THE STUDY OF INDIVIDUAL ACTION
AND THE PILLARS OF THE AUSTRIAN
SCHOOL OF ECONOMICS

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Any man can make mistakes,
but only an idiot persists in his error.

Marcus Tullius Cicero

Abstract: Despite its longevity, its numerous fundamental contributions to the economic science and its genuine originality, the Austrian School of Economics is to a great extent still unknown and ignored, if not despised. The Austrian economic tradition is, however, vivid and active and, moreover, still consistent with its intellectual roots. The main reason for this is to be found in its solid and strongly performing methodology used in its inquiry of human action. This paper aims at presenting concisely the methodological foundations on which the Austrian analysis is built. It is more of an attempt to popularise rather than critically discuss those methodological pillars.

Keywords: Austrian School of Economics, epistemology, methodology, praxeology, uncertainty


Anahtar Kelimeler: Avusturya İktisat Okulu, epistemoloji, metodoloji, praksoloji, belirsizlik
1. INTRODUCTION

Few schools of economic thought have exhibited such vitality and longevity, as the Austrian School of Economics. Since the early 1870s and the founding writings of Carl Menger, many generations of scholars have identified themselves with the Austrian analysis and have waged battles against numerous alternative positions and their proponents. From the rejection of the Classical School, through the Methodenstreit with the German Historical School, the sharp opposition to Marxism and the consequent Economic Calculation debate in the mid-1920s, the criticism of Keynesian macroeconomics or of Friedmanian Monetarism, to the Austrian Business Cycle Theory – these are just a few examples of the scientific topics through which the Austrians attempted to fundamentally contribute to Economics.

As Menger ([1871] 1976: 51) starts his exposé, “all things are subject to the law of cause and effect”. He clearly states from the very beginning that explanation of social and economic phenomena have to inquire and establish the variety of causal links that appear and operate between individuals. The scientific method of the Austrian school is hypothetical-deductive. It rejects induction, statistical and mathematical methods and empiricism, but relies on axioms, or a priori accepted assumptions, about the essence of the human being. The acceptance of these axioms is independent from experience. Hence, the Austrians are among the few schools of economics to have a specific and original methodology in their analysis of human action. This methodology is established around five key concepts, namely methodological individualism, subjectivism, the praxeological² concept of real time, uncertainty and ignorance. While inquiring individual action and its social outcomes, the Austrians would inevitably conform to the logical requirements of those concepts. As human action is both a central focus and a starting point for the inquiry in the realm of social and economic phenomena, its understanding will be presented first, followed by a detailed discussion of each of the methodological pillars of the Austrian School.

2. THE INDIVIDUALITY OF ACTION AND THE ROLE OF PREFERENCES

Action and its understanding have a specific and somehow strongly comprehensive ground. Moreover, action has to been understood as intentional and, as White (1992: 6) explicitly puts it, “identity is any source of action not explicable from biophysical regularities, and to which observers can attribute meaning”. This echoes Mises’s (1944: 530) statement that

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² From the Ancient Greek word πράξις (praksis), meaning “action”, “activity”, or “practice”. The concept of praxeology was coined by Mises, although he does not hold the paternity of the term. It means “the general theory of human action” (Mises [1949] 1996: 3). Also: “The theme of praxeology is action as such” (Mises [1949] 1996: 12).
“action means conscious behavior or purposive activity. It differs as much from the biological, physiological, and instinctive processes going on within human beings. It is behavior open to the regulation and direction by volition and mind. Its field coincides with the sphere within which man is free to influence the course of events”.

Action is an individual feature; it has no meaning beyond the individual. The Misesian “ego is the unity of the acting being. It is unquestionably given and cannot be dissolved or conjured away by any reasoning or quibbling” (Mises [1949] 1996: 44). Or, put differently, action cannot be aggregated. Rooting action on the level of the individual demands for an explanation of the factors and forces which are at stake and which work at this precise microeconomic level. What also is at stake is that action here is not grounded on needs but on desires. Needs are only the physiological, extra-economic ground on which desires emerge. Desires are the specific – to each and every individual – way of satisfying or not satisfying needs. On the basis of desires flourishes action. That is the will for some specific thing seen as suitable and the peculiar way of reaching it and putting it into service.

