

Human Nature and the Character of Economic Science

The Historical Background of the Misesian Perspective

By *Israel M. Kirzner*

IT HAS LONG BEEN RECOGNIZED THAT ECONOMICS DEPENDS, for the derivation of its theoretical propositions, upon its understanding of human nature. This paper pursues this insight in order to understand Ludwig von Mises's position on the epistemological character of the propositions that make up economic theory. Our thesis will be that, in the course of the history of economic analysis from the classical economists to Mises, the manner in which these propositions depend upon our understanding of human nature came itself to be understood in a more profound way—with consequently more sensitive appreciation for the epistemological uniqueness of economic science.

Mises's assertions concerning the a priori character of economic science are fairly well known. These assertions were, at the time they were first made in the 1930s, considered rather strange, even by economists otherwise sympathetic to Mises's economics.¹ Our objective in this paper is not to defend Mises in any systematic way against his critics. Our purpose, rather, is to acquire insight into his position by reference to its historical background. In developing our thesis we shall discover that Mises's views on the a prioristic character of what he called the "science of human action"² depend critically upon the refinements that he introduced into our understanding of the manner in which the theorems of economic science derive from "human nature."

Classical Economics and *Homo Oeconomicus*³

THE NOTION OF 'ECONOMIC MAN' PLAYED A CENTRAL ROLE in classical economics from Adam Smith to David Ricardo to John Stuart Mill. Although this notion underwent some modification during the classical period, it was at all times closely associated with the idea of wealth, which, for all the classical economists, constituted a central focal point for defining the field of political economy (as economics was then known).

The earlier classical economists in fact defined their discipline as simply the study of the phenomena of wealth; they did not define their discipline in terms of 'economic man'. Rather, because they believed that wealth phenomena are universally characterized by the relentlessness and the uncompromising self-interest with which they are pursued, they saw such pursuit, driven by systematic materialistic interest, as enabling them to derive determinate regularities prevalent in the phe-

Israel Kirzner, considered one of the leading figures of the Austrian School of Economics, is a professor of economics at New York University. His published works include The Economic Point of View and Competition and Entrepreneurship.

nomena they had chosen for study.

Mill explored the epistemological character of economics more deeply than earlier classical economists had done. In an essay published in 1836 (but apparently written several years earlier), he analyzed the idea of “laws of the production of...wealth” and pointed out that some of these laws are physical laws. What belongs in political economy are only those of the laws of the production of wealth that “are laws of the human mind.” Political economy, Mill went on, does not treat the whole of man’s nature: “it is concerned with him solely as a being who desires to possess wealth....It makes entire abstraction of every other human passion or motive; except...aversion to labor, and desire of the present enjoyment of costly indulgences.”⁴ In other words, while Mill retained the central focus upon wealth in his conception of the scope of political economy, he did not see the discipline as the study of the phenomena of wealth itself. Instead, Mill conceived of political economy as the study of the operation of human wealth-seeking activities. Because such wealth-seeking activities were seen as significantly actuated by selfish, materialistic desire, political economy was now, in effect, the science of ‘economic man’ (classically defined). Because Mill recognized that other motives may often be significant, too, he saw political economy as a hypothetical science. In other words the conclusions at which economic theory arrives (by employing the assumption of ‘economic man’) are true only insofar as that assumption is indeed valid.

The conclusions at which economic theory arrives (by employing the assumption of ‘economic man’) are true only insofar as that assumption is indeed valid.

As Marion Bowley showed in *Nassau Senior and Classical Political Economy*, Nassau Senior sharply disagreed with Mill regarding the hypothetical character of political economy. He attempted to establish political economy on firmer ground, arguing (in the 1840s) that the science does not depend on the hypothesis that “wealth and costly enjoyments are the only objects of human desire”—but only on the weaker claim that “wealth and costly enjoyments” are “universal and constant objects of desire.”⁵ The validity of economic theory is then positive, not hypothetical, although Senior of course recognized that the theory holds only “in the absence of disturbing causes.” Moreover, Senior defined wealth more broadly than the earlier classical economists had done, including in it also immaterial goods, including services.⁶

Human Nature and the Character of Classical Economics

WHETHER (AS WITH THE EARLIER CLASSICAL economists) the selfish, materialistic character of economic man is a device employed to achieve determinate analytical results believed to be manifested in the real world, or (as with Mill) the assumed character of economic man defines the discipline itself (or, with Senior, ‘wealth’ is made broader, to include services), the classicals shared one perspective. This perspective

is their picture of human nature, expressed in the portrait of 'economic man', which shapes the conclusions of classical political economy. Economic knowledge, for classicals, meant knowledge of the implications of selfish, wealth-seeking behavior.

