

Realism and Abstraction in Economics: Aristotle and Mises versus Friedman

Roderick Long

Austrians frequently criticize neoclassical economics for the unrealistic character of its assumptions. Things like rivalry, imperfect information, non-monetary incentives are left out of the idealized models because neoclassicals (e.g. Friedman) think that abstracting the ‘common and crucial characteristics’ away from mass of complex and detailed circumstances will, although they are admittedly false as representations of reality, yield better predictions.

Austrians don’t want to make such predictions, but want to understand, make sense of reality by using a priori true theory. Neoclassicals use the wrong type of abstraction (precise abstractions) supposedly resulting in false theories that yield good predictions. Austrians use the right kind of abstraction (non-precise) yielding a priori true theories that enable understanding.

Aristotle distinguished between two types of abstraction, and people like Abelard and Aquinas and Rand followed him therein:

- a) precise abstractions: an abstraction in which certain actual characteristics are specified as absent. (e.g. ideal type of ‘horse’ without color in Platonic realm, or neoclassical model as model of reality)
- b) non-precise abstractions: abstractions in which certain actual characteristics are absent from specification. (‘horse’ says nothing about the color of any particular horse. Color is absent from the specification, although every horse has a color)

If economic theory abstracts from a mass of complex details it can do so by specifying in the theory that they are absent (precise. (which would make it a false/unrealistic theory)), or by failing to specify them (non-precise (which means that it need not be false/unrealistic))

Even Austrians do use precise abstractions, but they use them as pedagogical tools to clarify concepts: There are types of uses of precise abstractions in economics, a) model of reality to yield empirical predictions, b) pedagogical tools to clarify concepts. Examples:

- a) Perfect competition model: specifies the absence of entrepreneurial error (which makes it false/unrealistic), rather than just fail to specify its existence (which would likely make it worthless but not false/unrealistic) Intended to be (admittedly false/unrealistic) model of the world to yield empirical predictions.
- b) Evenly rotating economy: specifies absence of imperfect information, but is not intended to be a model of the real world and only is used to show how there would still be interest in a world of profit. So pedagogically useful false theory

Non-precise abstraction in physics and geometry and economics:

- a) Physics: It is often thought that physics and geometry also use admittedly false but useful idealizations: in real-life there will be other forces working on an object rather than just the law of gravity and physicists tend to abstract away from those when their influence is negligible, so they seem to be false, but useful abstractions/models of reality.

But what physicists in fact do is use non-precise abstractions: they only consider the motion of the object in terms of gravity, not thereby specifying the absence of the other factors, but failing to specify them.

- b) Geometry: We do not make the false assumption that lines with no width exist in reality, but we only consider objects in reality from the perspective of length, not specifying the absence of width, but failing to specify width.

- c) Economics: unemployment is influenced by many factors, so an increase in the minimum wage need not in reality decrease employment. But when the level of unemployment is considered only from the perspective of the minimum wage then we can say that an increase in the minimum wage

will cause unemployment to go up or stay the same. We do not specify the absence of other relevant factors, but fail to specify other factors. And so the praxeological law can be applied to all cases where there is unemployment when considered from the minimum wage perspective.

Milton Friedman's misunderstanding of the role and nature of abstraction in economics and his opposition to Mises' methodological apriorism have a common cause: a failure to distinguish between the psychological and the logical.

Friedman thinks of a priori reasoning as a subjective process of consulting inner contents of one's own minds, thereby making it impossible to publicly check and discuss. But logical (mathematical, praxeological) relations are at least as public as empirical ones and make exactly no appeal to psychological experiences of certainty because then its self-evidence would depend on the psychological experience. Friedman confuses psychological with logical relations.

This also accounts for his failure to see the possibility of non-precise abstraction: he confuses the act of thinking with its content. If this is done, then it becomes natural to assume that if something (complex factors abstracted away from) is absent from the act of thinking (psychological) it must also be absent from the content of thinking (logical).

Both Mises and Friedman make Friedman's mistake when it comes to the supposed impossibility of an a priori ethics.