

The New Science of Economics in Mises's Treatise

Outline

1. The Classical Economists and the Liberal Ideology
2. [The Special Knowledge that Comprises the New Science](#)
 - a. [The Division of Labor Law](#)
 - b. [The Conditions of Capitalism](#)
 - c. [The Invisible Hand and Consumer Sovereignty under Pure Capitalism](#)
 - d. The Roles in Market Interaction
 - e. [Dealing with Scarcity](#)
 - (1) Maximum Amounts of Utility and the Optimal Use of Factors of Production
 - f. Mises's Economics
 - g. [Economics as a Science](#)
 - (1) [The Ultimate Goal of Economic Science](#)
 - h. [Limits on Government Power to Influence National Wealth](#)
 - i. [Coercion Required to Establish and Maintain the Conditions of Capitalism](#)
 - j. [Impure Capitalism](#)
 - (1) Dependency
 - (2) Non-Market Actions and Non-Action
 - (3) Impossibility of Establishing the Conditions of Pure Capitalism
 - (4) Prudence in Establishing and Enforcing the Conditions of Capitalism
 - k. [Sphere of Capitalism](#)

This essay shows how Mises transformed the liberal ideology of the classical economists into a value-free science and how he presented that science in his treatise, *Human Action* (1966 – HA). The essay is important for at least two reasons. First and foremost, the vast majority of writers of the Mises Institute have downplayed Mises's scientific economics and promoted the view that Mises based his writings on the utilitarianism of the classical economists.¹ As a corollary, they have promoted Murray Rothbard's anti-government, ethics. One who wants an accurate picture of Mises's economics must disregard such promotion.

¹A good example is Walter Block. My published interchange with Block is [here](#).

Second, modern professional economists are not familiar with this alternative. Yet, a strong argument can be made that almost all of the errors made by these economists over the years could have been avoided if they had studied and learned from Mises's works. Part One of this essay describes the liberal ideology and Mises's assessment of its contribution to progress. The lengthy Part Two describes the new knowledge that constitutes Mises's economic science.

1. THE CLASSICAL ECONOMISTS AND THE LIBERAL IDEOLOGY

Economic science can be traced to the discoveries of the classical economists like David Hume, Adam Smith, and David Ricardo. They discovered the great principle that when human beings are free to trade and specialize and when they can own the material goods they acquire in trade, they have incentives to take advantage of the higher physical productivity of the division of labor (HA: 157-9), according to Ricardo's principle of comparative advantage (HA: 159-60).

The discoveries made by the classical economists became the basis for their writings and teachings. Since these teachings were at least partly accepted by the political leaders of the period, they also became the basis for the liberal international trade policies of the 19th century. They led many governments to adopt policies toward private property rights, free enterprise, money and fraud that promoted progress within a nation. In addition, they ushered in what is often referred to as the "Golden Age of International Trade," which lasted from the mid 19th century until World War I (Mises: 1927: xvi). The most energetic makers of the US constitution read this classical liberal *ideology* and incorporated it into their vision of the new nation.

Ideology is not the same as religion. The two are similar in that individuals use both to plan their actions. However, religion promotes a view about what the ends of an action should be. Proponents of the liberal ideology take it for granted that humans aim to achieve material ends. But they are silent about what the ends should be (HA: 155-7).

Many intellectuals and political leaders opposed the liberal ideology. Marxist, socialists, progressives and special-interest pressure groups recommended anti-liberal market interventions, protectionist policies, revolt, and militaristic nationalism. Nevertheless, the classical liberal principles have survived.

These principles also survived the catastrophic world wars of the first half of the twentieth century and depression of the 1930s. They became the foundation for the postwar General Agreement on Tariffs and Trade and the World Trade Organization. And they were the basis for what ultimately became the European Union. These organizations, and other organizations and international trade agreements, have continued the free trade tradition started by the classical economists. The liberal ideology also played a role in post-war U.S. trade policy, particularly toward the Asian dragon, Japan, and the Asian tigers of Taiwan and South Korea.

