

fashion, “Are Christians not obliged to respond [to attacks], even at the risk of dirtying their hands?” (p. 111). Someone who properly observes natural law does not “dirty his hands” or put himself at serious risk of doing so. Niebuhr, she says, “was the greatest public theologian of his time” (p. 106). One suspects that, in a conflict with Niebuhr’s realism, natural law would in her view give way. Nevertheless, she finds it convenient to support both positions. Evidently she needs a remedial course in logic as well as several in history. ■ MR

The Formalism of Mises

Epistemological Problems of Economics

LUDWIG VON MISES

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As every reader of *Human Action* knows, Ludwig von Mises devoted much attention to methodology. Many people interested in Austrian economics turn from his discussions of the *a priori* and *verstehen* in bafflement and boredom. “Enough

of these philosophical abstractions,” they say; “what we want is economics.” No greater mistake can be imagined if one wishes to understand Mises’s work.

Mises’s methodological views are vital to the grasp of his concrete teaching on economic issues. Thus we are in a position to understand better than ever before, thanks to Guido Hülsmann’s brilliant introduction to this welcome reissue of Mises’s most extended discussion of the nature of our knowledge of economics.

The vital core of Mises’s conception of economics can be seen in his confrontation with the great sociologist Max Weber. According to Weber, only some human actions count as rational. Weber contrasted “purposive-rational” action, in which an actor uses means to achieve ends, with other sorts of action, which, he claimed, do not display a means-ends structure.

Among these other sorts was what Weber termed valuational action. This is “guided by conscious belief in the unqualified *intrinsic* value of a definite mode of conduct—ethical, aesthetic, religious, or any other—purely for its own sake and independently of its consequences” (p. 88, quoting Weber).

Mises quickly identified the fallacy in Weber’s claim that valuational action lacks a means-ends structure. “[I]t is quite clear that what Weber calls ‘valuational’ behavior cannot be fundamentally distinguished from ‘rational’ behavior. The results that rational conduct aims at are also values, and, as such, they are beyond rationality” (p. 90). For economics, the ends of action

are neither rational nor irrational: rationality refers only to means.

Both “rational” and “valuational” behavior, in Weber’s sense, display exactly the same means-ends structure. Contrary to Weber’s view, “[I]t would be more accurate to say that there are men who place the value of duty, honor, beauty and the like so high that they set aside other goals for their sake . . . an action directed at their realization must likewise be termed rational” (p. 91). Mises argues in parallel fashion that Weber’s other cases of alleged nonrational action fall into the means-ends pattern.

But why does this matter? Is not Mises’s long analysis of whether all action displays his favored structure precisely a case of the useless, abstract discussions his critics dismiss as inconsequential?

Quite the contrary, Mises’s discussion is essential to his entire project of economic science. Once he has shown that all action involves the use of means to achieve ends, he is in a position to develop, in a detailed way, various theorems about action, e.g., that an actor always seeks his most highly valued end.

Critics of Mises dismiss his results as formalistic. Is it not the merest tautology to say that an actor chooses what he values most highly? As Guido Hülsmann enables us to see, Mises’s formalism is the key to his entire conception of economics.

To Mises, action always involves a choice among ends. One expected outcome is preferred to another; and the

actor selects the means he deems best suited to achieve this goal. In a purely formal sense, the actor has maximized his expected utility; he has chosen what, at the time of his action, he most wants. But, as Hülsmann rightly stresses, there is for Mises no calculation in terms of units of utility.

Here, Hülsmann notes, Mises stood in stark opposition to many of his colleagues: “Now contrast this [view of Mises] with the perspective of those economists who think that economic

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calculation can be made in terms of utils [i.e., units of utility]. They too cannot get around the fact that the calculus does not in any sense determine human action. What is the significance then of marginal-utility theory, understood as a theory of calculated action? It means that this theory does not apply to just any human behavior, but only to those actions that would be observed if the acting person strictly followed the results of the utility calculus. From this point of view, therefore,

economics does not deal with human action *per se*, but only with *one aspect* of human action—‘rational’ or ‘logical’ action” (p. xxvi). Hülsmann points out that both Wieser and Pareto adopted this position.

Hülsmann seems to me exactly on target here. I should like in this connection to call attention to a crucial, but little noticed, passage in *Human Action*: “The attempt has been made to attain the notion of a nonrational

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action by this reasoning: If *a* is preferred to *b* and *b* to *c*, logically *a* should be preferred to *c*. But if actually *c* is preferred to *a*, we are faced with a mode of acting to which we cannot ascribe consistency and rationality. This reasoning disregards the fact that two acts of an individual can never be synchronous” (*Human Action*, Scholar’s Edition, p. 103). Just as Hülsmann has indicated, Mises repudiates a basic

assumption used by economists who endeavor to construct a value calculus.

But have we met the objection raised earlier? Once again, is not the question of whether economic theory governs all human action, or only a more narrowly delimited class of rational action, exactly the sort of desiccated abstraction that repels many potential readers of Mises?