So individual action is to be understood as a purposeful attempt of the economic subject to see and arrange their condition. The first step therefore is to critically evaluate the environment with which the individual is confronted. Due to their free will, all individuals are supposed to be capable of aiming for better conditions or, put differently, to imagine and express their preferences for a given change in their environment. It is the very ground of rationality that leads to the will for improvement or the elimination of an inconvenience and discomfort. Mises ([1949] 1996: 13) puts it clearly when he states that “a man perfectly content with the state of his affairs would have no incentive to change things. He would have neither wishes nor desires; he would be perfectly happy”. Dissatisfaction is the sole and genuine source of action. This, however, does not necessarily mean inconvenience; it is precisely in the capacity of humans to foresee or imagine a better situation. Still, this is not enough: Acting individuals are to be conscious and aware of the causal links existing between events, processes and state of things. Or, to quote Mises ([1949] 1996: 22) again, “where man does not see any causal relation, he cannot act”. Therefore, individuals are to be considered as capable of building plans in order to change the natural unfolding of events. Action is thus a “meaningful and purposeful behavior aiming at the attainment of definite ends” (Mises [1949] 1996: 26) which are not the result of mechanistic – say non-human – causality. So it has to be grounded on valuation or critical assessment of the state of things, designed with a precise aim and based on the use of opinion about given means.

All this implies the pre-existence of infra- or intra-individual preferences, as opposed to inter-individual preferences, on which economics generally focuses on exclusively. And therefore the acting individual is capable of comparison not only between the present state of things, but also between the desired situation and the efforts, i.e. costs necessary to obtain those objectives. On the inner level, individuals are capable of comparing the expected pleasure of a better set of conditions and the efforts to be endured for this.
3. METHODOLOGICAL INDIVIDUALISM AND SUBJECTIVISM

The emphasis that the Austrian School puts on the individual action is characteristic of its individualistic methodology. Although the Austrians are not the only ones to employ it or, to put it differently, to oppose holism, their use of methodological individualism is certainly the most exacting. Austrian analysis not only provides the deepest insights in the logic of individual action, but also Austrian scholars are among the brightest examples of opponents to the holistic analysis contained in and supporting all totalitarian ideologies. Karl Popper (1957: 146) justly points out that methodological individualism is “that quite unassailable doctrine is that we must try to understand all collective phenomena as due to the actions, interactions, aims, hopes and thoughts of individual men”. Individuals are the only possible explanatory factor of all social events, or to say it otherwise, organisations, communities and the State are logically not capable of action. All deeds are inevitably the fruit of individual decisions, as only men have aims and desires. Consequently, social or collective phenomena are the unexpected results of individual actions, not the fruit of design or purpose. The economic and social reality is then an ever-changing residual outcome emerging from personal deeds. As Lachmann (1977: 261-262) puts it “economics has two tasks. The first is to make the world around us intelligible in terms of human action and the pursuit of plans. The second is to trace the unintended consequences of such action”.

The logical corollary of methodological individualism is methodological subjectivism. Despite their objective reality, social and economic phenomena are perceived in a very personal way by each and every participant of the market process. On the basis of this cognitive constraint of information and knowledge, all individuals build their plans in accordance with their valuations and preferences. That is to say that the very process of valuation of goods, appreciation of situations and expression of preferences is deeply rooted in the subjectivist methodology. And indeed, one may enumerate three different forms of subjectivism: subjectivity of preferences which accounts for the inevitable differences and specificity of individual valuations, interpretational subjectivity which illustrates the cognitive variety among individual economic agents and subjectivity of expectations which follows from the previous two and is relative to the divergences of anticipations economic agents have about the future.

The fact that the Austrian School of Economics was called the Psychological School is not surprising given the role Austrians played in popularizing not merely

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3 Hayek’s (1944) *Road to Serfdom* is a clear example of that relentless effort.