The major thinkers at the close of the classical era, Mill, Senior, and John E. Cairnes, did debate the epistemological status of the propositions so derived. These debates (like so many that would roil economics during the subsequent half-century), focused on the roles of induction and deduction in arriving at these propositions, the empirical basis for the assumptions made about the character of 'economic man', or the nature and role of supplementary premises required to apply pure theoretical insights to concrete situations.⁷ What is significant for our present purposes, however, is not these disagreements but rather the shared perspective that pervades the methodology of these writers. As Mises has argued, there is a sense in which, despite superficial rhetoric to the contrary, all of them can be seen as pointing, at least, to the possibility of a purely a priori science of human action. Their focus was no longer on things, but on human nature. And, for Mises, as we shall see, the essential element in human nature permits us to derive new knowledge, independent of empirical observation. On the other hand, however, we must also emphasize that for all of these thinkers the foundation of economic understanding did depend on the validity of a particular empirical observation, namely, the wealth-seeking behavior of human beings;⁸ none of these writers endorsed, or could have endorsed, Mises's view of economics as a purely a priori science.

What is responsible for this inability of classicals to accept the Misesian view of economics as a pure logic of human action is of course the non-Misesian view of human nature that, in spite of their differences, they shared. The behavior of 'economic man' follows very specific patterns. It is true that the classical economists believed these patterns to be widely and typically observed; however, they would not have disputed the possibility, at least, that some patterns of behavior would not fit the mold of *homo oeconomicus*. The observed behavior of familiar human beings suggested the suitability of working with the model of 'economic man'. But we can easily imagine a society of human beings whose behavior would not fit that model. Most importantly, the deductive logic used by the economic theorist was in no way itself characteristic of *homo oeconomicus*. Although the economic theorist uses his own logic to understand the behavior patterns of wealth-seeking human beings (who are certainly presumed to use their logic in choosing their courses of action), what defines *homo oeconomicus* is not his use of logic, but rather the particular purposes for which he deploys that logic.

The human nature (or rather the view of human nature) that provided the key to classical economics decisively diverted classical attention from the sense in which, as Mises was to argue, their own work might be said to point towards a purely a priori science of human action.

Lionel Robbins and the Character of Neoclassical Economics⁹

THE TERM 'NEOCLASSICAL ECONOMICS' SUFFERS FROM certain well-known ambiguities. For present purposes we use it to refer very broadly to the core of microeconomic theory as it developed from the marginalist revolution of the 1870s to its modern incarnation in contemporary textbooks. A crucial element in this microeconomics was identified and

emphasized by Lionel (later Lord) Robbins in his extremely influential 1932 book, *An Essay on the Nature and Significance of Economic Science*.¹⁰ There is much to suggest that, in crystallizing this element, Robbins was not merely putting his finger on a central feature of the economics that he knew in his own time, but was also significantly shaping the character of microeconomics as it would develop during the remainder of the century.

Robbins identified the perspective of the economist as that which focuses on the allocative aspect of human behavior. Because man desires many goals, and because he possesses only limited resources with which to achieve these goals, it is necessary for him to economize, that is, to apportion his scarce means among his multiple ends in such a way as to reflect faithfully his own ranking of the importance of these ends. Economics, for Robbins, “is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.”¹¹

Robbins went out of his way to emphasize not simply the novelty of his definition of economics, but the extent to which the very character of that definition differs from previous conceptions of the subject. As he pointed out, his definition did not (as earlier definitions had done) “attempt to pick out certain kinds of behavior, but focuses attention on a particular aspect of behavior, the form imposed by the influence of scarcity.”¹² Earlier definitions had held that it was possible to identify certain acts and activities as being “economic.” Robbins, however, saw this adjective not as describing specific kinds of activity, but as identifying a particular point of view from which actions (and their social consequences) could be examined.

