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Epistemological Problems of Economics

LUDWIG VON MISES

Translated by George Reisman
Edited and with a foreword by Bettina Bien Greaves

LIBERTY FUND   Indianapolis
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Epistemological Problems of Economics was originally published in
1960 by D. Van Nostrand Company.

Front cover photograph of Ludwig von Mises used by permission of
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courtesy of Bettina Bien Greaves.

Printed in the United States of America

Library of Congress Cataloging-in-Publication Data
[Grundprobleme der Nationalökonomie. English]
Epistemological problems of economics / Ludwig von Mises ;
translated by George Reisman ; edited and with a foreword by
Bettina Bien Greaves.

pages cm. — (Liberty Fund library of the works of Ludwig von Mises)
Translation of: Grundprobleme der Nationalökonomie.
Includes bibliographical references and index.
isbn 978-0-86597-849-2 (hardcover : alk. paper) —
isbn 978-0-86597-850-8 (pbk. : alk. paper)
1. Economics. 2. Economics—Methodology. 3. Value.
I. Reisman, George, translator. II. Greaves, Bettina Bien.
III. Title.
h871.x6313 2013
330.01.—dc23 201304046

Liberty Fund, Inc.
8335 Allison Pointe Trail, Suite 300
Indianapolis, Indiana 46250-1684
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Ludwig von Mises’s early interest was in history. Because the School of Law at the University of Vienna offered the opportunity to study history, he enrolled in that School, graduated with “highest honors” in 1902, and received in 1906 a doctorate in both Canon and Roman Laws. His early writings were on economic history. He wrote about workers’ pensions, Austria’s factory legislation, monetary and banking policy, foreign exchange policy, etc. As he wrote in his Notes and Recollections, published after his death (1978): “The historical method was [then] believed to be the only scientific method for the sciences of human action.” However, as Mises saw it, the science of economics was an entirely different discipline from history and called for a very different methodology.

By 1930, Mises had written books on various aspects of economics—monetary theory, interventionism, socialism, liberalism, and cyclical policy. But he considered it important also to discuss the theory of economics, i.e., its methodology. He felt it should be explained how our understanding of economic operations comes about. So he collected several of his lectures and papers on the theory of knowledge, i.e., epistemology, wrote a new introductory paper on “The Task and Scope of the Science of Human Action,” and published this volume, Epistemological Problems of Economics (German original, Grundprobleme der Nationalökonomie, 1933).

The “epistemological problem,” as he saw it, was the prevailing opinion that the historical method was the only way to study economics. His purpose in compiling Epistemological Problems of Economics was to explain the epistemology of the sciences of human action, or economics. Economics was not history; it was a science of reason and logic. It concerned the actions of individuals cooperating, competing,
and exchanging with one another. And it explained how the market, trade, money, prices, and other economic factors developed and brought about today’s modern, complex market economy. “[E]conomics provides us with universally valid knowledge” (p. 6). “Our science . . . considers only the essential. Its goal is the comprehension of the universal, and its procedure is formal and axiomatic. It views action and the conditions under which action takes place . . . as formal constructions that enable us to grasp the patterns of human action in their purity” (p. 12).

The future is separated from the past by the present, an infinitesimal instant between the past and the future. No one can know or predict the future. But it is possible to make some predictions, qualitative, not quantitative, in the field of economics on the basis of the principles and laws derived from the regularity in the sequence and concatenation of economic (market) phenomena. “When men realized that the phenomena of the market conform to laws, they began to develop catallactics, the theory of the market and the theory of exchange, which constitutes the heart of economics. After the theory of the division of labor was elaborated, Ricardo’s law of association enabled men to grasp its nature and significance, and thereby the nature and significance of the formation of society. . . . The discoveries made by Hume, Smith, Ricardo, Bentham, and many others may be regarded as constituting the historical beginning and foundation of a truly scientific knowledge of society” (p. 4).

This volume represents Mises’s early attempt to describe the science of human action. He later expanded this explanation in his German-language Nationalökonomie (1940) and still later and in greater detail in English as Human Action (1949). But the germs of the theory of human action are contained herewith. Here he points out that the science of economics “is a priori, not empirical. Like logic and mathematics, it is not derived from experience; it is prior to experience. It is, as it were, the logic of action and deed” (p. 12). “As thinking and acting men, we grasp the concept of action. In grasping this concept we simultaneously grasp the closely correlated concepts of value, wealth, exchange, price, and cost. They are all necessarily implied in the concept of action, and together with them the concepts of valuing, scale of value and importance, scarcity and abundance, advantage and disadvantage, success, profit, and loss” (p. 21).
This book’s main contribution is in explaining that economics is “the science of human action that strives for universally valid knowledge.” The science of human action is economic theory; it is not a history of economic phenomena.