4 On this point see Lachmann (1986: 57), whose radical subjectivism is a specific case of the Austrian tradition.

5 The emphasis on individual psychological factors the Austrians were stressing in their analysis was well-known way beyond the boundaries of the German-speaking world. The leading French sociologist François Simiand ([1935] 2006: 215) holds the “Master of the Austrian and Psychological School” Carl Menger in very high esteem.
the marginalist\textsuperscript{6} approach to value, but precisely the marginal approach to subjective value. The degree or even the character of goodness of the economic thing, which is to be understood as objective value, is not the source of value for an individual and thus does not enter an individual’s plans and calculations. Instead, what enters is the subjective notion of utility which cannot be overshadowed by any objective consideration. As a matter of fact, the very use – in consumption, for example – of a good is not an economic act. For a good to be economic it must enter the realm of \textit{economizing}, as Menger ([1871] 1976) would put it. In this realm, economic subjects rationally plan to use it and dispose of it in limited quantities or, what is logically reciprocal, with the increase in quantity the good is an object of declining marginal utility\textsuperscript{7}. And as the goods-exchange dimension of a community is built upon a multitude of individual subjective valuations of a large number of independent economic agents, the resulting effective values are objective. Here the Austrians employ the Kantian reinterpretation of the notion of “objective” as \textit{inter-subjective}, which in economic terms means that value is a result of confronted competing valuations in the course of multiple interactions (\textit{inter-individual value}) and can be compared with alternative sources of utility for the individual (\textit{infra-individual value}).

\section*{4. THE PRAXEOLOGICAL CONCEPT OF REAL TIME}

Opposed to the use of Newtonian or absolute time in social sciences, Austrians extend their methodological use of individualism and subjectivism as they place human action in a dynamic dimension. As action is a source of change and change is only understandable in time which is not mere duration, the time-horizon of action is just as important as its perception by the acting individuals. This real or human time does not pass steadily but is subject to varying appreciations. Put differently, mechanical time, or duration, does not allow for unexpected and unforeseeable changes, while historic time is defined precisely through non-anticipated \textit{ex-ante} changes. Consequently, perception of values and prices in the temporal dimension is not linear or, to put it differently, inter-temporal prices do not depend on the same temporal vector. In sharp contrast with logics and mathematics, where systems are ideal and their cause-consequence links do not have a chronological interdependence – as they may be seen as synchronic or a-temporal, that is to say out of time –, the praxeological analysis of individual action is grounded in the perception of time. As Mises ([1949] 1996: 99) reminds us, the acting individual “distinguishes between the time before the action, the time absorbed by the action, and the time after the action has been finished. He cannot be neutral with regard to the lapse of time”. That is, individual action is temporally asynchronous as it leads to change and the cause and

\textsuperscript{6} The term \textit{Grenznutzen} meaning “marginal utility” or “limit-advantage” was coined by Wieser ([1889] 1893) and popularized by Marshall ([1890] 1920: 78). See Fisher (1918: 335) for a critical discussion of the meaning of utility.

\textsuperscript{7} Mathematically speaking, the correct formal expression of marginal utility is the relationship between the change of the level or intensity of the feeling of utility ($U$ for utility) and the used quantity of the good ($q_n$) tending towards zero: \[MU_{n} = \frac{dU}{dq_n} \]
consequence are both parts of that change. One may quote Henri Bergson ([1896] 1929: 180) saying “that which I call my present is my attitude with regard to my immediate future; it is my impending action.” But individual actions cannot take place in the past, which is made out of a multitude of precedent actions. And those previous actions are no longer in the praxeological dimension but in historiography. Hence the past is an object of interpretation by acting individuals; the future is a field for plans, forecasts and expectations.

Given the subjective nature of each action, it is possible to establish the existing links between interpretation of past events and the establishment of expectations about the future. As mentioned above, the subjectivity of preferences and interpretations, which are intimately linked, lead to subjectivity of expectations and to differences in establishing plans. But those links are not linear. Put differently, a change in the interpretation of past and current events does not necessarily lead to a change of plans. And at the same time, planned actions may be altered without a change of the understanding and appreciation of the past. Nevertheless, it is impossible to logically defend the emergence of expectations and the crafting of plans without reference to existing interpretations of the past and the present. Consequently, the identity of interpretation does not lead to identity in plans.