Robbins saw the propositions of economics as derived from the recognition by the discipline of the economizing aspect of human behavior. The circumstance that human beings do allocate, economize, and strive to achieve efficiency shapes their actions in ways that can be systematically understood. What is responsible for economic understanding is not (as classical economics maintained) the circumstance that we know that human beings are selfish or materialistic wealth-seekers. What is responsible for economic understanding is, instead, our recognition of the influence of the human propensity to economize—a propensity that does not depend on the particular objects of human preference that empirical observation reveals. The validity of the theorems of economics no longer depends, as they did for classical economics, upon such empirical observation.

Robbins did not, however, conclude on the basis of understanding the foundations of economic knowledge in this way, that this knowledge is known to us a priori. It is true that much of Robbins’s 1932 book downplays the role of empiri-

Robbins saw the adjective ‘economic’ not as describing specific kinds of activity, but as identifying a particular point of view from which actions (and their social consequences) could be examined.

cal observation in the achievement of economic knowledge.¹³ But Robbins drew attention to the distinction between the chains of deductive reasoning that make up economic theorizing and the premises that afford the basis for those chains of reasoning.¹⁴ These premises include the “main postulates of the theory of value,” which consist of the observed facts of a) the fact of scarcity, b) the multiplicity of factors of production, and c) the ignorance of the future under which economic agents suffer.¹⁵ He drew further attention to the empirical character of these premises—as “elements in common experience”—as well as to that of the other results of “realistic investigations” for which he finds a place in economics. Robbins notes that the “validity of a particular theory” may depend safely upon the elements of common experience, but that “its applicability to a given situation depends upon...the forces operating in that situation”¹⁶—the determination of which may call for systematic investigation. There is no reason to doubt that Robbins would have accepted James Buchanan’s distinction between the “pure logic of choice,” which he described as “general but empty,” and the “abstract science of economic behavior,” which he described as “non-general but operational.”¹⁷ Robbins was explicit in his insistence that economics is not empty: “The concern of the economist is the interpretation of reality.”¹⁸

Nonetheless we can perhaps yet understand how Mises (who, as Buchanan noted,¹⁹ appears to reject Buchanan’s distinction in favor of a thesis defending the scientific character of a general science of human action) cited Robbins as one of those who take the subject of economics to be human action (and who must, one gathers from Mises’s discussion, therefore see economic science as an a priori science). The economic analysis of which Robbins was writing did, after all, consist in the deductive chains of reasoning that fill the theory textbooks. The premises or postulates that make up the basis upon which these chains of reasoning are constructed are unquestionably in the background. It is true that Robbins wrote that progress in economics has, at crucial stages in its history, consisted in “the discovery of the premises themselves.” It is true that he believed that the “perception and selection of the basis of economic analysis is as much economics as the analysis itself.”²⁰ But all this might still permit Mises to read Robbins as suggesting that the new knowledge that economic theorizing provides has been produced entirely by the human mind. Or so one might believe on reading Mises’s references to Robbins (and, one might add, on reading Robbins’s own frequent references to other aspects of Mises’s work).

The lingering doubts one has on the validity of such a reading by Mises (of the implications of Robbins’s insights for the epistemological character of economics) reinforce one’s sense of the distance beyond Robbins that had been (or which would be) traversed by Mises himself. And, we shall suggest, this difference is responsible for Mises’s own strongly held convictions concerning the a priori character of economics, seen as the science of human action.

