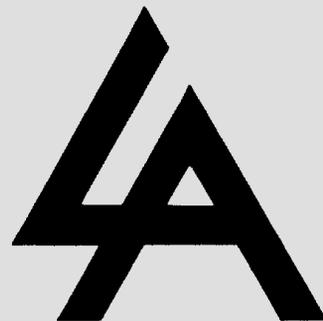


# ECONOMICS AND KNOWLEDGE

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Before there can be a substantial or meaningful advance of knowledge in any discipline, there must be a firm foundation laid in a theory of knowledge, an *epistemology*, and its application to the particular discipline. Obviously, one's conclusions cannot be any sounder than one's method of attaining them. With a few rare and wonderful exceptions, the intellectual leaders of today do not concern themselves publicly with epistemology, let alone with sound epistemology, or understandable epistemology. So there is a large vacuum in this area, and for obvious reasons especially in writings designed as popularizations. Those who hold positions of influence on recognised intellectual establishments may consider these questions when they congregate in little esoteric groups, but the whole field is supposed to be outside the realm of the average student, citizen or voter.

## THE NATURE OF KNOWLEDGE

Let us look into the nature of knowledge; let us define it; find a theory of its attainment; and establish a test for its validity.

To know is to perceive or conceive truth - reality. *Perception* is awareness of concretes, entities, things. *Conception* is awareness of abstracts, relations, integrations of perceptions.<sup>1</sup> *Reality* is that which exists. It must be emphasized that conception is an active process in distinction to the passivity of perception. For this reason, there are rules to follow in concept formation - a voluntary process - while perception is automatic and involuntary. The rules of conception are the

principles of logic. The primary of these laws is the law of Identity: A thing is identical to itself; a rose is a rose; A is A. Its corollary is the Law of Non-contradiction; A thing cannot both possess a property and not possess it; a rose is not a tulip; a thing cannot be both A and not-A. The process of concept forming is one of *non-contradictory identification*; it is a process of integrating percepts and axioms with the principles of logic. Those basic principles of reason are self-evident; they are obviously true. That is, they are true because they are necessary and universal; no statement, movement, sense, existence is possible without them. They are inexorable facts of reality. Their denial leads straight to total absurdity and meaninglessness.

Keep these definitions and principles in mind while I enumerate some working rules for truth-seeking, applicable to any discipline:

1. Determine the substance and the goals of the search. This involves identifying the units under study, defining them, and stating the purpose of studying them: In other words: What do you wish to find out about what?
2. Draw certain premises, axioms, from reality, chosen because they (like the laws of logic) are necessary and universal. These are used as the foundation of the search (like the axioms of geometry). In some but not all fields, organize pertinent sense-data. Stated simply: What do you know about this science that you can go on for certain? This is often the most difficult and complex step in procedure, although after the premises are found, they are usually astonishingly simple.
3. Use these premises in conjunction with one another and the logical laws in application to theorems and problems of the discipline. This process can be conducted in two ways: a) One can examine the axioms to determine their necessary implications, or b) One can note a problem or hypothesize a theorem and apply the premises to the study of it.

If one wishes to test the validity of an already made assertion, should be thoroughly checked. If they are valid, the statement is. In other words: You have said A, which is fully dependent on the truth of B, C, and D - if they are true then A is also.

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## THE NATURE OF ECONOMICS

These working rules should be used in the study of economics. First economics must be defined, its substance and the goals of economic study established.

*Economics is the study of the logical implications of human action toward the satisfaction of human wants.*<sup>2</sup> The unit under study is the wanting, acting human individual. The goal of economic research is to identify the effects of certain policies on the want satisfaction of the individual human affected by these policies.

Economics operates from self-evident principles rather than from concrete collections of laboratory data. It is a philosophical, qualitative and deductive discipline. Though some statistical data or market measurement may be used as a foundation of knowledge. That is, it can be understood only within the framework of deductive economics - the understanding of economic statistics can come only after the understanding of principles and never the reverse. The absence of such data from theoretical economics does not make it less scientific; on the contrary, it makes it more so. Because its promises must be drawn from reality and be universally and necessarily true, the conclusions drawn must have the same order of validity. Concrete data are always approximate. Thus laboratory conclusions are only valid within the limits of the measuring devices. Economics is an *a priori* science.