2. THE SPECIAL KNOWLEDGE THAT COMPRISES THE NEW SCIENCE

Economic science, in the Misesian sense, refers to the use of what I call special knowledge to judge whether a proposed market intervention will help achieve material ends. Mises taught a science pertaining to capitalism. He showed how interaction under the conditions of capitalism enables

individuals to take the best advantage of the higher physical productivity of the division of labor in an environment of scarcity. In light of this, I conclude that the special knowledge that warrants calling economics a science consists of two parts (1) the *division of labor law* and knowledge of how individuals under the conditions of capitalism deal with scarcity. To understand Mises's economics, one must begin with this special knowledge. The aim of this part of the essay is to introduce this new science.

The Division of Labor Law

The division of labor law states that individuals can take the best advantage of the higher physical productivity of the division of labor by establishing a government that sets and maintains the conditions required for capitalism.² This law is based on Ricardo's theorem of comparative costs and two assumptions. Ricardo's theorem states that through exchange and specialization, individuals with different comparative costs of producing material goods can achieve a higher physical productivity of labor.³ The first assumption is that individuals are capable of recognizing that they can gain by changing their behavior in order to take advantage of the potential gains from the higher physical productivity of the division of labor. The second is that they tend more to recognize and take advantage of these gains under the *conditions of capitalism* than under other conditions. The economist's possession of the special knowledge of the division of labor law qualifies him to evaluate arguments pertaining to market intervention in ways that those who lack this knowledge cannot do.

The special knowledge possessed by the economist:

1. Knowledge of the division of labor law.
2. Knowledge of how individuals under capitalism deal with scarcity.

Ricardo's theorem of comparative costs:

through exchange and specialization, individuals with different comparative costs of producing material goods can achieve a higher physical productivity of labor.

Division of Labor Law: The theorem

1. That individuals have an incentive to exchange and specialize due to the higher physical productivity of the division of labor.
2. That to enable individuals to best take advantage of the higher physical productivity of the division of labor, government leaders should establish and maintain the institutions required for capitalism.

The Conditions of Capitalism

Neither Ricardo nor the other classical economists completely described the conditions of capitalism. To describe these, one must conceive first of the *conditions of pure capitalism*. This is a situation of market interaction under complete private property rights, completely free enterprise, the use of money in exchange, the absence of fraud and deceit, and a government that collects taxes and

²Mises 1933: 120, 123-4. Mises also called this theorem the "harmony of rightly understood interests." According to it, "everybody is interested in the preservation of the social division of labor, the system that multiplies the productivity of human efforts" (HA: 674). The theorem contains a hint of what he called the *liberal ideology* (Mises 1933: 42). This is an ideology that was expressed by the classical economists about what a government should do. He describes this ideology in his book *Liberalism* (1927). The new science, however, is not ideology and it is not founded upon an ideology.

³Mises called this the "law of association." HA: 159-61.

establishes and enforces the other conditions. Market interaction refers to interaction in which the aim of each person is to first obtain money. Thus, another condition of pure capitalism is the use of money as a medium of exchange. A government is defined as a set of government agents who collectively possess and are in a position to exercise a monopoly over coercion and compulsion.⁴

The classical economists were content to provide a rough idea of the conditions of capitalism. They did not produce economic theorems with the rigor that Mises later demanded of the new science. Had they done so, they would have pointed out that they derived the division of labor law by referring to an historical situation in which private property rights were not complete, free enterprise was highly restricted, fraud was rampant, and individuals produced many material consumer goods for themselves and engaged in barter.

Pure capitalism has never existed in reality and it seems unlikely in the future. There are at least three reasons. First, it is costly, if not impossible, for a single person, a director, to gain complete control over all coercion and compulsion. Second, government agents have incentives to use their power partly for their own purposes, as opposed to the purposes of the director. Third, it is costly to establish and enforce the conditions of capitalism. Nevertheless, the economist begins with pure capitalism in order to build the required vocabulary and foundational economic theorems.⁵

Conditions of pure capitalism: complete private property rights, completely free enterprise, the use of money in exchange, absence of fraud and deceit, and a government that collects taxes in order to establish and enforce the other conditions. Also called the **conditions of the pure market economy**.

Government: a set of agents who collectively possess and are in a position to exercise a monopoly over coercion and compulsion.

The Invisible Hand and Consumer Sovereignty under Pure Capitalism

Adam Smith introduced the proposition that under the conditions of capitalism, each individual, acting in his own interest, tends to promote the nation's wealth. This proposition is often called the *invisible hand theorem*. Smith reasoned that in order to achieve her own ends, an individual must first provide material consumer goods or services to others.