With this in mind, the notions of static and dynamic take a meaning different from the common one used in economic science. For Austrians, a time period is the timely space during which the existing opportunities of exchange are given and do not change. This does not mean that all occasions for trade are known to all economic agents – as it is in the simplest forms of the neo-classical paradigm. Rather, these possibilities could hypothetically be exhausted and become known to market participants through information gathering, thus limit the actions of these participants. Thereby, a dynamic economic space is defined through continuously changing opportunities leading to modifications of knowledge – which is to be distinguished from information – and to alterations of individuals' preferences. Nevertheless, those changes, or crossings over one period to another are possible only on behalf of human action. And if the fact that individual actions change collective reality is accepted, then the fact that those changes are to modify the existing opportunities of exchange is also to be accepted.

It is therefore not surprising that the founding father of the Austrian School, Carl Menger ([1876] 1976: 67) himself, stresses from the very beginning of his magnum opus the importance of time. He states that

“a process of change involves a beginning and a becoming, and these are only conceivable as processes in time. Hence, it is certain that we can never fully understand the causal interconnections of the various occurrences in a process, or the process itself, unless we view it in time”.

This rejects the pertinence of absolute or Newtonian time in social sciences. The very ground of the classical economy's Labour Theory of Value by Smith, Ricardo and Marx is wiped off, just as the differences with the standard or mainstream Walrasian type of economics are emphasized. Stephen Littlechild (1990 [1977]: 156) perfectly stresses this last point out saying that “nothing will ever occur for which [economic agents] are not prepared, nor can they ever initiate anything which is not preordained”.

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5. UNCERTAINTY VS. RISK

Building upon the classic distinction between risk and uncertainty established by Knight (1921), the Austrians ground their analysis on uncertainty. In this respect they are close to Keynes’s methodology, especially Hayek. As a matter of fact both Keynes and Hayek built their monetary analysis on the contributions of Knut Wicksell ([1898] 1962), who in turn had the occasion to follow Carl Menger’s seminars during his visit in Wien.

Risk is understood as parametric, it has an absolute value. Etymologically, the term risk comes from the Medieval Latin word resecum, from which reef is derived. Put differently, the original meaning of risk is concerned with the danger of maritime transportation. The objectivity of the concept comes from the act of God: The presence of underwater rocks that are the main danger for boats is beyond the realm of human deeds and as such can easily be translated into the dimension of randomness and chance. Thus, agents can assign probability values to the results of their actions although they do not know those results for sure. This presupposes that all possible outcomes of different actions are known and their probabilities can be made explicit.

However, Austrians point out that the surrounding social world is an “open-ended universe” (Kirzner 1988) and that the structure “means-ends” is neither pre-set nor known to all, but constantly changing. Therefore, there is no upper limit to the number of actions an individual can undertake. Consequently, the exact number of possibilities is unknown and their results are not probabilistically foreseeable. Centi (1999: 294) argues that the “open-ended universe” means that “in every place and at every moment, a special process that stimulates the discovery of unknown opportunities is working effectively”.

This open-endedness of the economic realm of interactions leads to the idea that individuals are unable to precisely foresee and define their future ex-ante, which is before actions are decided for. Consequently, there is plenty of room for genuine surprises, both positive and negative. Thus economic action takes place under the sign of uncertainty and not of risk. Uncertainty here means not only that objective parameters of the eventuality of an outcome or event are unknown, but that they are irrelevant, or ontologically inexistent. Moreover, while one may think that subjective probabilities could be substituted to the former objective ones, the later ones cannot be “based on logically defendable assumptions” (Centi, 1999: 296). Put differently, decisions are taken and actions are done under the conditions of radical uncertainty.

The very essence of economic life and market interactions provides for the impossibility to ascertain forthcoming events. All its situations are unique in the sense that there is not a lack of pertinent information, but the impossibility to perceive and indentify all forces in action. This in turn leads to the idea of sheer ignorance.
6. THE IDEA OF SHEER IGNORANCE

The fact that individuals are constrained by informational limits is more than trivial. The basic concept of transaction and information costs fully embodies it. Nevertheless, the Austrians are extremely careful with their use of the notions of information and knowledge. As a matter of fact, Boettke (2002) goes as far as to claim that this distinction is to be seen as the major contribution of the Austrian School to the scientific field of Economics.