Not at all. Suppose that, contrary to Mises, value calculation was possible. Then, one might attempt to determine an “efficient” scheme of production and distribution in entire independence of the market. In like fashion, the results obtained on the free market could be tested against the standards derived by value calculations. The market might be “weighed, and found wanting in the balance.”

For Mises, all this is impossible. Economic calculation arises only with monetary prices, and these can exist only in a market economy. “Money . . . thus becomes an indispensable mental prerequisite of any action that undertakes to conduct relatively long-range processes of production. Without the aid of monetary calculation, bookkeeping, and the computation of profit and loss in terms of money, technology would have had to confine itself to the simplest, and therefore the least productive, methods” (p. 166).

Mises goes so far as to call this emphasis on monetary calculation “the most important discovery made by economic theory. Its practical significance can scarcely be overestimated. It alone gives us the basis for pronouncing a final judgment on all kinds of

socialism, communism, and planned economies” (p. 166).

Thus a seemingly abstract point lies at the heart of an issue of the utmost practical importance. Can socialists escape the force of Mises’s contention that calculation in values is impossible? Their only hope is to acknowledge that economic calculation requires prices

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but to claim that a socialist system can generate them. Elsewhere in his work, Mises readily showed the futility of these claims.¹

He steers carefully between Scylla and Charybdis, in order to maintain his view that economics is a science that applies to all human action. Against the classical economists of the nineteenth

century, who largely confined economics to actions motivated by monetary gain, Mises contended that all action, whether or not motivated by the hope of maximizing monetary income, shares a common structure. But against some of his fellow supporters of the subjective theory of value, he denied that economics studies only a delimited class of rational actions, governed by a value calculus.

Mises treats with scorn those who presumed to reject the teachings of his general science of action. Alfred Vierkandt, a once-prominent German sociologist, denied that human beings always aim to maximize their welfare, as they understand it. This view was nothing more than an individualistic fallacy. Instead, people frequently acted instinctively, in ways that subordinated their selfish concerns to the good of society.

One such “innate social propensity,” Vierkandt tells us, is the instinct of subordination. Animals already manifest this tendency, as in the loyalty and obedience a dog displays for his master. Mises remarks: “we do not doubt that he [Vierkandt] has really experienced all this. Indeed, we shall go still further and not deny his qualifications to speak from direct personal experience about the ‘truly human inner devotion of the dog to his master’” (p. 58).

Mises did not frequently display his talent as a satirist; and I shall end with another aspect of his work that he usually kept below the surface. Mises was a scholar of great learning, but he did not put his erudition on display. In one

¹See especially *Human Action*, Scholar’s Edition (Auburn, Ala.: Ludwig von Mises Institute, 1998), pp. 701–11.

passing remark, though, he shows his level of knowledge: “Gresham’s law—which, incidentally, was referred to by Aristophanes in the *Frogs*, and clearly enunciated by Nicolaus Oresmius (1364), and not until 1858 named after Sir Thomas Gresham by Macleod—is a special application of the general theory of price controls to monetary relations” (p. 93). ■ MR

The Politics of Good Fortune

Justice, Luck, and Knowledge

S.L. HURLEY
HARVARD UNIVERSITY PRESS, 2003
VIII + 341 PGS.

Susan Hurley has written a book of fundamental importance. Although she is by no means a libertarian, and uses no distinctively libertarian assumptions, she eviscerates the egalitarian theories most influential in contemporary political philosophy. Not content with her critical triumph, she advances a new approach to justice; but this fails to break sufficiently with the egalitarian theories whose customary rationale she has challenged.¹

¹Robert Nozick thought very highly of Hurley’s earlier book, *Natural Reasons*

A line of thought present in John Rawls’s *A Theory of Justice* (1971) has shaped much of the subsequent discussion of distributive justice. Rawls claimed that people do not deserve to benefit from their natural assets. Michael Jordan possesses enormously more skill at playing basketball than I do; but why should this unfortunate state of affairs enable him to earn an income somewhat higher than mine?

But why should we not profit from our talents? Why do we not deserve them? And even if, in some plausible sense, we do not deserve them, why are we not entitled to benefit from them? One way of understanding Rawls’s answer is this: our natural abilities, whether good or bad, are the product of luck. We are not responsible for them and hence should neither benefit nor suffer from them.²

As Hurley notes, a problem arises if one reads Rawls in this way. This interpretation makes responsibility central to justice, but Rawls sometimes denies that concepts of responsibility play a central role in the theory of justice: “If you judge that no one is responsible for his natural assets, you make a negative judgment, true. But it is still a judgment about responsibility. . . . If

(1989); but, in commenting on her later work in philosophy of mind, he also noted that she tends to express herself with unnecessary complexity. This problem, I regret to say, is present in *Justice, Luck, and Knowledge*.

²Rawls’s contention may have come from Frank Knight. See my discussion in the *Mises Review* (Fall 2000): 3–4.