.

In economics, ratiocination refers to the mental process of building economic theorems. On the foundation of the core vocabulary produced in pure praxeology, the economist can proceed to build additional vocabulary for economics that will enable her to trace back her economic theorems to the prerequisites and necessary characteristics of action. Linking such vocabulary helps her avoid errors

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<sup>18</sup>In Mises’s classification of the science of human action, history is a branch that is separate from praxeology and its sub-branch, economics, which deals with political problems.

in building theorems. It follows that to explore what Mises called ratiocination in praxeology and economics is to describe both the process used by the pure praxeologist and the theorem-building mental process used by the economist.

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\*In chronological order according to the date of publication of the first edition.