

WHAT'S LOVE GOT TO DO WITH IT? ACTION, EXCHANGE, AND GIFTS IN ECONOMIC THEORY

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ABSTRACT: John Mueller believes economics is fatally flawed because it cannot account for charitable love between persons. It therefore lacks an explanation of gifts, and thus, of “final distribution.” Mueller’s argument is especially important for Austrians because it draws on a shared heritage in the history of economic thought, namely, ideas from Scholastic political economy. In this article, I survey some of the major points that emerged from the symposium on Mueller’s work, and suggest additional criticisms of his thesis. First, love and gifts can be explained with reference to the exchange element in human action. Second, Mueller’s four-part economic system is based on a somewhat arbitrary classification of basic concepts, including a faulty conceptualization of distribution. Third, love, which Mueller claims economics must explain, can be accounted for through Mises’s notion of *thymology*. I close by posing some questions for future research, especially regarding the contributions of pre-classical schools to the history of economic thought.

KEYWORDS: action, exchange, gifts, crime, love, distribution, praxeology, thymology, history of economic thought

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INTRODUCTION

John Mueller's paper on "The 'Missing Element' in Economics" offers both a critique of the dismal science and a challenge to virtually every school of economic thought. As such, it is part of a larger effort to revise the foundations of economic theory; in fact, if Mueller is correct, several fundamental economic principles are mistaken, and need to be replaced. Whatever we make of his arguments then, certainly no one can accuse them of lacking ambition. Philip II of Macedon famously warned the Spartans that, "If I bring my army into your land, I will destroy your farms, slay your people, and raze your city." Mueller offers a similar warning to economists, and I make the same reply as the Spartans: "If."

In other words, I have doubts about both Mueller's criticism of economics and his alternative approach. Each of these is explained in detail in his book *Redeeming Economics: Rediscovering the Missing Element* (2010). Mueller's recent paper (2015a) is mainly a summary and extension of this earlier work, and, I would argue, suffers from similar faults. Specifically, Mueller's criticism of Austrian economics is misplaced, because the "missing element" he identifies is already accounted for in the writings of Ludwig von Mises (Mises, 1998, pp. 13–14, 97–98; McCaffrey, 2012). Michał Watson's paper (2015) elaborates on this point by invoking Mises's concept of "autistic exchange" to show that economics can incorporate gifts and loving action. Nevertheless, in his response to Watson, Mueller remains critical of attempts to reconcile Austrian views with his own (Mueller, 2015b). This indicates that despite a fruitful exchange, several underlying questions remain unanswered. It is therefore worthwhile to turn over the main problems once more, in hopes of reaching a resolution. To that end, this paper discusses several major points of contention, offers further criticism, and suggests opportunities for future research. I begin with a summary of Mueller's thesis.

THE MISSING ELEMENT

What exactly is the missing element in economics? Mueller argues that since the time of Adam Smith, economics has neglected a vital aspect of human action, namely, gift-giving. According to

Mueller, people choose each other as ends and rationally express their choices through acts of love, or gifts. Gifts are a vital element of human life that economics must be able to explain. However, economists' narrow assumptions about utility maximization are insufficient to show how individuals could give without the expectation of receiving something in return. Without a theory of gifts, Mueller contends, economics is woefully incomplete, because it cannot explain the "final distribution" of goods. To overcome this problem and return economics to its proper foundation, Mueller proposes an alternative "Neo-Scholastic" political economy based on the works of Aristotle, Augustine, and Aquinas. This approach places gifts and love—and their opposite concepts, crimes and hate—at the forefront of economic theory (Mueller, 2010, 2015a).

What are Austrians to make of Mueller's project? Certainly they agree that economists are often misled by unrealistic assumptions about human behavior. Furthermore, both sides also believe that the current state of the economics profession is due in part to its neglect of its own history, especially in university teaching. However, despite these points of overlap, Watson (2015) points out several places where Mueller and the Austrians either draw the same conclusions for different reasons, or reach different conclusions based on the same reasoning. An example of the former is both camps' criticism of the Chicago school, while the latter is illustrated by the work of Philip Wicksteed and Wilhelm Röpke. Notwithstanding these differences, I believe the Austrian and Neo-Scholastic approaches have more in common than Mueller proposes.

ACTION, EXCHANGE, AND GIFTS

Mueller's challenge is as follows: if economic theory takes all human behavior to be self-interested, how can it explain gifts, which are selfless expressions of love? The answer lies in our understanding of action, means, and ends. At first glance, it might seem as if all notions of self-interest fail Mueller's test, because personal gain only accounts for exchanges of goods, not gifts. However, if we take the view that all action incorporates an exchange *element*, we can explain both gifts and what Mueller calls "sales."

