

December 11, 2008

Ludwig von Mises on Economics and Value Judgments

© J. Patrick Gunning
Visiting Professor of Economics
Bryant University
1150 Douglas Pike
Smithfield, RI 02917

Please send feedback:
Email: gunning@nomadpress.com

Ludwig von Mises on Economics and Value Judgments

Abstract

This paper describes Ludwig von Mises's views on the relationship between economics and value judgments. It tells how Mises distinguished the goal of economics from the goals of other fields of study, the role of ideologies in his choice of goal and his means of achieving it, and how this choice enabled him to successfully promote value freedom in economics.

Ludwig von Mises on Economics And Value Judgments

The purpose of this short note is to describe Ludwig von Mises's views on the relationship between economics and value judgments, as reflected in his most mature writing on the subject. This writing appears for the most part in *Human Action* (1966), although our interpretation of it relies partly on statements in his *Notes and Recollections* (1978). There is no effort in the present paper to deal with alternative claims and interpretations, except to imply that one who makes or evaluates such claims ought to take account of the passages cited here.¹

The paper begins with a brief description of how Mises distinguished the goal of economics from the goals of other fields of study. Since this goal concerned ideology, the paper then turns to Mises's discussion and classification of ideologies. Next it illustrates Mises's recognition and, indeed, effort to highlight the fact that by pursuing the aforesaid goal, the economist can achieve value freedom.

1. The Goal of Economics in Relation to Other Fields of Study

We begin by quoting Mises on the different tasks that he attributes to different fields of study.

His statement about tasks indicates the different *goals* of students in these fields.

It is the task of history to describe the historical conditions which made [the doctrine that there are many kinds of logical reasoning – what Mises calls polylogism] popular. Economics has another task. It must analyze both Marxian polylogism and the other brands of polylogism formed after its pattern, and expose their fallacies and contradictions (Mises 1966: 75).

It is the task of scientific technology and therapeutics to explode errors in their respective fields. It is the task of economics to expose erroneous doctrines in the field of social action. But if men do not follow the advice

¹One might argue that the ideas expressed here are already known. This argument fails, however, in light of the fact that Mises's 1978 statements about the new point of view he introduced in order to achieve value freedom is absent from the literature. These statements are quoted below at the end of part 2. Thus, none of the reports of Mises's epistemology have accounted for Mises' obviously correct conviction that by making the evaluation of non-ascetic ideologies the ultimate goal of economics, one can guarantee value freedom.

of science, but cling to fallacious prejudices, these errors are reality and must be dealt with as such (*ibid.*: 93).

The main objective of praxeology and economics is to substitute consistent correct ideologies for the contradictory tenets of popular eclecticism (*ibid.*: 185).

These statements indicate that, for Mises, economics has a goal that differs from that of history and of scientific technology and therapeutics. The goal of economics is to correct popular ideologies.² It may be worth pointing out that he is not writing about the goals of people in these professions. He has in mind the goals that “should” be pursued if someone wishes to contribute to the growth of knowledge in these fields. One might suggest that such writing begs the question of what one means by errors and the correction thereof. For Mises, the errors in economics are of two types: logic and relevance. The present essay is not concerned with whether general agreement can be reached on errors in logic. It is sufficient to note that Mises regarded this to be axiomatic. Relevance is different.

Relevance has two related meanings. The first concerns whether the conditions assumed in an argument are actually present. For example, the argument that a price floor on bananas will reduce the benefits from banana production is not relevant to policy makers in Alaska. The second meaning concerns the assignment of weights to various possible causal factors, particularly to the contribution of each (relevant) actor’s choice. An example is whether workers in a particular trade are likely to benefit

²Mises uses the term “task” in many contexts. A similar word is “aim.” Here we are concerned with those contexts that obviously refer to ultimate goals as opposed to subsidiary tasks that are necessary in order to achieve the ultimate goals or to get one into a position to perform other tasks that are necessary to achieve those goals. For example, Mises writes that “[t]he task of the sciences of human action is the comprehension of the meaning and relevance of human action” (*ibid.*: 51). The sciences must perform this task (or these tasks). However, they are not the ultimate goal. For another example, Mises writes:

Some economists believe that it is the task of economics to establish how in the whole of society the greatest possible satisfaction of all people or of the greatest number could be attained. They do not realize that there is no method which would allow us to measure the state of satisfaction attained by various individuals...Economics is not intent upon pronouncing value judgments. It aims at a cognition of the consequences of certain modes of acting (*ibid.*: 242).