Bettina Bien Greaves
April 2012
The popular epistemological doctrines of our age do not admit that a fundamental difference prevails between the realm of events that the natural sciences investigate and the domain of human action that is the subject matter of economics and history. People nurture some confused ideas about a “unified science” that would have to study the behavior of human beings according to the methods Newtonian physics resorts to in the study of mass and motion. On the basis of this allegedly “positive” approach to the problems of mankind, they plan to develop “social engineering,” a new technique that would enable the “economic tsar” of the planned society of the future to deal with living men in the way technology enables the engineer to deal with inanimate materials.

These doctrines misrepresent entirely every aspect of the sciences of human action.

As far as man can see, there prevails a regularity in the succession and concatenation of natural phenomena. Experience, especially that of experiments performed in the laboratory, makes it possible for man to discern some of the “laws” of this regularity in many fields even with approximate quantitative accuracy. These experimentally established facts are the material that the natural sciences employ in building their theories. A theory is rejected if it contradicts the facts of experience. The natural sciences do not know anything about design and final causes.

Human action invariably aims at the attainment of ends chosen. Acting man is intent upon diverting the course of affairs by purposeful conduct from the lines it would take if he were not to interfere. He wants to substitute a state of affairs that suits him better for one that suits him less. He chooses ends and means. These choices are directed by ideas.
The objects of the natural sciences react to stimuli according to regular patterns. No such regularity, as far as man can see, determines the reaction of man to various stimuli. Ideas are frequently, but not always, the reaction of an individual to a stimulation provided by his natural environment. But even such reactions are not uniform. Different individuals, and the same individual at various periods of his life, react to the same stimulus in a different way.

As there is no discernible regularity in the emergence and concatenation of ideas and judgments of value, and therefore also not in the succession and concatenation of human acts, the role that experience plays in the study of human action is radically different from that which it plays in the natural sciences. Experience of human action is history. Historical experience does not provide facts that could render in the construction of a theoretical science services that could be compared to those which laboratory experiments and observation render to physics. Historical events are always the joint effect of the cooperation of various factors and chains of causation. In matters of human action no experiments can be performed. History needs to be interpreted by theoretical insight gained previously from other sources.

This is valid also for the field of economic action. The specific experience with which economics and economic statistics are concerned always refers to the past. It is history, and as such does not provide knowledge about a regularity that will manifest itself also in the future. What acting man wants to know is theory, that is, cognition of the regularity in the necessary succession and concatenation of what is commonly called economic events. He wants to know the “laws” of economics in order to choose means that are fit to attain the ends sought.

Such a science of human action cannot be elaborated either by recourse to the methods praised—but never practically resorted to—by the doctrines of logical positivism, historicism, institutionalism, Marxism and Fabianism or by economic history, econometrics and statistics. All that these methods of procedure can establish is history, that is, the description of complex phenomena that happened at a definite place on our globe at a definite date as the consequence of the combined operation of a multitude of factors. From such cognition it is impossible to derive knowledge that could tell us something about the effects to be expected in the future from the application of definite measures and policies, e.g., inflation, price ceilings, or tariffs. But it is precisely this that people want to learn from the study of economics.
It is the aim of the essays collected in this volume to explode the errors implied in the negativistic doctrines rejecting economic theory and thereby to clear the way for the systematic analysis of the phenomena of human action and especially also of those commonly called economic. They represent, as it were, the necessary preliminary study for the thorough scrutiny of the problems involved such as I tried to provide in my book, *Human Action, a Treatise of Economics.*

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Some of the authors whose statements I analyzed and criticized in these essays are little known to the American public. But the ideas which they developed and which I tried to refute are not different from the doctrines that were taught by many other authors, either American or foreign, whose books were written in English or are available in English-language translations and are amply read in this country. Such is, for instance, the case with the doctrines of the late professor of the University of Berlin, Alfred Vierkandt. In order to pass over in silence the fact that men, guided by ideas and resorting to judgments of value, choose between different ends and between different means for the attainment of the ends chosen, Vierkandt tried to reduce the actions and achievements of men to the operation of instincts. What man brings about is, he assumed, the product of an instinct with which he has been endowed for this special purpose. Now this opinion does not differ essentially from that of Frederick Engels as especially expressed in his most popular book, the *Anti-Dühring,* nor from that of William McDougall and his numerous American followers.

In examining the tenets of Mr. Gunnar Myrdal I referred to the German-language edition of his book, *Das Politische Element in der Nationalökonomischen Doktrinbildung,* published in 1932. Twenty-one years later this German-language edition served as the basis for the English translation by Mr. Paul Streeten.