In fact, this approach has already been suggested by Mises and others. Specifically, Mises held that all human action strives to

exchange conditions that are less satisfactory for conditions that are more satisfactory.¹ This constant effort may involve trade between individuals, but it need not. This is because in the universal, praxeological sense, it is not material goods that are exchanged, but rather *states of the world*, as subjectively interpreted by the actor. For instance, when a mother feeds her infant, she exchanges the less desirable state of the child's hunger for the more desirable state of the child's nourishment.² The food she provides is a gift that expresses her love and her desire for the child's well-being. Watson's critique of Mueller further explicates Mises's position, drawing particular attention to the concept of "autistic exchange" (or "autistic action") to account for non-market behavior such as gifts (Watson, 2015).³

However, Mueller remains unconvinced by these arguments. He has one major objection to the notion of action as exchange, namely, that if gifts and sales are combined under the same heading, economic theory will again lack a vital component (Mueller, 2015b). His reasoning is based on the assertion that any economic theory must explain four types of action: production, exchange, distribution, and consumption (Mueller, 2015a). These four comprise what Mueller describes as the Scholastic economic system. Each element is defined with an equation, and together they explain what Mueller considers the fundamentals of economic behavior. The problem with the Misesian view is as follows: if all action involves exchange, then utility theory must explain both consumption and distribution. This means Mueller's economic system is left with only three equations to describe four variables, and is thus indeterminate. Mueller therefore rejects the possibility that action is a kind of exchange (Mueller, 2015b).

¹ Mueller does not explicitly deny this claim, although he does dismiss it on the ground that it conflicts with his four-equation economic system (Mueller, 2015b). Importantly, his denial implies that in order to salvage his system, he must assert that not all action is aimed at improving conditions from the point of view of the actor. If this is indeed his position, it is vital that he provide examples of such action.

² In the marketplace, praxeological and material exchanges coincide: for instance, I exchange my apple for your orange because I prefer the state of affairs "I possess an orange" to the state of affairs "I possess an apple."

³ Watson further argues that the differences between Mueller and Mises are more about terminology than substance.

Unfortunately, this criticism only holds if we assume Mueller's four-equation system is a valid benchmark against which to measure other theories. Yet this is exactly what needs to be shown. Mueller's criticism is question-begging: a praxeological approach cannot be valid, because it fails to fit his own theoretical framework. This kind of argument leaves the important problems unresolved. I suggest that if this debate is to be truly productive for economists, each side should address the other's argument on its own terms.

There are two ways economists might critically engage Mueller's work: first, by showing that his system is internally inconsistent, and second, by arguing that some other account of action is more appropriate. Following Mises, Watson and I have already argued for the second claim. The first, however, requires further attention. Specifically, Mueller's approach to theory invites several important questions. For instance, why is economics defined by the four variables he proposes? Why not a different number or composition of variables? Further, why explain economics through a series of equations in the first place?

As to the number of variables, consider the following: if determinacy as such is what ultimately undermines Mises's system, the problem can always be resolved by simply reducing the number of variables to be explained. The resulting system would be determinate by Mueller's standard. However, while a system with fewer variables would eliminate Mueller's objection of indeterminacy, it would not say much about whether the new system is internally consistent or relevant to the real world. Mueller would be obliged either to accept the new system based solely on its determinacy, or else find other reasons to criticize it. This example is intended to show that determinacy as such is not the problem, but rather the validity of the underlying theory.

As to which variables economics must explain, here too there is room for differing views. Of course, there is widespread agreement that any economic system worthy of the name should explain production, exchange, distribution, and consumption *in some form*. Yet how exactly these concepts are defined and distinguished is an open methodological question. For instance, the notion of action as exchange is already one example of an alternative view of consumption—one Mueller must deal with on its own terms if

his argument is to be successful. A second example is the concept of distribution. Economists often refer to distribution as if it were a distinct kind of action. However, it is actually part of the broader theory of production. As Murray Rothbard explains,

“distribution” theory is simply production theory. The receivers of income earn wages, rent, interest, and increases in capital values; and these earnings are the prices of productive factors. The theory of the market determines the prices and incomes accruing to productive factors, thereby also determining the “functional distribution” of the factors. “Personal distribution”—how much money each person receives from the productive system—is determined, in turn, by the functions that he or his property performs in that system. There is no separation between production and distribution, and it is completely erroneous for writers to treat the productive system as if producers dump their product onto some stockpile, to be later “distributed” in some way to the people in the society. “Distribution” is only the other side of the coin of production on the market. (Rothbard, 2004, p. 623)⁴

It is strange that Mueller—who criticizes the British classical school for abandoning the vital element in economics—should insist on a separate theory of distribution. Distribution is an artifact of the classical era that became unnecessary once marginal analysis was returned to its rightful place at the center of economic theory. Marginal utility leads naturally to value imputation and marginal productivity, which in turn explains distribution.

