

The Methodology of Human Action¹

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Liberal Düşünce, Cilt 15, Sayı 59 - 60, Yaz-Güz 2010, s. 75 - 78

Vernon Smith has given us a very interesting set of reflections on Mises' *Human Action*. In the area of methodology, *Human Action* might be regarded as a statement of dedicated apriorism, while Smith might be regarded as a dedicated empiricist (of the experimentalist variety). Considering that, Smith displays surprising and commendable open-mindedness toward the book.

Ethical Neutrality and Rationality in Economics

Mises (1966: 19), quoted by Smith, declares that “Human action is necessarily always rational.” Smith tells us that Mises considers this true “because praxeology is neutral with regard to any value judgments concerning its data—that is, the ultimate ends chosen in human action. Hence, there is no objective basis for asserting that anyone’s choices can be irrational.” I believe that Smith’s “because” is misplaced. Although the paragraph Smith quotes does discuss both the necessary rationality of human action and the ethical neutrality of praxeology, the latter is not the reason for the former. We should not blur two distinct issues: (1) the meaning of the term “rational” in economics, and (2) the ethical neutrality of economic analysis (*wertfreiheit*).

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Ethical neutrality means that economics is concerned with tracing the consequences of market activity and economic policy, not with judging them for goodness and badness. To be *rational*, for Mises (1966: 20), is to engage in purposeful behavior, that is, to deliberately attempt to attain some goal. Further, “action” means “purposeful behavior” (Mises 1966: 11). The only nonpurposeful (non-goal-oriented) behavior is reflexive behavior. Thus *by definition* all human “action” is “rational,” whether or not one accepts *wertfreiheit*. (In the sentence following the declaration quoted by Smith, Mises thus continues: “The term ‘rational action’ is therefore pleonastic and must be rejected as such.”) One could accept Mises’ terminology, and still reject *wertfreiheit*, believing that economics has an ethical mission to judge decisions for goodness or badness. The two issues only *seem* to overlap when the terms are used differently, in particular when an observer describes a person’s decision as “irrational” when he means “bad” or “contrary to my (the observer’s) goals.” Mises discusses ethical neutrality in order to warn against this usage, not in order to explain why human action is necessarily rational.

Economics Is Not a Natural Science

Smith soon begins to offer constructive criticism: “There is plenty in Mises to update because of things we think we know now that we did not know 50 years ago,” specifically about “the nature of human decisionmaking.” Our new knowledge about decisionmaking comes from (1) Smith’s own incentive and “market” choice experiments with human subjects; (2) anthropology, ethnography, and evolutionary psychology; and (3) neuroscience research—for example, on monkey brains and damaged human brains.

It is easy to agree that any statement made 50 years ago about the state of the natural sciences is likely to require updating. I agree with Smith that Mises was wrong, or at least far too sweeping, when he wrote (Mises 1966: 31): “No laboratory experiments can be performed with regard to human action.” In fairness to Mises, though, this statement came in the middle of a paragraph about the problem of explaining historical experience. Mises was simply pointing out that economic history does not take place in a laboratory setting, so that methods other than controlled experiments must be used to establish causal explanations of historical human actions. Historical data are not laboratory data.

Smith’s criticism suggests an important larger issue for anyone who takes seriously the Misesian project of “praxeology” (the aprioristic derivation of economic theory, beginning with the pure logic of choice). Do Mises’ views on the proper methods of economics require updating? I would argue that they do not. I think Mises is still correct in insisting that the core propositions of economic theory are rooted in methods distinct from those of natural science. Praxeology

is independent of natural science, and experimental economics in this respect counts as a natural science. This does not mean that experimental economics does not belong in an economics department, or is uninteresting or irrelevant to how we nonexperimentalists do economics. There is plenty of room for both praxeological and natural-scientific approaches to human behavior in markets.

My position boils down to this: experimental economics and other natural sciences are not in a position to falsify the deductive propositions of economic theory. These propositions rely on our “internal” perspective on human beings as agents, whereas natural science gives us an “external” perspective on human beings. Experiments *can* illustrate or “demonstrate” the working of economic theory. In Smith’s words, they can “bring to life” its “imaginary constructions.” Most importantly, they can help to settle important questions that cannot be settled aprioristically. The set of such empirical questions is not empty (nor did Mises believe it was). On the other hand, neither is the set of useful deductive economic propositions empty. It includes not only consumer theory but also some of monetary theory (for example, Gresham’s Law).

Entrepreneurial Discovery

Smith says that current neuroscience refutes Mises’ view that there is a “sharp contrast” between purposeful behavior and unconscious or reflexive or involuntary behavior. I have no doubt that, from the viewpoint of neuroscience, there is a continuum rather than a sharp contrast. But I must disagree when Smith says that purposiveness “is not a necessary condition for his [Mises’] system. Markets are out there doing their thing whether or not the mainspring of human action involves self-aware deliberative choice.” Smith’s statement might apply to Walras’s theoretical system, of which I believe it was Pareto who said, “the individual may disappear, provided he leaves us with a photograph of his tastes.” But it does not apply to Mises’ theoretical system. Mises’ understanding of the way the market process really works is that of an entrepreneurial discovery process, not of mere homeostatic responses to stimuli. That the resulting social order is unintended does not imply that the individual decisions comprising it need not be deliberative.²

References

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² On this issue, see the classic exchange between Becker (1962, 1963) and Kirzner (1962, 1963).

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