Mises and the Character of Economics as the Science of Human Action²¹

AT ABOUT THE SAME TIME THAT ROBBINS WAS EXPOUNDING the foundations of the neoclassical microeconomics that would dominate for the rest of the century, Mises was articulating his own conception of economics as the purely a priori science of human action.²² It is something of a paradox that, although in the preface to his 1932 book Robbins acknowledged his “especial indebtedness to the works of Professor Ludwig von Mises,” the influence of Robbins’s book has been to set neoclassical economics on a path decisively different from that to which Mises’s own work was pointing.²³ For both Mises and Robbins, the source of economic theorizing lies in our understanding of the individual human decision. (This is an insight, one gathers, that Robbins gained from Mises’s works.) But the notion of human decision making for Robbins—the notion that, as we have seen, focuses on allocative efficiency—is not what Mises had in mind when he identified economics as the science of human action.²⁴

For Robbins (and for modern neoclassical microeconomics), the idea of the decision presumes the prior awareness by the decision maker of both the means at his disposal and his preference ranking among relevant (already identified) ends. Decision making itself then consists in selecting that course of action that will faithfully express, at the level of the scarce means, the postulated preference ranking among ends. It is for this reason that the decision is seen, in modern microeconomic theory, as a mathematical exercise in constrained maximization. (Microeconomic theory then proceeds to explore the possibilities of the simultaneous fulfillment, in a market society, of the individual decisions so made by the market participants.) But for Mises matters were quite different.

For Mises the notion of human action itself includes the agent’s determination of the facts of the ends-means framework relevant to his action. What is central to the notion of action is not any allocative pattern in which it may be expressed, but in the purposefulness of the agent. ‘Purposefulness’ (which for Mises is a word used virtually synonymously with ‘rationality’) is what inspires the agent to notice opportunities for improving his situation—with opportunities revealing themselves in the form of ends seen for the first time as worthwhile striving towards, and/or of means now discovered to be available. Human action then comprises both the discovery of hitherto unnoticed opportunities and the steps taken to exploit them: “In any real and living economy every actor is always an entrepreneur.”²⁵

For Mises the rationality of human action does not refer primarily to the mathematical logic that can ensure successful computation of the solution to constrained maximization problems. It refers also, and more fundamentally, to the alertness of the agent to the potential discovery of opportunities for beneficial action. The science of economics becomes the science of human action because the theorems of economics must depend not only upon the calculations of decision makers operating within given frameworks of ends and means, but, more crucially, upon their alert discoveries of opportunities for gain, with such opportunities presenting ends-means frameworks that had not been “given” at all. A science of human action, à la Mises, is not content to articulate the conditions that must be satisfied in order to permit all maximizing decisions in a society to be carried out as

planned. It focuses, in particular, on the dynamic processes generated by entrepreneurial discoveries of situations where the decisions of market participants do not dovetail. It is this perspective of Misesian economics which is responsible for the circumstance that, whereas the dominant neoclassical microeconomics has virtually no role whatever for the entrepreneurial element in markets,²⁶ Mises's own economics, the science of human action, places entrepreneurship at the very heart of the theory which forms its core.

Even so sympathetic a colleague and follower of Mises as Friedrich A. Hayek failed to recognize this element in Mises's system. Thus, in a famous 1937 paper (to which he would later in his career repeatedly refer as representative of an important turning point in the development of his own economic understanding), Hayek pointed out that economics seen as a pure logic of choice is simply not sufficient for the derivation of the important conclusions of economic science. For the latter it is necessary to rely upon (in addition to the logic of choice) our empirical observations concerning the way in which knowledge (of relevant economic opportunities) is communicated through the price system to decision makers. Hayek was, in this paper, delicately distancing himself from those Misesian assertions that saw economic theory as a purely a priori body of knowledge. The important conclusions of economic theory depend, Hayek argued, upon more than our understanding of the logic with which men choose (within given ends-means frameworks); they depend significantly upon patterns of learning upon which a priori logical analysis is unable to make pronouncements.

As this writer has elsewhere argued,²⁷ however, Hayek was proceeding from a Robbinsian, rather than a Misesian, point of departure. By the logic of choice, Hayek clearly understood choice within a given framework of perceived ends and means. From this perspective, the knowledge upon which such a given framework became given and the patterns of learning such knowledge are by hypothesis outside the logic of choice. They form part of economic understanding only to the extent that such understanding embraces also the economist's empirical observation of the ways in which knowledge is acquired. For this reason Hayek was, given his Robbinsian point of departure, entirely justified in distancing himself from Mises's pure a priorist stance. But, given our interpretation of Mises's conception of economics as the science of human action, Hayek's critique of the a priorist position can surely be deflected. In fact, Hayek's very objection may help us understand more clearly the sense in which Mises could claim economics to be an a priori science. What is involved here is recognition of the progressive abstractness in the view of human nature as it relates to economic analysis, which is (in contrast to Robbins) present in Mises.