In his “Preface to the English Edition” Mr. Myrdal declares that this edition is “apart from a few cuts and minor editorial rearrange-ments” an “unrevised translation of the original version.” He does not mention that my criticism of his analysis of the ends that wage-earners want to attain by unionism induced him to change essentially the

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* Yale University Press, 1949.
wording of the passage concerned. In perusing my criticism, the reader is asked to remember that it refers to the literally quoted passage from pages 299 f. of the German edition and not to the purged text on page 200 of the English edition.

A further observation concerning the terminology used is needed. When, in 1929, I first published the second essay of this collection, I still believed that it was unnecessary to introduce a new term to signify the general theoretical science of human action as distinguished from the historical studies dealing with human action performed in the past. I thought that it would be possible to employ for this purpose the term sociology, which in the opinion of some authors was designed to signify such a general theoretical science. Only later did I realize that this was not expedient and adopted the term praxeology.¹

* * *

Mr. George Reisman translated from the text published in 1933 under the title Grundprobleme der Nationalökonomie and the subtitle Untersuchungen über Verfahren, Aufgaben und Inhalt der Wirtschafts- und Gesellschaftslehre. The translation was prepared for publication by Mr. Arthur Goddard. The translator and the editor carried on their work independently. I myself did not supply any suggestions concerning the translation nor any deviations from the original German text.

It remains for me to extend my heartiest thanks both to Mr. Reisman and to Mr. Goddard. I am especially grateful to the directors and staff members of the foundation² that is publishing this series of studies.

Ludwig von Mises

¹ [Praxeology is the term used in the latter part (Chapters 5–8) in this edition.—Ed.]
² [That is, the William Volker Fund.—Ed.]
Misunderstandings about the nature and significance of economics are not due exclusively to antipathies arising from political bias against the results of inquiry and the conclusions to be necessarily drawn from them. Epistemology, which for a long time was concerned solely with mathematics and physics, and only later began to turn its attention to biology and history as well, is presented with apparently insuperable difficulties by the logical and methodological singularity of economic theory. These difficulties stem for the most part from an astonishing unfamiliarity with the fundamental elements of economics itself. When a thinker of Bergson’s caliber, whose encyclopedic mastery of modern science is virtually unparalleled, expresses views that show he is a stranger to a basic concept of economics, one can well imagine what the present situation is with regard to the dissemination of knowledge of that science.

Under the influence of Mill’s empiricism and psychologism, logic was not prepared for the treatment of the problems that economics presents to it. Moreover, every attempt at a satisfactory solution was frustrated by the inadequacy of the objective theory of value then prevailing in economics. Nevertheless, it is precisely to this epoch that we owe the most valuable contributions to the elucidation of the problems of the scientific theory of economics. For the successful treatment of these questions, Senior, John Stuart Mill, and Cairnes satisfied in the highest degree the most important prerequisite: they themselves were economists. From their discussions, which are set in the framework of

1. Bergson on exchange: et l’on ne peut le pratiquer sans s’être demandé si les deux objects échangés sont bien de même valeur, c’est-à-dire échangeables contre un même troisième. (Bergson, Les deux sources de la morale et de la religion (Paris, 1932), p. 68.) [One cannot practice it (exchange) without having asked oneself whether the two objects exchanged are goods of the same value, that is to say (goods) exchangeable for a third (good) with the very same value.—Ed.]
the psychologistic logic prevailing at that time, emerged ideas that required only fecundation by a more perfect theory of the laws of thought to lead to entirely different results.

The inadequacy of empiricist logic hampered the endeavors of Carl Menger still more seriously than those of the English thinkers. His brilliant Untersuchungen über die Methode der Sozialwissenschaften is even less satisfactory today than, for example, Cairnes’ book on methodology. This is perhaps due to the fact that Menger wanted to proceed more radically and that, working some decades later, he was in a position to see difficulties that his predecessors had passed over.

Elucidation of the fundamental logical problems of economics did not make the progress that might have been expected from these splendid beginnings. The writings of the adherents of the Historical and the Kathedersozialist schools in Germany and England and of the American Institutionalists confused, rather than advanced, our knowledge of these matters.

It is to the investigations of Windelband, Rickert, and Max Weber that we owe the clarification of the logical problems of the historical sciences. To be sure, the very possibility of a universally valid science

2. [German publication, 1883; English translation, Problems of Economics and Sociology (Urbana, Ill.: University of Illinois Press, 1963).—Ed.]