Lastly, it is worth mentioning the deeper question of why core economic concepts need to be formalized in the way Mueller suggests. I wonder what he makes of the numerous criticisms of mathematical methods in economics, especially given his fundamental claim that economists have eliminated a vital human element from their science. It appears hasty to claim that the complexity of human action—including love and hate—can be captured using four basic equations. Is there not some conflict between the desire to recognize the full personhood and moral agency of human beings, and the desire to reduce their behavior to a few simple calculations?

⁴ McCaffrey (2012) further discusses the question of distribution.

LOVE IN THE TIME OF ECONOMISTS

For Mueller, the role of gifts in economics is about more than simple distribution. Gifts are also expressions of love or goodwill from one person to another, while crimes are expressions of hate or ill-will. A gift demonstrates that a person has chosen another human being as an end; a crime indicates using another person as a means.

This approach raises the important question of the proper place of concepts like love and hate in economic analysis. My initial criticism—which I believe is consistent with Mises’s views—was that love is a psychological state that may precede and influence action, but ultimately falls outside the scope of economics (McCaffrey, 2012). Watson (2015) and Mueller (2015b) both object to this characterization, stressing instead the notion of love as a rational act of the will. This leads them to conclude that understanding love is compatible with, and even vital for, economics. Can these two positions be reconciled? With some clarification and qualification, I believe they can. Two problems to consider are whether love can be completely separated from psychology, and furthermore, whether love provides a possible basis for economic research. I begin with the question of psychology.

Although colloquially love designates an emotion or feeling, this is not the type of love Mueller has in mind. As Watson points out, Mueller refers to *agape*, or charitable love.⁵ *Agape* is “willing the good of the other, an act freely made... where the actor speculates on what the other actor perceives as a good (relative to bad) and then gives it to that person without expectation of being given anything in return” (Watson, 2015).⁶ Charitable love therefore

⁵ Mueller does not use the word *agape*, because he fears it makes love seem too rarified (Mueller, 2015b). This point is not relevant to my argument, however, which depends only on the idea of love as action, not *agape* specifically.

⁶ Watson (2015) observes that there is an entrepreneurial element in love, because an individual who gives a gift must be alert to the implications of that gift for the recipient. I believe it would be more accurate to say that gift-givers are entrepreneurial because they make judgments about the use of their resources (e.g. gifts) in the face of uncertainty. The judgment view also seems more in keeping with the concept of *agapic* love, which is a form of rational *action*, as opposed to passive alertness.

seems closer to a kind of action rather than a mental state, a point Mueller also emphasizes (2015a, 2015b).

Yet without some reference to psychology, how can we distinguish between love and other kinds of action, such as hate? I am not convinced we can. Because love is a kind of choosing, it informs valuation. It is thus closely linked to psychology, which tries to explain how values are formed. Psychology precedes and explains action, and what makes love distinct is its psychological character—its specific motivation and content. In fact, only through some type of psychological insight can we identify cases of love and hate in the real world. The observation of physical action is not enough to know whether love is present: only through knowledge of human beings' values and intentions (and thus, psychology) can we be sure. For example, there may be no physical difference between a mother who assigns chores to her child in order to encourage responsibility, and one who assigns chores out of laziness or cruelty. Yet there is obviously a great deal of difference in terms of love and hate. Only knowledge of the mother's "psychology" can tell us which act occurs in each case.

As it turns out, Mises anticipated the need for this type of psychological understanding, which he called *thymology* (Mises, 2007, pp. 264–284). Thymology is the historical counterpart to praxeology. Praxeology explores the implications of action as such, while thymology explores "the content of human thoughts, judgments, desires, and actions" (Mises, 2007, p. 266).⁷ Love is thus a thymological concept in that it reflects human beings' "specific understanding" of

⁷ As Mises explains:

The very act of valuing is a thymological phenomenon. But praxeology and economics do not deal with the thymological aspects of valuation. Their theme is acting in accordance with the choices made by the actor. The concrete choice is an offshoot of valuing. But praxeology is not concerned with the events which within a man's soul or mind or brain produce a definite decision between an *A* and a *B*. It takes it for granted that the nature of the universe enjoins upon man choosing between incompatible ends. Its subject is not the content of these acts of choosing but what results from them: action. It does not care about what a man chooses but about the fact that he chooses and acts in compliance with a choice made... Why one man chooses water and another man wine is a thymological (or, in the traditional terminology, psychological) problem. (Mises, 2007, p. 271)

each other's action. Love in Mueller's sense is not then a part of pure economic theory, but is instead a concept in applied economics. Love represents a special (empirical) characteristic of valuation that can be used to analyze specific types of action such as gift-giving, the family, and nonprofit business activity.

