

## Chapter 2

# Mises' Praxeology

Mises saw Menger's work on the STV<sup>1</sup> as revolutionary, because prior to its discovery economics was restricted to being a theory of wealth, selfishness, and the profit motive (Mises 1996, pp. 2–3). He was also profoundly influenced by it and became one of Menger's most prominent intellectual descendants with students like Friedrich von Hayek, Israel Kirzner, Alfred Schutz, and Murray Rothbard (Ebenstein 2003, p. 24; Eberle 2009). However, he also set out to establish greater methodological clarity for

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<sup>1</sup>The STV may seem intuitively obvious once explained and is in principle accepted by all mainstream economists since it serves as the most fundamental assumption for utility theory. However, it should be mentioned that there was previously considerable confusion as to which idea of value would be relevant to economics (Smart 1931, p. 1). For example, in “The Wealth of Nations” of Smith (2009, pp. 20–21) one finds him defining the value of a good in terms of the utility (usefulness) of the object, the purchasing power it provides for other goods, or the toil and trouble it can save or buy. Marx (1959) expanded upon the latter idea and held that a “useful article... has value only because human labour in the abstract has been embodied or materialised in it”.

However, the concepts of value as usefulness or purchasing power do not explain, e.g., why water has little exchange value compared to diamonds (Smith 2009, pp. 20–21). Moreover, a theory based on embodied labour was also found by some to have problems. E.g., Bastiat stated: “We can give the general name of obstacle to everything that, coming between our wants and our satisfactions, calls forth our efforts. The interrelations of these four elements—want, obstacle, effort, satisfaction—are perfectly evident and understandable in the case of man in a state of isolation. Never, never in the world, would it occur to us to say: “It is too bad that Robinson Crusoe does not encounter more obstacles; for, in that case, he would have more outlets for his efforts; he would be richer... It is too bad that the sea has cast up on the shore of the Isle of Despair useful articles, boards, provisions, arms, books: for it deprives Robinson Crusoe of an outlet for his efforts; he is poorer... It is too bad that Robinson Crusoe has invented nets to catch fish or game; for it lessens by that much the efforts he exerts for a given result; he is less rich” (Bastiat 2001, p. 96). These were points well made, but the solution to the problem of defining economic value in a unified manner was still missing.

the Austrian School (Mises 2002, p. 18).<sup>2</sup> That is, to clarify the methodology of Economics as a study of Human Action, i.e., as a process of exchange under uncertainty. It was this effort that culminated in proposing his Praxeology as a methodology distinct from the other methods commonly associated with sociology, such as positivism and historicism (Mises 2002, p. lxviii).

Mises' work on methodology was a reaction to the debate concerning what would be the appropriate scientific approach of economics. In other words, the dispute of whether Economics was an empirical science like physics, or merely a branch of history without the possibility of discovering economic laws (Mises 1984). However, Mises' contribution of Praxeology was a controversial response, for it proposed an approach founded on *a priori* statements regarding purposeful choice; the *categories of human action*. Mises had come to this because he had observed that Menger's theory implied that economics is not fundamentally about objects behaving with constant regularity, or about the psychological content of people's wants or decision making, or even something without regularity altogether. Rather, it was a science based on ends and means, and their implied meanings; about *thought and its manifestation in action*, as had been pointed to by Max Weber

The theory of marginal utility, and every other subjective value theory, are not psychologically, but, if one wants a methodological term, 'pragmatically' based, i.e. they involve the use of the categories 'ends' and 'means.' (Lachmann 1976)<sup>3</sup>

Accordingly, Praxeology was founded on the implication of ends and means, namely, conscious action involving a chosen purpose, as opposed to sleep walking or action that is purely reflexive, such as a knee jerk. However, to Mises this was more than merely a good place to start one's analysis. Rather, it was an *a priori* category or axiom in the sense that it is "a self-evident truth... the cognition of the fact that there is such a thing as consciously aiming at ends" (Mises 1962, pp. 6–7).

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<sup>2</sup>Economics of course is only a part of Praxeology and its scope of study is mainly "the analysis of the determination of money prices of goods and services exchanged on the market" (Mises 1996, p. 234).

<sup>3</sup>Translation by Lachmann (1976) of Max Weber's 1909 essay, "Die Grenznutzlehre und das psychophysische Grundgesetz".

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