3. Not until this book was already at the printer’s did the volume devoted to Werner Sombart, presented in honor of his seventieth birthday by Schmoller’s Jahrbuch (56th Yearbook, Volume 6) come into my hands. The first part is devoted to the treatment of the problem of “Theory and History.” In discussing questions of logic and methodology, the articles in this volume make use of the traditional arguments of historicism and empiricism and pass over in silence the arguments against the view of the Historical School. This is true also of the most important contribution, that of Spiethoff (“Die Allgemeine Volkswirtschaftslehre als geschichtliche Theorie”), which is a brilliant presentation of the methodology of the school. Like the other contributors, Spiethoff comes to grips only with the ideas of the adherents of the Historical School; he does not even seem to be acquainted with Robbin’s important work. Spiethoff says: “The theory of the capitalist market economy starts from the idea that individuals are guided by selfish motives. We know that charity is practiced as well, and that still other motives are operative, but we regard this as so insignificant in the aggregate as to be unessential . . .” (p. 900). This shows that Spiethoff’s conception of the theory is far indeed from what modern subjectivist economics teaches. He still views the status controversiae as it presented itself in the eighties and nineties of the nineteenth century. He fails to see that from the point of view of economics, what is significant is not the economy, but the economic action of men. The universally valid aprioristic theory is not, as he thinks, an “unreal construction,” though it is certainly a conceptual construction. There can be no theory other than an aprioristic and universally valid theory (i.e., a theory claiming validity independent of place, time, nationality, race, and the like), because human reasoning is unable to derive theoretical propositions from historical experience. All this escapes him entirely. In the investigations of this book the views of Spiethoff and the Historical School are critically examined in detail and rejected.
of human action escaped these thinkers. Living and working in the age of the Historical School, they failed to see that sociology and economics can be and, indeed, are universally valid sciences of human action. But this shortcoming on their part does not vitiate what they accomplished for the logic of the historical sciences. They were impelled to consider these problems by the positivist demand that the traditional historical disciplines—the moral sciences—be repudiated as unscientific and replaced by a science of historical laws. They not only demonstrated the absurdity of this view, but they brought into relief the distinctive logical character of the historical sciences in connection with the doctrine of “understanding,” to the development of which theologians, philologists, and historians had contributed.

No notice was taken—perhaps deliberately—of the fact that the theory of Windelband and Rickert also involves an implicit repudiation of all endeavors to produce an “historical theory” for the political sciences. In their eyes the historical sciences and the nomothetic sciences are logically distinct. A “universal economics,” that is, an empirical theory of economic history that could be derived, as Schmoller thought, from historical data, must appear just as absurd, in their view, as the effort to establish laws of historical development, such as Kurt Breysig, for example, attempted to discover.

In Max Weber’s view also, economics and sociology completely merge into history. Like the latter, they are moral or cultural sciences and make use of the same logical method. Their most important conceptual tool is the ideal type, which possesses the same logical structure in history and in what Max Weber regarded as economics and sociology. But bestowing on ideal types names like “economic style,” “economic system,” or “economic stage” in no way changes their logical status. They still remain the conceptual instrument of historical, and not of theoretical, investigation. The delineation of the characteristic features of a historical period and the understanding of its significance, which ideal types make possible, are indisputably tasks of the historical sciences. The very expression “economic style” is an imitation of the jargon and conceptual apparatus of art history. Thus far, however, no one has thought of calling art history a theoretical science because it classifies the historical data with which it deals into types or “styles” of art.

4. [Nomothetic, Gesetzeswissenschaft in German, means “science of laws.”—Ed.]
Moreover, these distinctions among art styles are based on a systematic classification of works of art undertaken in accordance with the methods of the natural sciences. The method that leads to the differentiation of art styles is not the specific understanding of the moral sciences, but the systematic division of objects of art into classes. Understanding makes reference only to the results of this work of systematizing and schematizing. In the distinctions among economic styles these conditions are lacking. The result of economic activity is always want-satisfaction, which can be judged only subjectively. An economic style does not make its appearance in the form of artifacts that could be classified in the same way as works of art. Economic styles cannot be distinguished, for example, according to the characteristics of the goods produced in the various periods of economic history, as the Gothic style and the Renaissance style are differentiated according to the characteristics of their architecture. Attempts to differentiate economic styles according to economic attitude, economic spirit, and the like, do violence to the facts. They are based not on objectively distinguishable, and therefore rationally incontrovertible, characteristics, but on understanding, which is inseparable from subjective judgment of qualities.

Furthermore, everyone would find it completely absurd if an art historian were to presume to derive laws of style for the art of the present and the future from the relationships discovered among the styles of the past. Yet this is precisely what the adherents of the Historical School presume to do with the economic laws that they purport to discover from the study of history. Even if one were to grant that it is possible to empirically derive laws of economic action applicable within temporal, national, or otherwise delimited historical periods, from the data of economic history, it would still be impermissible to call these laws economics and to treat them as such. No matter how much views about the character and content of economics may differ, there is one point about which unanimity prevails: economics is a theory capable of making assertions about future economic action, about the economic conditions of tomorrow and the day after tomorrow. The concept of theory, in contradistinction to the concept of history, is, and always and universally has been, understood as involving a regularity valid for the future as well as the past.

If the adherents of the Historical School were, in accordance with the logic and epistemology of their program, to confine themselves to