It is understandable that my original phrasing caused confusion, as my review did not fully explain this position. I would like to point out though that I did not, as Mueller (2015b) suggests, reduce love to an emotion. My major claim was that love is a "psychological state" with ambiguous relevance for action and economics (McCaffrey, 2012).⁸ However, in raising this point, I did not sufficiently emphasize the areas of overlap between psychology (thymology) and economics. Love, as it pertains to action, is one of these areas. Although it is not a part of economic theory as such, it is a concept that can and should be explored more in applied economics.

CONCLUSION: THE CHALLENGE OF THE HISTORY OF ECONOMIC THOUGHT

Mueller's Neo-Scholastic theory is firmly grounded in his understanding of the history of economic thought. It is therefore appropriate in closing to reflect on this history and to use it to suggest questions for further discussion and research. As mentioned above, Mueller and the Austrians agree that contemporary economics is seriously deficient when it comes to teaching its own history. They also agree which trends in the history of economics deserve more emphasis, and which less. For instance, both sides generally believe the Scholastics warrant further attention for their founding role in economics, while the British classical economists merit at least some criticism for leading it astray. There are, however, important differences regarding exactly how a revised history of economics should treat these topics. Mueller and the Austrians each claim certain thinkers as their own, and so the question naturally arises whose interpretation of intellectual history is more accurate.⁹ I do

⁸ In hindsight, "psychological process" is more accurate than "psychological state."

⁹ This assumes the claims of each side are incompatible. However, an obvious question is whether historians of thought really need to choose between different

not believe this problem can be resolved in a short paper; however, we can pose questions to inform future research.

The most important problems revolve around the Scholastic heritage in economics. Although the Scholastics deserve more credit than they currently receive, this fact does not imply that they resolved (or even recognized) every significant problem in economics. A first question then is: to what extent did the Scholastics, especially the Aristotle-Augustine-Aquinas tradition, develop a distinct and consistent *system* of economic theory? Did they produce such a system at all? Could it be argued, for instance, that Scholastic economics was not an integrated and fully-developed system of economic doctrine, but rather a series of scattered insights into aspects of what we now call (normative) political economy?

I will not argue strongly for this last claim, but I do believe it is worth discussing—it even fits with other facts in the history of economics. For instance, Mueller laments the disappearance of Scholastic economics following Adam Smith. Yet is it possible that Smith's success can be attributed to the Scholastics' failure to provide a sufficiently clear alternative system? Perhaps one reason British classicism replaced Scholastic thought was that the British provided a more expansive, detailed, and explicitly economic body of thought (however flawed it may have been).¹⁰ A similar question can be asked about contemporary economics: could it be that the reason Mueller and the Austrians disagree over the Scholastics is because the Scholastic tradition is broad and unsystematic enough to invite competing interpretations and research agendas?

Asking these sorts of questions is not an empty exercise: it is a way to revisit basic assumptions and avoid anachronistic readings of past authors. With that in mind, I would like to gently suggest that Mueller's reading of the history of economics is too ambitious. For instance, he argues that the Scholastics successfully integrated

traditions; it appears reasonable to claim that certain economists belong to more than one tradition.

¹⁰ Mueller focuses his attention on the British classical economists, but neglects the writings of the French liberal school. Like the Scholastics, the French are claimed by the Austrians as precursors of Carl Menger. However, there is room for further research on possible connections between the French and the scholastics.

theories of “production, exchange, distribution, and consumption,” in order to describe “personal, domestic and political economy,” thus forming a “comprehensive, logically complete” economic system. These claims stretch the economic meaning of words like “theory” and “system” past the breaking point. Likewise, it appears overly generous to attribute a theory of “equilibrium” to Aristotle, or the development of a “personal distribution function” to Augustine (Mueller, 2015a).

None of this is intended to slight Scholastic contributions to economics. My aim is simply to show that it will be a long time before the last word is written on any school of economic thought. In fact, the history of economics serves as a constant reminder of how much work is yet to be done in the science, as well as the extraordinary difficulty of building a unified economic system. It is for these reasons that we should always appreciate the insight of economists like Mises. Praxeology in the Misesian sense is far more than a series of narrow deductions about economic behavior: it is a rich and continuously fruitful approach to analyzing human action in all its many forms. Together with thymology, praxeology provides the basis for a far-reaching research agenda in the social sciences, one that incorporates both for-profit exchange and charitable action. In this sense, the Misesian system holds enormous potential. Nevertheless, progress in economic thinking is rarely easy or rapid. It can only be won through time and hard labor: it is not a gift.

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