

Ask The Professor

Human Action

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It is hard to summarize one of the most important, and one of the longest, books in 20th century economics in the space available for Ask the Professor. So rather than summarize all of the wonderful insights in Ludwig von Mises' *Human Action*, I will attempt to do three things: identify the book's key features, indicate how Mises' "Austrian" approach to economics differs from that of the mainstream of economic thinking in the 20th century, and then discuss the impact his book has had on economics and on the classical liberal tradition of which he was a key part.

The three core insights of the book are its emphasis on the subjective nature of value, knowledge, and human choice; the market as a process not an equilibrium; and the role that markets play in facilitating social cooperation more broadly.

For Mises, as the book title suggests, economics is the study of human action. Action, he argues, is fundamental to what makes us human: we are always in a state of "felt uneasiness" from which we wish to take action to remove that uneasiness. The actions we take and when we take them are ultimately subjective, that is, they are determined by our own judgments of the ends we wish to achieve and our own judgments of the best means to achieve these ends. The knowledge we have in our heads is uniquely ours and it informs how we subjectively value means and ends, and these valuations in turn lead to the choices we make. There is nothing mechanical or automatic about this process. It requires conscious action. This subjective process from knowledge, to valuation, to choice-in-action is the starting point of all economic analysis for Mises.

The analysis of human action in its most general manifestations is what Mises called "praxeology." There is much confusion over this word, as some believe it was Mises'

attempt to create some sort of new method for economics, but he was actually doing two different things with that word. First, he was demarcating the subject matter of *Human Action* as part of what we would today call the “social sciences.” Indeed, praxeology *is* the study of human action, with economics being, as Mises frequently put it, “its most well-developed branch.” Second, he was referring to the method by which economists had *historically* come to study human action. Praxeology was not something Mises was inventing, but rather something he was describing as the way good economics had always been done.

From Mises’ understanding of the subjective nature of knowledge, valuation, and choice, he attempted to build up a complete understanding of economics in *Human Action*, from the basics of how prices emerge from valuation and choice and monetary exchange to the business cycle to the problems with various forms of government intervention and the impossibility of socialist planning. In all of these cases, the central insight was that the market was not a “place or a thing” but “a process.” Markets, particularly the exchange of private property for money, were a way in which humans attempted to improve their perceived situations. Markets were not, as they were being more frequently depicted in mainstream economics, simply places where consumers and producers met to maximize utility and profits respectively based on prices “given” to them. The market was not, for Mises, a maximization machine; the market was a dynamic process of change, learning, and growth.

Like his student Hayek, Mises saw competition in particular as a kind of “discovery process” by which producers responded to the demands of consumers by first figuring out what they wanted and then how to produce it at the lowest cost. The answers to those questions were not simply “given” to market participants, nor were they automatically discovered by maximizing utility or profit functions. They were the result of conscious entrepreneurship involving active appraisals of both the present and the various possible futures in a world of pervasive, but not debilitating, uncertainty. Mises argued that in order to figure out what consumers want, entrepreneurs need to make use of prices generated by genuine free market

competition. Engaging in calculations of prospective profit and loss would guide entrepreneurs in their attempts to push back at the uncertainty of the future. And actual profits and losses would tell them after the fact whether their choices were good ones. In this way, Mises saw free markets as indispensable for figuring out what to produce and how to produce it.

More generally, what markets made possible was nothing less than human social cooperation and civilization as we know it. For Mises, the division of labor and the specialization/exchange process of the market is not only the source of economic growth and the improvement of billions of human lives, it is the source of deeper human bonds. A finer division of labor means more narrow specialization and relying more on exchange for all we want to acquire. This means that humans become more deeply interdependent, which in turn removes the incentives to violence and war. Mises called this progressive process “the Law of Association:” markets induce us to cooperate rather than plunder, and in so doing, help to create peaceful civilizations.

Mises’ grand vision of economics and its place in society were very much at odds with the trends in economics of his day. Mises was part of the “Austrian school of economics.” The Austrians historically rejected the mechanical and overly mathematical treatments of economics that had begun to comprise the mainstream of the discipline by the 1920s and 30s. Instead, the Austrians took an evolutionary approach that built up from the subjective choices of individuals toward an understanding of the unintended order they produce. This approach is echoed throughout *Human Action* and its insights.

In the very same year *Human Action* was published, Paul Samuelson’s *Foundations of Economic Analysis* was also published, and it set the tone for the rest of 20th century economics. That tone was to view economics as largely an engineering problem of constrained maximization by all-knowing agents in an equilibrium. Rather than trying to understand how fallible humans used their subjective knowledge to try to improve themselves using the imperfect feedback of the market, economics became a branch of applied mathematics through which social outcomes were to be described as

equilibria of maximizing and perfectly informed rational calculators. For a number of complex reasons, not the least of which was that Samuelson's vision was more amenable to the interventionist policy preferences of the post-war era, the engineering view won out and Mises' Austrian perspectives on human action underwent a near-death experience for several decades.

By the 1970s, interest in the Austrian school began to grow. Israel Kirzner's *Competition and Entrepreneurship* was published in 1973 and its explicitly Misesian themes revived some interest in Mises' work. Hayek's Nobel Prize in 1974 accelerated that interest significantly. With the advent of the modern libertarian movement around the same time, Mises' work began to get a significant second look, and *Human Action*, as his magnum opus, was at the center of this revival. Today, the Austrian school of economics still remains very much in the minority in the discipline, but it has grown in size and influence over the last 35 years. As Israel Kirzner has argued recently, that revival found its intellectual roots in two books published decades earlier: Hayek's *Individualism and Economic Order* (1948) and Mises' *Human Action* (1949). *Human Action* remains one of the great achievements of the social sciences and perhaps the single most important economic treatise of the 20th century.

The revival of free market thinking and, at least until recently, the increasing economic freedom across the world both owe a huge debt to Mises and *Human Action*. It is in this book that we find the most complete statement of the whole economic vision underlying the case for free markets, including the importance of individual choice, the centrality of entrepreneurship, the irreplaceable role played by genuinely competitive market prices in helping us solve problems of production and consumption, the ways in which capitalism has improved the well-being of all by promoting peaceful social cooperation and, finally, how government intervention can undermine all of these benefits.