Here the “task” in the first sentence is an ultimate goal (although, as shown below, Mises does not suggest that it should be the goal of economics). The “aim” that he has in mind in the last sentence, however, is actually a subsidiary goal. Cognition is a means toward achieving the ultimate goal of correcting inconsistent and contradictory ideologies. The same is true when he writes that “[t]he sole task of economics is analysis of the actions of men, is the analysis of processes” (*ibid.*: 357). Here he is contrasting this task with the goal of describing the prices and goods in the mathematical representation of equilibrium. He is not writing about the ultimate goal.

from a compulsory wage increase exclusively for such workers. To decide this, one must assign weights to the various factors that contribute to the policy's consequences. In the case at hand, the answer depends, among other things, on whether actors can substitute products and technologies that require less of the higher-wage work.

In natural science, if experiments are possible, the assignment of weights may be influenced by the experimental results. In economics, where experiments are not ordinarily possible due to complexity, the assignment of weights depends on the personality of the interpreter. However, assignments based on differences in personality are different from assignments based on differences in judgments of value.

Judgments of relevance differ from judgments of value in that they aim at the appraisal of a state of affairs not dependent on the author's arbitrariness. They are colored by their author's personality and can therefore never be unanimously agreed upon by all people (*ibid.*: 88; also see *ibid.*: 678).

Errors in judgments of relevance refer to judgments that are arbitrary and not merely "colored by personality." Such judgments affect the economists choice of which kinds of economic theories to develop and therefore which kinds of subsidiary assumptions to make. To show an error, an economist must persuade other economists that the theory does not apply to the case to which it is alleged to apply. Thus, one who makes such an error can come to realize his error by an appeal to facts.

2. Ascetic and Non-Ascetic Ideologies

To Mises, economics is a set of logical deductions about "what is" in the sense that the images it constructs must be relevant to the social facts one aims to describe. Ideology goes beyond the study of things as they are. It is "about the ought, i.e., about the ultimate ends which man should aim at in his earthly concerns" (*ibid.*: 178). Ideology can also be distinguished from the broader concept of a *world view*, which is

an interpretation of all things, and as a precept for action, an opinion concerning the best means for removing uneasiness as much as possible...Religion, metaphysics, and philosophy aim at providing a world view. They interpret the universe and they advise men how to act" (*ibid.*: 178).

Ideologies may be of many types. Mises divided them into two classes: (1) asceticism and (2) non-ascetic ideologies. Economics is irrelevant to asceticism. Non-ascetic ideologies claim to be about the attainment of earthly ends. These "must pay heed to the fact that *society* is the great means for the attainment of earthly ends" (*ibid.*: 179, italics added). The term "society," or social cooperation, has a special meaning. It refers to individuals' recognition that they can gain through specialization and the division of labor.³

Because non-ascetic ideologies are concerned with "earthly ends;" if we want to evaluate them from a logical point of view, we must use economics (*ibid.*: 182-4). This means that we must understand why the market economy is conducive to the production of what ordinary people regard as wealth.

Thus, Mises is writing that the economist's task is to evaluate the arguments put forth by what we might call non-ascetic ideologists, i.e., by the ideologists who are concerned with the attainment of earthly ends. Because he directs his arguments toward these ideologists, "no appeal to any religious or metaphysical dogmas and creeds can invalidate the theorems and theories concerning social cooperation as developed by logically correct praxeological reasoning" (*ibid.*: 180).

What does he have in mind when he writes of the non-ascetic ideologies? In a section of *Human Action* entitled "World View and Ideology," Mises appears to answer this question by discussing political parties.