Coupled with the idea of uncertainty, or the impossibility to attribute any probability to the occurrence of an event, is the idea of ignorance. Agents cannot foresee the whole spectrum of the results of their actions, so probability cannot by attributed to outcomes. Furthermore, individuals ignore the entire range of possible actions available to them. This, however, is not merely an informational problem as one may suggest. As a matter of fact, specific “circumstances of time and space”, as Hayek (1945: 521) points out, can belong only to particular individuals and cannot be easily – if at all – shared with others. Moreover, these circumstances can with a very large amount of simplification and at the expense of large losses of – precisely – knowledge (sic) be transformed into scientific knowledge and be standardised as information in a useful statistical form. Therefore, there is no doubt that acting economic agents do so while in possession of “only partial knowledge” (Hayek, 1945: 521). Their planning activity - as any economic activity presupposes planning, that is rationality - is executed in a world of sheer ignorance. This does not mean that each and every decision-taker does not strive for the most relevant and up-to-date information. It means precisely that large sections of knowledge are simply inaccessible to them. They are unable, cognitively and logically speaking, to reach it and understand or interpret it.

What is more, under the assumption of a static period in which the opportunities of exchange do not evolve and preferences of the given number of participants in the market process remain the same, full foresight and cognitive knowledge would not be possible. As Lachmann (1959: 68) points out, even in a world with slow or no changes of preferences and tastes of the individual market actors, the

“creative power of the mind and our inability to predict its acts would still hold, because men would still be interpreting experiences, acquiring knowledge, planning and revising plans. We are able to imagine a world in which tastes do not change but unable to imagine one in which knowledge does not spread from some minds to others. Even continuity of ends does not entail an invariant means-end pattern; men would still be eager to make better use of the means at their disposal. Time and Knowledge belong together. The creative acts of the mind need not be reflected in changing preferences”.

This consequently leads to an ever-changing social and economic order, as knowledge and therefore valuations done by individuals are changing as well. Full knowledge – the corollary of the absence of ignorance – is only possible if individuals lose their peculiar capacity to interpret and value. As Shackle (1958:105)

8 Emphasis in the original.
makes it explicit, a “predicted man is less than human, predicting man is more than human”. That is to say, the very human nature contains ignorance, or its essence is such that ignorance is an integral part of it. As a result, the hypothesis of a full foresight or prediction demands having knowledge of all future advances in scientific knowledge and inventions, as well as all the forthcoming decisions taken in respect to this advances. The continuously evolving stock of information and knowledge – the two notions being clearly distinguished – is the endogenous factor rendering all social and economic life dynamic. This economic world is characterized by diffuse, uncoordinated and non-concentrated knowledge or, put differently, by ignorance.

7. CONCLUSION

The combination of those methodological points in the understanding of individual action gives rise to an original coordination tool on which Austrian scholars rely: their understanding of catallaxy or catallactics, which represents “the order brought about by the mutual adjustment of many individual economies in a market” (Hayek, 1976: 108-109). Both Mises and Hayek heavily emphasise the importance of this concept as the only viable way of correctly presenting the interwoven network of interdependent but autonomous decision centres characterising the market process. It is about understanding individuals and their specific purposeful organizations. In this realm, action is an individual feature; it is driven by subjective preferences with regard to time, in a highly uncertain environment and in the midst of very fragmented and diffuse knowledge. As such, the concept of catallactics illustrates the teleonomic nature of the market process. It has no purpose per se, no goal to achieve. In contrast, individuals and their purposefully designed organisations have such purposes.

In the light of this discussion, one may catch a brief glimpse to another distinctive feature of the Austrian School: It is deeply rooted in philosophy and an ethical approach to human action. Austrian economists are barely concerned with what is going on in the market, they are more concerned with the rights that market participants have while operating in the market. In this respect, the Austrian School of Economics stands aside from all other scientific currents and these differences are more than likely to remain.

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