As we saw, the classical economists derived their economic regularities only by assuming very specific objectives on the part of economic man. It was, we found, difficult to ignore the empirical component in the knowledge that economists were, in this way, able to produce. Again, in assessing the neoclassical approach crystallized in Lionel Robbins's conception of economic science, we found it difficult to ignore the empirical elements that Robbins saw as the basis for the deductive chains of economic reasoning. These empirical elements were distinct from those chains of reasoning, yet they played a definite role in arriving at the conclusions of economic theory. The pure logic employed in those chains of reasoning was itself not suffi-

cient to generate those conclusions. Hayek's identification of the patterns of learning upon which market equilibration must depend reinforces the conclusion that, for Robbinsian economics, a priori reasoning is simply not sufficient. Mises's perspective on economics does, however, permit us to see matters rather differently.

For Mises, we have seen, the "rationality" and purposefulness that inspire human action explain not only the allocative patterns that action will generate (once the relevant ends-means frameworks have been determined), but also the very perception of relevant ends-means frameworks. Such perception, built into the bedrock concept of human action, permits us to recognize, on purely a priori grounds, the tendency that alert human agents possess, to notice available opportunities. The tendencies, which economic theorizing takes for granted, for relevant knowledge to become acquired by relevant agents, need not depend, at least in the most general sense, on observed patterns of learning revealed in empirical investigations. Such tendencies are already implicit in the very idea of human action. Thus the theorems articulated by economic science can be seen to be already implicit in our understanding of the character of human action. The theorist, himself a human being, understands this character directly. In this sense Mises held economic theory itself to be independent of empirical input—although he was of course well aware of the importance of such input for the application of economic reasoning.

For classical economics it would be necessary for the economist seeking to understand human behavior to go beyond the essentials of his own introspective experience in order to postulate the selfish, materialistic, wealth-seeking behavior upon which he relies for his analysis. He could not predict such behavior merely on the basis of the rationality that he, the theorist, and the examined economic agent, share. He must, for his analysis, supplement his own direct insight into rational behavior by empirical information concerning the examined agents' objectives and style of activity. But for Mises the idea of action (including, as it does, the potential of arriving at entirely new ends-means frameworks as relevant for action) is broad enough to permit the theorist to reach conclusions simply on the basis of the rationality, the purposefulness, by which he, like the examined agents, is inspired. Mises saw in Robbins's formulations insights sufficiently close to his own as to suggest his a prioristic perspective. Hayek saw in Robbins's formulations (and especially in his own application of those formulations to patterns of market learning) the limitations that those formulations imply for the possibility of purely a prioristic theorizing. Because Mises offered a view of economics that went, in its abstractness, beyond Robbins, he was able to identify a sense in which the theorist's knowledge is indeed, at the purest level, independent of empirical observations.

Human Nature and the Character of Economic Science

IN INSISTING ON THE PURELY A PRIORI CHARACTER OF economic theory, Mises did not believe that he was offering any revolutionary epistemological doctrine. He believed that, whether or not they quite realized it, the great economists, at least from Mill, Senior, and Cairnes onwards, were in fact pointing to this very insight. He saw the evolution of the economists' view of market participant decision-making, from the wealth-seeking behavior of classical *homo oeconomicus*, to the efficiency-seeking Robbinsian economizer, to the purposeful rationality of his own *homo agens*—as a process of steady epistemological refine-

ment. The contribution of the pure economic theorist, he saw, does not itself depend (and never has really depended) upon information for which he must go beyond his own direct introspective understanding of human behavior.

We referred earlier to Buchanan's distinction between (a) the "general but empty" character of Mises's science of human action, and (b) the "non-general but operational" abstract science of human behavior. Mises himself might perhaps not have objected strongly to the validity of this distinction. But he would have insisted on the epistemological autonomy within any "abstract science of human behavior" of the general, a priori science of human action. Only by insisting on such separability and autonomy, he believed, can the unique contributions of economic theory be recognized for what they are.

