

Economic Science and the Austrian Method

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Praxeology and Economic Science

I

What is the subject matter of economics and what kinds of propositions are economic theorems?

Mises says that its statements are:

- unlike those in the natural sciences
- *not* derived from experience
- not susceptible to verification/falsification on the basis of experience
- logically and temporally antecedent to any comprehension of historical facts
- necessary requirements of any intellectual grasp of historical events
- a priori

The idea of economics as an a priori science is what distinguishes AE from all other current schools.

Mises saw his views as not out of line with mainstream view in his times. People like Say, Nassau Senior, Cairnes, Menger, Böhm-Bawerk and Wieser for example all described economics in ways similar to Mises though they did not use the term 'a priori'.

Mises did not want to *prescribe* what economists should be doing but wanted to make explicit what economics really was as people had always understood it, and systematize this knowledge. In doing so he used terminological and conceptual distinctions that had previously been unclear and unfamiliar, but which just brought out what was already implicit before.

So what is the rationale between Mises's and the classical economists' distinction between the statements of economics and the natural sciences?

The validation process of economic statements like law of marginal utility, law of association, reversed valuation, quantity theory of money is not experimental, but instead follows from our understanding of what exchange is.

But then the question is how is it possible for some theory that doesn't require observations to tell us something about reality? Mises's brilliance lies in his answer to this question. To see this we need to discuss epistemology, the philosophy of knowledge.

Immanuel Kant said that all propositions can be classified in a two-fold way:

1. analytic (true/false on basis of formal logic alone) vs. synthetic (all other prop's)
2. a priori (observations are *not* necessary to establish truth/falsity) vs. a posteriori (they *are*)

Kant claimed that *synthetic a priori* truths existed: propositions whose truth-value can be definitely established even though formal logic is not sufficient for doing so and observations are unnecessary. *Mises agreed and in this sense Mises was a Kantian.* Kant gave mathematics and geometry but also e.g. the principle of causality as examples.

So what makes such propositions true according to Kant? Their truth follows from self-evident axioms. But not self-evident in a psychological sense, but in the sense that we cannot deny their truth without contradicting ourselves. We can find such truths through reflecting on ourselves as *knowing* subjects. Reflection/reason, because it is an inner rather than observational experience, can understand things as being necessarily the way they are because it has produced it according to its own design.

This raises the problem of idealism (reality created by the mind) though, and Mises may have solved this by insisting that our mind is one of *acting* persons and so our mental categories (synthetic a priori) are ultimately grounded in categories of *action*. Action bridges the gulf between the mental and the physical and so provides us with a realist epistemology. *So we can have a realist epistemology that gives us true synthetic a priori knowledge by reflecting on the concept of action.* Causality for example must be presupposed if we are to act.

Thus in true Kantian the categories *values, ends, means, choice, preference, cost, profit and loss, time, causality* and the resulting *principles* (marginal utility, association, etc.) are not

observable or psychologically self-evident, but *are* about reality and can be had from *reflective understanding* into the nature of action. This is what Mises made explicit.

Praxeology then says that all economic propositions that claim to be true must be shown to be deducible by means of formal logic from the undeniably true material knowledge re the meaning of action. All economic reasoning then consist in:

1. understanding of categories of action and changes occurring in them
2. a description of a world in which categories of action assume concrete meaning (e.g. Robinson Crusoe world, world with several actors, world of barter, etc.)
3. a logical deduction of consequences which result from performance of some action in this world, or of changes in this situation for an actor.

If there ain't no flaw in reasoning then the conclusions are necessarily true and economics is like an applied logic.

II.

Non-praxeological schools of thought mistakenly believe that relationships between certain events are well-established empirical laws where they really are necessary and logical praxeological ones. And so they think that such statement require testing in different times and places. This points to a difference in view of the relation between *theory* and *history*.

Empiricism holds that there cannot be a logical/structural difference between theory and history.

Empiricism is characterized by two statements:

1. empirical knowledge/knowledge about reality must be verifiable/falsifiable. All such knowledge is contingent and hypothetical
2. To explain causally or predict a phenomenon is to formulate a statement of either the kind if "If A then B" or, if the variables allow for quantitative measurement "If an increase (decrease) in A, then an increase (decrease) in B"

This implies that for empiricism we cannot know with certainty whether something is a possible cause for something else and if we want to explain some phenomenon our hypothesizing about possible causes *is not constrained by a priori considerations*. For empiricism we can find out which of the great many possible events are causes for other events by using hypotheses to predict events that have not yet occurred.

Hoppe then goes on to challenge the empiricist assumptions:

1. If empirical knowledge must be verifiable/falsifiable and analytical knowledge contains no empirical knowledge, then what about this statement itself? If it is analytical it is without meaningful content. If it is empirical then it has to be verifiable/falsifiable. If it is not, we have a contradiction. If it is, then it ceases to be an epistemological statement that allows us to make any principled points about e.g. the possibility of synthetic a priori statements. So this was an a priori refutation of empiricism, showing how it leads to self-contradiction. And thereby it shows that the Kantian/Misesian view of true synthetic a priori statements is correct. And it shows that the relationship between theory and history cannot be as depicted by empiricism. There must be a realm of empirically meaningful theory distinct from posteriori synthetic propositions.
2. Actions are phenomena of human action and empiricism would explain them by means of causal hypotheses that can be verified/falsified by experience. But in order to, as is required in empiricism, relate different experiences regarding sequences of events as either confirming or falsifying each other, we must assume constancy over time in the operation of causes as such and to know that causes for action do exist is knowledge about the reality of actions, which is synthetic a priori knowledge.
3. If actions are governed by time-invariantly operating causes, then what explains the explainers? What causes their actions? To change hypotheses in the face of evidence one must be able to learn, but if one can learn from experience in yet unknown ways then one cannot know at this time what one can know at a later time and thus how one will act on the basis for such new knowledge. So one can only explain causes of knowledge *after* the event.

So knowledge, which itself is a domain of study like other natural phenomena, cannot be predicted, which fails the empiricist assumptions.

This then also means (established through a priori reasoning) that social history as opposed to natural history does not yield any knowledge (because action is based on ideas/knowledge and knowledge is unpredictable as we just established) that can be employed for predictive purposes.

So if we cannot use the tool of prediction to make sense of social science, then we can also not explain historical events by way of theory according to empiricism. But clearly this does not imply that one reconstructive historical explanation is as good as another.

But how can we account for these differences? By understanding people's motives and interests, convictions, aspirations, normative orientations, perceptions that result in certain actions and by studying the praxeological consequences of such actions. To do so we must 1) engage in a pseudo-conversation with a historical actor (perhaps by making clear what the person himself could not or would not make clear or admit to), and 2) use the *constraints* that synthetic a priori true theory about action gives us, e.g. in the form of economics.

This means that history can never be an *exact* science, but is more akin to an *art* that is done by understanding people's motives etc. and by applying synthetic a priori true theory to events. The same holds for making e.g. economic *predictions*. We cannot for example hold constant all the factors and by definition cannot predict people's future states of knowledge (as we just saw) but we can try to *understand* people's actions and see what the praxeological consequences of certain actions are. This *constrains* the range of interpretations and predictions.

Hoppe then holds that *on average in the long run* (so not always) this would mean that such predictors would make better predictions than people not equipped with these insights.