In the field of society's economic organization there are the liberals advocating private ownership of the means of production, the socialists advocating public ownership of the means of production, and the interventionists advocating a third system which, they contend, is as far from socialism as it is from capitalism. In the clash of these parties there is again much talk about basic philosophical issues. People speak of true liberty, equality, social justice, the rights of the individual, community, solidarity, and humanitarianism. But each party is intent upon proving by ratiocination and by referring to historical experience that only the system it recommends will make the citizens prosperous and satisfied. They tell the people that realization of their program will raise the standard of living to a higher level than realization of any other party's program. They insist upon the expediency of their plans and upon their utility. It is obvious

³See Joseph Salerno 1990: 28.

that they do not differ from one another with regard to ends but only as to means. They all pretend to aim at the highest material welfare for the majority of citizens (*ibid.*: p. 183).

We can take this to mean that there are two or three kinds of non-ascetic ideologies: liberalism, socialism, and possibly interventionism. This interpretation is consistent with the fact that Mises published books on each of these (Mises, 1922, 1927, 1940). More importantly, it is consistent with his own discussion about these books. He writes:

In my analysis of [the problems of socialism, liberalism and interventionism] I introduced a new point of view, the only one that allows a scientific discussion of these political questions. I inquired into the effectiveness of the chosen means to attain the avowed ends, that is, whether the objectives which the recommended measure were to attain would actually be achieved by the means recommended and employed. I demonstrated that an evaluation of the various systems of social cooperation is rather pointless when conducted from an arbitrary point of view. Instead, what only is significant is to judge what the systems indeed accomplish. (Contrarily), all pronouncements from the point of view of a religion, or the different systems of situational ethics, anthropology, positive law and natural law – if dissociated from the evaluation of their effectiveness to attain the desired ends – merely constitute expressions of subjective value judgments (Mises 1978: 114).

3. Value-Freedom

An outstanding feature of Mises's view is that, while it is directly concerned with evaluating arguments relating to public policy, it is nevertheless value free.

[The] postulate of *Wertfreiheit* can easily be satisfied in the field of the aprioristic science – logic, mathematics, praxeology [of which economics is a branch] – and in the field of the experimental natural sciences. It is logically not difficult to draw a sharp line between a scientific, unbiased treatment of these disciplines and a treatment distorted by superstition (Mises 1966: p. 48).⁴

The reason for this value freedom is that the *logic* of the arguments in economics is independent of any particular judgment about the effects of a policy. An argument may be logical but *irrelevant* to the policy proposal that is being evaluated. Although most of Mises's discussion of relevance concerns the task of doing history (e.g., *ibid.*: 57-58), he points out in his section of the "Procedure of Economics" that "the end of science is to know reality." "Therefore, praxeology restricts

⁴Also see Mises 1978: 114, as quoted above. Also see Kirzner 1994 paper on on *Wertfreiheit* in Mises's work.

its inquiries to the study of acting under those conditions and presuppositions which are given in reality" (*ibid.*: 65). As a result, in the presentation of its results, economics adopts "a form in which aprioristic theory and the interpretation of historical phenomena are intertwined" (*ibid.*: 66). It follows from this that when one attaches the label "pure theory of choice" to Mises's economics, she ought to mean: "the theory that is implicit in the a priori assumption that human beings act combined with subsidiary assumptions that are made with respect to the problem or problems in reality with which one aims to deal."⁵

How does the argument that economics is value free square with Mises's strong liberalism in economic affairs? In discussing the procedure of building an image of the pure market economy, he writes:

It is true that economists have drawn from their investigations the conclusion that the goals which most people, practically even all people, are intent on attaining by toiling and working and by economic policy can best be realized where the free market system is not impeded by government decrees. But this is not a preconceived judgment stemming from an insufficient occupation with the operation of government interference with business. It is, on the contrary, the result of a careful unbiased scrutiny of all aspects of intervention (*ibid.*: 238).

Thus, the economist's conclusions about the market economy stem not from a normative judgment but from the study mostly of the logic but also of the relevance of arguments favoring intervention.

⁵The reference to "economics" here is to economics in the narrower sense. Mises also calls this catallactics (*ibid.*: 234).

References

Kirzner, Israel. (1994) "Value-Freedom." In Peter J. Boettke (ed). *The Elgar Companion to Austrian Economics*. Brookfield, Vermont: Edward Elgar Publishing Company.

Salerno, Joseph T. (1990). "Mises as Social Rationalist." *Review of Austrian Economics*. 4: 26-54.

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

Mises, Ludwig von. (1978) *Notes and Recollections*. South Holland, IL: Libertarian Press.