This writer once asked Mises how we know that human beings "other than ourselves" are in fact rational and purposeful. His answer was both surprising and revealing. He replied: "By observation."

This writer once asked Mises how we know that human beings "other than ourselves" are in fact rational and purposeful. His answer was both surprising and revealing. He replied: "By observation." I take this to mean that, in insisting on the a priori character of economic theory, he was referring strictly to the chains of reasoning of which economic theorizing consists. He was not challenging the sense in

which the relevance (and certainly the applicability to specific situations) of such theorizing must rely on empirical observation. But clearly, also, he viewed the observation that there exist other purposeful human beings in this world, as a background observation, not at all as part of the new knowledge and understanding that economics itself can provide. It is because such observations are so emphatically background observations that Mises felt able to insist (for reasons that go beyond the scope of this paper) on the epistemological autonomy of the pure science of human action that, for Mises, makes up the identifiable core of economic theory.^q

Notes

1. For an example of more recent critical views of Mises's epistemological position, see Robert Nozick, "On Austrian Methodology," *Synthese* 36 (1977): 353-92.

2. For an early statement of Mises's position, see his 1933 paper, "The Task and Scope of the Science of Human Action," *Epistemological Problems of Economics* (Princeton, NJ: Van Nostrand, 1960). Later and more detailed statements are his *Human Action* (New Haven: Yale, 1949), *Theory and History* (New Haven: Yale, 1957), and *The Ultimate Foundation of Economic Science*, rev. ed. (Kansas City: Sheed Andrews & McMeel, 1978).

3. This section draws, in part, upon the writer's *The Economic Point of View* (Princeton, NJ: Van Nostrand, 1960), 51-57.

4. John Stuart Mill, "On the Definition of Political Economy", in *Essays on Some Unsettled*

Questions of Political Economy (1844; reprint, London School of Economics and Political Science, 1948), 137.

5. As cited in Marion Bowley, *Nassau Senior and Classical Political Economy* (London, 1937), 61.

6. See Bowley 45-46.

7. For some account of these debates, see Mises *Epistemological Problems* 18-22; Bowley 53-65.

8. See Mises *Epistemological Problems* for discussion of whether this observation might possibly be introspective.

9. This section draws, in part, upon the writer's *The Economic Point of View*, ch. 6.

10. Although the book emphasizes its intellectual indebtedness to a number of Austrian economists (and in particular to Mises), we shall in what follows be contrasting certain aspects of Robbins's views with those of Mises.

11. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed. (London: Macmillan, 1935), 16.

12. Robbins 16-17. For the extent to which Robbins was indebted to P. H. Wicksteed in this regard, see Robbins's introduction to P. H. Wicksteed, *The Common Sense of Political Economy* 2nd. ed. (1934), xxii.

13. See Robbins, *Essay on the Nature and Significance*, ch. IV, V.

14. Robbins 105.

15. See Robbins 78-79, 115.

16. Robbins 116-117.

17. E. Streissler et al. (eds.), *Roads to Freedom; Essays in Honour of Friedrich A. von Hayek* (London: Routledge and Kegan Paul, 1969), 52.

18. Robbins 105.

19. Buchanan, in Streissler et al. 52.

20. Robbins 106.

21. For further development of ideas in this section, see the author's *Economic Point of View*, ch. 7.

22. See his 1933 article noted above, n. 2.

23. On this see V. C. Walsh, *Introduction to Contemporary Microeconomics* (New York: McGraw-Hill, 1970), 17ff.

24. For an exposition of the differences separating neoclassical economics from the Misesian (i.e. modern Austrian) approach to economics, see the writer's "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach," *Journal of Economic Literature* 35 (March 1997), 60-85.

25. Mises, *Human Action*, rev. ed. (Chicago: Contemporary Books, 1966), 252.

26. On this see W. J. Baumol, "Entrepreneurship in Economic Theory," *American Economic Review* 58 (May 1968), 72.

27. Israel M. Kirzner, *Perception, Opportunity and Profit* (Chicago: University of Chicago Press, 1979), ch. 2.