Invisible hand theorem: As each person expands the production of goods that he has a comparative advantage in producing, he helps to cause national wealth to rise, even though such an increase is not his goal.

The theorem of comparative costs enables the economist to understand the rationale for the invisible hand theorem. Each person helps to cause national wealth to rise because she is motivated to gain from exchanging and specializing.

The marginal utility theorists of the late 19th century – the [individualist economists](#) – transformed the invisible hand theorem by singling out the incentive to obtain consumer utility. To act in one's self-interest under capitalist

conditions, they maintained, is to seek consumer utility by first obtaining money. As seekers of consumer utility, individuals acting in the consumer role incentivize others acting in roles of the

⁴HA: 285, 324.

⁵This basic vocabulary is described in Parts One of my essay "[Pure Praxeology, the Vocabulary of Action and Aprioristic Reasoning](#)."

producer and factor supplier to expand the division of labor and to employ scarce resources in the interests of consumers. Many years later, W. H. Hutt dubbed this idea “the doctrine of consumer sovereignty.”⁶ The incentives provided by consumers are sovereign.⁷ In the consumer role, individuals incentivize production and factor supply.

The prospect for incentivizing by consumers is limited. Entrepreneurs face scarcity. I discuss scarcity later in this part.

The Roles in Market Interaction

The idea of consumer sovereignty implies a specific role that incentivizes action – the role of the consumer. The consumer role expresses wants for material consumer goods and experiences the utility from consuming. Two other roles are required. The individualist economists called the second one the entrepreneur role. Its primary function is to cause the material consumer goods to be produced. The entrepreneur function and role represent the inventive, knowledge acquiring, and knowledge using aspect of individuals who recognize and take advantage of the higher physical productivity of the division of labor. The role is motivated to act by the anticipation of money profit. To acquire knowledge about comparative costs, it makes price offers to the consumer role and to the third role – that of the factor supplier. The factor supplier role owns the factors of production and supplies them in markets to the entrepreneur role.

The economists who followed the consumer utility theorists expanded the consumer role to take account of the fact that consumer utility is desired and received at different times. The consumer role faces a tradeoff between satisfying wants in the near future and wants in the more distant future. To satisfy his more distant-future wants, the role must *save*. To refer to this expanded role, I use the term “consumer saver.”

In order to produce material goods, the entrepreneur role must employ factors of production. The individualist economists divided these factors into two classes: capital goods and work. To produce material goods, the entrepreneur role borrows money savings from the consumer-saver role, it rents capital goods, and hires work. The capital goods are owned by the roles of the capitalist and landowner. Work is owned by the role of the laborer, or worker. A more complete description of these functions and roles is presented in my essay “[The Basic Functions and Roles of Economics](#).”

⁶Hutt wrote of the “doctrine of consumer sovereignty.” Hutt writes:

As I have used the term, it covers the expression of all human preferences in respect of ends, in so far as those ends are confronted with scarce means. When ends are being sought, we are concerned with demand; when means are being chosen, we are concerned with an aspect of supply – entrepreneurship (Hutt 1940: 67).

Historians of Mises's economics should note Hutt's statement in the same article that “I have so generalized the notion of the consumer that even time-preference and liquidity-preference are, in my present approach, regarded as forms of consumer-preference” (*ibid.*: 69-70). Mises had already in 1910 built theorems containing a demand for money holdings that is based on consumer utility.

Mises writes that “the owners of the material factors of production and the entrepreneurs are virtually mandataries or trustees of the consumers, revocably appointed by an election daily repeated” (HA: 271).

⁷HA: 269-70.

The entrepreneur role is an imaginary construction. It does not correspond to a person in reality. Like the other roles, it is an indispensable mental tool. Absent such mental tools, the economist has no way to comprehend the interaction's "complexity."

Dealing with Scarcity

A special contribution of the individualist economists was to build an image of market interaction that represents tradeoffs. An isolated actor would face scarcity. She would recognize a tradeoff between expending more energy and time to produce one type of consumer good and expending more to produce a different type. She would identify her factors of production and decide which, among an array of alternative employments, is best likely to attain her ends. She would make choices based on her perceived wants and her knowledge of how to satisfy them.

In market interaction, choices to produce are made by the entrepreneur role. The entrepreneur role deals with scarcity by deciding which material consumer goods it will cause to be produced.⁸ When the producer of automobiles bids for steel, she must compete with a producer of buildings, bridges, and oil tankers. The competitive interaction of different individuals acting in the entrepreneur role results in the allocation of the factors as among the various firms and industries.