The primary premise of economics is the action axiom: Human beings act toward wants - man uses preferred means toward preferred ends. All of economics is dependent upon and justified by this axiom. And thus economics proceeds, reasoning from principles which are self-evident. Individuals act; they act to satisfy their most urgent wants in order of their urgency; the production of goods requires several interdependent finite factors; ...

Because economics will deal with inter-relations of individuals, and will study what is known as 'society' certain economists have come to the delusion that they are studying something other than the phenomenon of individual choice. They coin terms such as 'Social Utility', 'The Common Good', 'The National Income', 'The Wealth of Nations'. They are neglecting an important rule of economic reasoning - *methodological individualism*.

Every economic cause and effect must be considered in terms of individual choice: all economic happenings happen to individuals; all human action is individual action; all wants are individual wants.

Any analysis of the economic welfare of some social organism must necessarily be ridiculous, because no such organisms exist - only individual organisms exist. The question economists seek to answer should be: How will economic policy A effect the choices of the individuals concerned, and how will that effect the satisfaction of their wants? It isn't the group being studied, it is the individuals which comprise the group. And, in economics, it is the abstraction of the acting wanting individual which is studied, not some actual J. B. Jones. The study of actual men is economic history, or statistical analysis, or market research.

Economics itself can never judge a policy good or bad. It can tell whether a policy will reach its intended ends or not, but it cannot, as economics, judge that end as a value. The recommendation of policies is the role of the ethical and political philosopher. (Of course, they have an obligation to use reason just as the economist does!) However, there is nothing to prevent an economist from being an ethical and econ-

omic scientist at the same time, provided he violates none of these principles of economic reasoning in relation to the scientific implications of the policies he recommends or condemns on ethical grounds.<sup>3</sup>

The third step in reasoning is to apply the rules and premises to the study of actual problems, theorems or contentions. At this level, there are several paths of procedure. If one wishes to consider a specific problem, I recommend this process:

1. State the problem. Indicate the precise area of concern. Define pertinent terms.
2. Using the economic laws (Returns, utility theory ...) consider the nature of the problem and its effects on individual utility in a totally unhampered market - defined as one in which one's right to his mind, body, product and rights of contract and voluntary exchange is fully guaranteed. That is, an absolute private property economy.
3. Then introduce any hampering effects you may wish to consider - defining them in terms of their violation of unhampered market, private property principles - and trace their effects on the utility of the individuals concerned. Note that any conceivable economic problem can be considered in this manner.

## THE FUTURE OF CONTEMPORARY POLITICS

Those who have usurped the title of 'economist' today - I am referring to those in positions of great influence - the Establishment 'economist' - do not follow this method at all, or at best only slightly. They love to make analogies of the economic system to 'models'. Sometimes such models can be very useful - if they are clearly defined and if the purpose in using them is clear. But these 'economists' usually choose such models arbitrarily, often taking them from the physical science and seldom stating their purposes in doing so. They compare a national economy to a machine and then proceed to announce policies designed to improve the health of this altogether spurious social being. They attempt to find truth from analysis of all sorts of dubious statistics. They have admitted their desire to use a merely hypothetical, say, utility theory, in opposition to one which applied to reality - this is their form of 'objectivity' - then they go on to make recommendations binding on millions of people, based on consideration of *hypothetical* theories. They almost never make their premises clear, and they won't tell anyone whether they are talking about ethics or economics. They barely ever consider the effects of a policy of total economic freedom. They perpetually forget that economics can never prove the goodness or badness of a policy, merely the nature and the cause of its individual utilitarianism.

A sound theory of knowledge is the only path leading to the rescue of economics. The great free market economists and philosophers are increasingly realising this and are laboring mightily to make up the deficit. All students of economics should join them. Remember to apply sound principles of knowledge theory to anything you study. In all of your writings or speeches, whether highly sublime and original, or merely popularizations, remember to trace back, isolate, present and check your fundamental premises.

1. Ayn Rand, *Introduction To Objectivist Epistemology*, The Objectivist, New York, 1970.
2. Ludwig von Mises, *Human Action*, New Haven, Yale University Press, 1963.
3. Murray N. Rothbard, 'Toward a Reconstruction of Utility and Welfare Economics', in M. Sennholz ed., *On Freedom and Free Enterprise*, D. Van Nostrand, Princeton, 1956.