Econ 101: An Austrian Economist's Dream

by Arthur E. Foulkes

On the first day in an economics class the instructor tells us that "resources are scarce," but human "wants are unlimited"—hence the eternal "economic problem." How do we know resources are scarce? We can observe this fact with our senses; we can see that nothing is available in unlimited quantities everywhere and at all times. And how do we know human wants are unlimited? Again, we can observe this fact; as an economics professor of mine once explained, even a billionaire would probably not refuse another million dollars. Thus human wants must be unlimited.

Next our instructors inform us that it is the goal of economics to help society determine how best to allocate its scarce resources to meet the most human wants in the most efficient way. Soon they escort us to the concepts of goods and services, supply and demand, production, utility, and so on. We are introduced to models of human behavior—based on the idea of "maximizing utility"—and soon we are drawing "production possibility frontiers" and demand and supply curves, and writing sophisticated mathematical equations.

But what if economics courses started differently? What if on the first day of the course we were told that economics is about human action and "the regularity of phe-

nomena with regard to the interconnectedness of means and ends."[1] In other words, economics is about the laws of human behavior, which is associated with pursuing goals.

You might say, "I'll take the first definition!" Indeed, economics as the study of allocating tangible goods and services to tangible people with quantifiable "utility" functions seems, at first, much more . . . well . . . tangible. Pretty soon we can forget we are talking about actual human beings with unfathomable minds and values. We can begin to quantify everything and presto, our "economics" has become a kind of applied mathematics.[2] Certainly the math we use can become very advanced and difficult, but at least we are dealing with quantifiable concepts and actual numbers.

But what does this approach tell us about economics itself? It fosters the notion that economists are training to become either social engineers whose jobs involve finding the "optimum" level of consumption, for instance, or fortunetellers calculating next year's demand for apples or the future price of coffee.

Economics in the second sense, on the other hand, leads to the view of the economist as someone working to understand unalterable laws of human economic behavior, the knowledge of which helps us achieve our goals. This approach does not start with empirical observations about reality but rather with the incontestable proposition

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that human beings act purposefully. From there we deduce other incontestable truths about real human behavior.

This deductive approach is the defining characteristic of the Austrian school of economics. It is what separates it from the mainstream neoclassical school, the Keynesian school, monetarism, Marxism, and the others.[3]

The empirical approach associated with mainstream and other economic schools reflects the reigning positivist tradition in virtually every contemporary science. According to this philosophy, nothing is knowable if not observable and quantifiable. Lord Kelvin spoke for the entire tradition when he explained, "When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind."[4]

But, of course, this very proposition, which claims to make a definite statement about reality and our ability to understand it, cannot itself be expressed in numbers. Therefore by Kelvin's own standards his contention represents "meagre and unsatisfactory" knowledge at best. And this is the problem with the entire empiricist method.[5]

Action Axiom

The Austrian approach, by contrast, begins with the simple proposition that human beings behave purposefully. Yet Austrians do not attempt to "prove" this proposition by observation, experimental testing, intuition, or even "common sense"; rather, the proposition is established as incontestably true because it is self-contradictory to deny it. Any attempt to disprove it would itself be a purposeful action.[6]

How much better economics education would be if, on the first day of Economics 101, students were introduced to this axiom of purposeful action. Then, over the next several days and weeks they could be shown how it implies the economic categories of choice, ends, means, costs, profits, and loss, and further how economic laws are also derived from this starting point, including the law of marginal utility or the law of demand. This would not necessarily make studying economics less difficult than the present highly mathematical approach (because the conceptualization and logical rigor is highly demanding). But it would certainly bring it back in touch with real human behavior and dispel the popular notion that wise economists can reshape the world according to their sophisticated mathematical designs. ☐

1. Ludwig von Mises, *Human Action*, 4th rev. ed. (San Francisco: Fox & Wilkes, 1996 [1949]), p. 885.

2. This term, "applied mathematics" is often used to describe the methods of mainstream economics. The earliest such use I could find is from Lawrence White, "The Methodology of the Austrian School Economists," rev. ed., Ludwig von Mises Institute, 2003; www.mises.org/mofase/methfinb.pdf.

3. Hans-Herman Hoppe, *Economic Science and the Austrian Method* (Ludwig von Mises Institute, Auburn Ala., 1995) pp. 7–9.

4. Lord William Thomson Kelvin, "Electrical Units of Measurement" in *Popular Lectures and Addresses*, vol. 1 (New York, Macmillan, 1889), pp. 73–74.

5. Mises, *Ultimate Foundations of Economic Science* (Foundation for Economic Education, Irvington-on-Hudson, N.Y., 2002 [1962]), p. 5; Hoppe, pp. 33–34; 51–53.

6. Hoppe, p. 61.