The entrepreneur role identifies profit opportunities by means of price signaling. Individuals acting in this role set prices and observe the responses by consumers, factor suppliers and other entrepreneurs. Then they set priorities for their production. Such signaling enables them to communicate with entrepreneurs and factor suppliers up and down complex supply chains for the factors of production.

An entrepreneur does not actually tell other entrepreneurs the money value that the consumers she faces attach to the use of a factor of production. But the price she announces she is willing to bid accomplishes the same function as deliberation over alternative uses of a factor by the isolated actor. It enables other entrepreneurs to make choices on the basis of existing knowledge of the opportunity costs. It is the means with which scarcity is dealt with under capitalism.

Maximum Amounts of Utility and the Optimal Use of Factors of Production

The logic used by the individualist economists to show how the entrepreneur role deals most efficiently with scarcity contains an important implication for factors that can be shifted as between consumer goods. It implies that additional units of such factors must be added to the production of a good up to the point where the individual expects the utility from the additional amounts of the good to be no greater than the utility sacrificed. This implies that there is an optimal allocation of such factors. If it is not possible to further increase total utility by shifting factors, one can say that total utility is maximized.

Scarcity in Individual Choice: a characteristic of individual decision-making that refers to individuals' taking account of the alternative employments of what she regards as the factors of production.

Scarcity in market interaction: a characteristic of the entrepreneur role's priorities in producing and selling consumer goods, based on the calculation of expected money profit.

⁸The concept of scarcity in market interaction was simultaneously described by three unrelated economists during the same year, 1894: Böhm Bawerk, David Green, and Herbert Davenport.

By analogy, one might assert that if the entrepreneur function is being performed as fully as possible, the actions by individuals acting in the entrepreneur role tend to cause maximum amounts of utility to be realized and the factors of production to be employed optimally. However, such an analogy is not meaningful since the concept of "utility" refers to an individual's satisfaction. The concept of "social utility" has no meaning that distinguishes it from the classical concept of wealth or even maximum happiness.

Mises's Economics

Recognizing this potential error in applying the concept of utility or well-being, it is nevertheless meaningful to define Mises's economics in the following way. In building an image of pure capitalism, Misesian economists study individuals' incentives to earn money and the actions they perform in light of these incentives.⁹ In addition, the economists study the effects of such actions. The Misesian economist shows how the conditions of capitalism help motivate distinctly human actors to take the *greatest advantage of the higher physical productivity of the division of labor in a world of scarcity*.

The Misesian economist studies the incentives to earn money, the actions that individuals take in light of those incentives, and the effects of the actions. Mises's economics shows how the conditions of capitalism help incentivize distinctly human actors to take the *greatest advantage of the higher physical productivity of the division of labor in a world of scarcity*.

The division of labor law constituted new knowledge. Prior to classical economics, no one had identified the contribution of each individual to the benefits of other individuals under the conditions of capitalism. Subsequent economists created the images of the functions and roles as a means of comprehending capitalist market interaction and of showing how individuals in interaction deal with scarcity. This also was new knowledge. Mises contributed to this new knowledge in three ways (1) by showing how the money supply affects the performance of the economic functions under capitalism (Mises 1912), (2) by effectively expanding the concept of scarcity to cover the satisfaction of consumer wants through time (HA: chapters 18 and 19), and (3) by building and demonstrating the praxeological foundations of economics (HA: chapters 1, 4, 5, and 6).

Today, the *special knowledge* of the economists includes each of these contributions. It is only because the economist possesses this knowledge that he can bring his expertise to bear in the evaluation of intervention arguments.

Economics as a Science

The image of pure capitalism is the starting point for describing the situations of real, or impure, capitalism that exist in everyday life. The classical economists who invented the division of labor law used such an image to influence policy. The Misesian economist goes beyond this. He wants to make his economics value free. He does this by avoiding the direct evaluation of government policy.

⁹Mises contributed to this new knowledge in three ways: (1) by showing how the money supply affects the performance of the economic functions under capitalism (Mises 1912), (2) by effectively expanding the concept of scarcity to cover the satisfaction of consumer wants through time (HA: Chapters 18-20), and (3) by demonstrating that the study of interaction under the conditions of capitalism is an application of the more general study of the acting character of humankind (HA: 1-6).

Instead, he uses his special knowledge to evaluate intervention arguments. I define an intervention argument as one that favors or opposes an intervention in market interaction. To evaluate an intervention argument, the economist determines first whether the benefit that a proponent claims the proposal would achieve can be obtained. Then, assuming that it can, he identifies the opportunity cost, suggesting that the benefit might not be greater than the cost.

Intervention argument: an argument favoring or opposing an intervention in market interaction (market intervention).

The Misesian economist does not set his own standards. He accepts the criteria specified by the proponent of the argument. He asks whether the means recommended will achieve the end that the proponent has specified. So long as he confines his evaluations in this way and avoids errors in logic, he can assure his value freedom.¹⁰ He can feel confident in calling economics a value free *science of the means*.¹¹ Mises's argument is stated in further detail in Part One of my essay "[Rothbard's Critique of Mises's Value Freedom](#)."

The Ultimate Goal of Economic Science

Value freedom is achieved by relentlessly pursuing what can be called an ultimate goal. So long as the economist tries to achieve the ultimate goal of evaluating intervention arguments regarding material consumer goods, according to the criteria specified by a proponent; he can assure that his work is value free and scientific.

Ultimate goal of economics: to evaluate intervention arguments regarding material consumer goods according to the criteria specified by the proponent.

Like the knowledge that leads to advances in the natural sciences, the special knowledge possessed by the economist can be used to improve the means that humankind employs to achieve its material ends. It is as if Mises and the other economists had invented farming. Knowledge of farming techniques also enabled individuals who acquired it to increase the satisfaction of their wants with the materials at hand.

Limits on Government Power to Influence National Wealth

Mises provided a unique interpretation of the implications of the new knowledge. After describing it, he proposed that it can be interpreted as a limitation on humankind's power to control its future. The classicals had shown, he wrote, that government power is limited in a way that no one had previously recognized. A government that wants to increase the material well-being of its people cannot achieve its aim without taking account of the new knowledge. However, a government's power is limited. It cannot ordinarily cause the amounts of material consumer goods to be higher than otherwise by

¹⁰Mises writes about his work in the 1920s on the ideologies of socialism, liberalism, and interventionism in his *Notes and Recollections* that he

had introduced a new perspective in the handling of these problems, the only one that made possible a scientific discussion of political questions. I made inquiry into the usefulness of proposed measures, that is, whether the objective that the use of these measures was intended to achieve could actually be obtained through the means recommended and employed. I showed that the evaluation of the various systems of social cooperation is ineffective when conducted from arbitrarily chosen points of view (Mises 2009: 97-8).

¹¹HA: 10.

adopting policies that weaken the conditions of capitalism. In its effort to achieve material aims, it is limited by the laws of economics – i.e., by the theorems of economics – just as it is limited by the laws of the natural sciences.¹²

Coercion Required to Establish and Maintain the Conditions of Capitalism

In order to establish and maintain private property rights and free enterprise and to enforce some contracts, a government is required. Individuals can enjoy some benefits of the higher physical productivity of the division of labor without a government. An example is a small isolated community of barterers. However, once the benefits get sufficiently large, the traders become targets for pillagers, robbers, and enslavers from outside. Traders also face internal threats. Thieves, robbers and extortionists reduce incentives for individuals to save and be inventive. Moreover, some traders may use coercion to block rivals thus limiting the benefits of free enterprise. Capitalism can emerge and thrive without a complete set of capitalist conditions. However, some degree of monopoly over coercion is essential. Unless the individuals organize their coercion for the defense of the conditions of capitalism against external and internal threats; they will not be able to take the greatest advantage of the higher productivity of the division of labor.

Impure Capitalism

Capitalism in reality is different from the image of pure capitalism. Four reasons are evident. First, some individuals who participate in real market interaction are dependents. Second, actions under capitalism (i.e., market actions) are intertwined with non-market actions. Third, the conditions of capitalism cannot be completely established. Fourth, although actions by government agents can make the conditions of capitalism more complete, it is often not prudent to expend resources to take such actions. Each of these is discussed in turn.

Dependency

Regarding dependents, practically everyone is aware of individuals who must rely on others because they are too immature, senile, or handicapped in some way. The economist disregards these in building theorems for pure capitalism.¹³ Yet, their presence may be of special concern to the proponent of an intervention argument. A major tenet of the modern progressivism ideology is that a

¹²Mises writes:

The development of economics and rationalistic sociology [i.e., praxeology] from Cantillon and Hume to Bentham and Ricardo did more to transform human thinking than any other scientific theory before or since. Up to that time it had been believed that no bounds other than those drawn by the laws of nature circumscribed the path of acting man. It was not known that there is still something more that sets a limit to *political power* beyond which it cannot go. Now it was learned that in the social realm too there is something operative which power and force are unable to alter and to which they must adjust themselves if they hope to achieve success, *in precisely the same way as they must take into account the laws of nature* (Mises 1933: 3-4), italics added).

The “limit to political power” refers to the constraint placed on a government that aims to cause material consumer wants to be satisfied. The use of force alone cannot achieve such goals. The agents of government must account for the division of labor law.

¹³Dependents, Mises says, are not actors and speculators. Minor family members and those who lack “vital energy” are excluded from economic analysis (HA: 252, 490). The same is true of those regarded by psychologists or sociologists as abnormal or perverse (HA: 95).

government should impose taxes on those who are successful in market interaction in order to finance hiring government agents to administer various programs that they believe will benefit dependents. The progressives often disregard the sacrifice of material consumer goods that must be made and the potential threat of entrusting government agents with more coercive power than is required. The economist as evaluator is particularly suited to identify the sacrifice.

Non-Market Actions and Non-Action

I define a market action as one that is taken under the conditions of capitalism. Non-market action refers to every action that market action is not. There are several different types. A hermit performs non-market actions by definition. A person who is not a hermit but who produces in order to satisfy her own wants also performs non-market actions. Her decision to produce for herself may take account of market prices. But she uses her work directly. She does not exchange either the work or the good she produces for money. Accordingly, she does not participate in indirect exchange. A different class consists of actions that are intended to benefit others but for which the actor does not expect or want reciprocation. An example is a gift.¹⁴ Closely related to this class are actions within a family or other social group, courting prospective mates, and other social bonding actions. Finally, there are threats of personal assault, theft, extortion and other actions regarded as deviant.

In reality, market and non-market actions are entangled. To develop the vocabulary that follows the tradition of the field of economics, the economist must mentally separate these. When he turns to the task of evaluating intervention arguments, he may have to “re-entangle” them.

In reality, market and non-market actions are entangled. To develop the vocabulary that follows the tradition of the field of economics, the economist must mentally separate these. When he turns to the task of evaluating intervention arguments, he may have to “re-entangle” them.

Impossibility of Establishing the Conditions of Pure Capitalism

In reality, it is not possible to establish and maintain the conditions required for pure capitalism. Consider a simple example of private property rights. Suppose that a farmer uses a method of production that harms his neighbor by polluting a stream that both share. Under complete private property rights, the neighbor would have to be fully compensated for any damage caused by the farmer. Correspondingly, the farmer would have to include the money value of the damage to the neighbor in his calculation of the costs of using the method. However, how could government agents know how much compensation to require the farmer to pay? They cannot compel the neighbor to reveal the true amount of harm she feels. If the agents made it a policy to rely on self reports of harm, the reporters would have incentives to overstate the harm.

Market action: action that is taken under capitalism. Examples are buying, selling, and action taken in anticipation of money profit.

Non-market action: action that is unrelated to that which is taken under capitalism. Examples are action taken in isolation, a gift, courtship and robbery.

Impure Capitalism: an image of capitalism in which one of the following situations prevails:

1. Some actors are dependents.
2. Individuals perform non-market actions.
3. The conditions of capitalism are incomplete.
4. The expected sacrifice required to enhance the conditions of capitalism is higher than the expected benefit.

¹⁴Mises writes of “one-sided presents without the aim of being rewarded by any conduct on the part of the receiver or of third persons” (HA 195).

Similar reasoning applies to actions like clearing debris from a stream in order to increase its flow. Such an action could benefit the neighbor if a farmer performed it; but he may not be able to collect a fee for doing so. Government agents could not determine the optimal fee to charge in order to compensate the farmer.

Even if a government could establish a complete set of private property rights at some point in time, real capitalism is characterized by continuing invention and innovation. New methods of production often entail new types of external damage and potential external benefits for which private property rights have not yet been established. Until new legal rights are established, people will not take account of the effects their actions on others.

Similar statements can be made about the control over deceit and fraud. government agents are often in a good position to judge whether deceit or fraud has occurred and to punish the perpetrators. However, they are often unable to tell and are faced with opposite stories. As a result, they cannot come close to stopping all deceit and fraud.

Prudence in Establishing and Enforcing the Conditions of Capitalism

Establishing and enforcing laws to deter threats to capitalism is costly and the costs vary from place to place and time to time. For example, the government agents of one nation may face a strong enemy that aims to conquer and confiscate all property for its leaders and citizens. The enemy may be poised to invade, plunder, enslave and murder. In this case, the expense of establishing and enforcing the conditions of capitalism against external threats will be higher than for an identical nation that has no such enemy.¹⁵ A similar argument applies to *internal* threats. If the citizens of a nation want to expand the conditions of capitalism and have relatively homogeneous values regarding this aim, the cost of enforcement, *ceteris paribus*, is lower than if a large proportion of citizens are indifferent to capitalism and have relatively heterogeneous values.

The costs of deterring internal threats depend on the physical and international environment. It is more difficult for a criminal to avoid apprehension if a nation is surrounded by mountains and deserts than it is if the nation has contiguous land or sea borders with other nations whose leaders will accept them as legal residents.

Because there are costs of enforcing private property rights, the prospective money cost of the resources required for enforcement may be greater than the prospective money benefits. Besides, there may be cheaper ways than to hire government agents. To help enforce private property rights, individuals can install locks, build fences, and hire personal guards. The costs of such devices may be lower than the surveillance and criminal justice system required for a system of government agents.

Sphere of Capitalism

The sphere of capitalism refers to market interaction which co-exists with dependency, non-market action and/or impure capitalism. This concept enables a writer to characterize historical events and to express and ideology. The imprecision of this term makes it unsuitable for use in economic theory. It can be useful, how-

Sphere of capitalism: market interaction under pure capitalist conditions that the economist assumes co-exists with dependency, non-market action and/or impure capitalism.

¹⁵HA: 282.

ever in describing historical events and in describing the relationship between the assumptions of pure capitalism and reality.¹⁶

3. CONCLUSION

Anyone who regards knowledge of how to satisfy wants for material consumer goods as useful or practical cannot help but admit that the knowledge upon which the classical economists based their liberal ideology is scientific in the same sense that knowledge of the benefits of crop rotation, of fossil fuels as energy sources, of stem cell transplants as a potential cure for cancer is science. Nevertheless, no one today realizes that Mises produced this new science of the means. No one realizes that Mises was able to extract this value-free science from the fundamental premises of the liberal ideology. Nor is there more than scant understanding of the relationship between this science and the writings of the individualist economists.

All knowledge is not science. Some knowledge does not help human beings produce more material consumer goods than otherwise. Moreover, some knowledge that does help in the production of more material consumer goods is produced for a different purpose. However, if one defines science in a practical sense and takes unbiased study of the the capacity to produce greater amounts of material consumer goods as the defining characteristic of science – as the characteristic of knowledge that must be present if that knowledge is to be called “science” – there is no doubt that Mises produced a science of the means and that he was the first to recognize the scientific nature of economic theory.

You can find more on Mises's scientific economics [here](#).

¹⁶My use of this term is based on Mises's own usage. 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).

A companion concept to the sphere of capitalism is *economic freedom*. Mises writes that 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). I discuss economic freedom in my essay “[Mises on Freedom and the Praxeological Law](#).”

Mises also uses the terms “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). 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 (HA: 719, italics added).

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).

[Other Austrian Economics Commentary](#)

Please send feedback:

Email: gunning@nomadpress.com

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

References

Hutt, W. H. (1940) "The Concept of Consumers' Sovereignty." *Economic Journal*. 50 (March): 66-77.

Mises, Ludwig von. (1951 [1922]). *Socialism: An Economic and Sociological Analysis*. New Haven: Yale University Press.

Mises, Ludwig von. (1978 [1927]). *Liberalism*. Kansas City: Sheed, Andrews and McMeel.

Mises, Ludwig von. (1966) *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company. Originally published in German in 1940.

Mises, Ludwig von. (1978) *The Ultimate Foundation of Economic Science: An Essay on Method*. Kansas City: Sheed, Andrews and McMeel. Originally published in 1962 by Van Nostrand, Princeton, N.J.