Jörg Guido Hülsmann has attempted nothing short of a methodological coup d’etat in his article “Facts and Counterfactuals in Economic Law.”¹ He argues that the fundamental source of economic law is the finitude of the world embodied in choice, and thus proposes a counterfactual method as an alternative to the remnants of positivist thought in Austrian economics, namely ceteris paribus modifiers and imaginary constructs. Our purpose in this paper is to offer a defense of ceteris paribus and imaginary constructs by explaining their use in Austrian economics and to answer Hülsmann’s abortive critique of the method. Focus is placed on Human Action and Man, Economy, and State as archetypal in their use of these methods in praxeological reasoning.

1 Ceteris Paribus and Essential Distinctions

Hülsmann takes issue with two elements of what is best described as the essentialist method of Mises and Rothbard, ceteris paribus (CP) modifiers and imaginary constructions. CP modifiers are used to qualify statements about particular connections between economic phenomena; as shall be seen below, however, they are not merely appended to the end of praxeological chains of reasoning, but rather serve as essential preconditions for them. Imaginary constructions, discussed in the next section, are a cognitive process used by economists in their abstraction of certain elements of the real world. They are two sides of the same coin: the CP modifier always applies to an imaginary construction.

The key point in Hülsmann’s misunderstanding of CP modifiers is his failing to account for the difference between essential distinctions and existential separations, a lynch-pin of the Thomistic tradition that Hülsmann identifies himself with.\(^2\) The essence, or quiddity, of a thing is distinct from the essences of other things even if those things never exist apart from one another. For instance, a means is distinguishable but never separable from an end; where there is one, there is the other, but they are not identical.

The difference which obtains in realities, and which is necessary for a real distinction, must on no account be taken to imply that the realities which so differ are necessarily complete entities. So there is a real distinction between a substance and its accidents, for example, between a man and the colour of his hair, between the soul and its faculties, and yet this colour and these faculties are incomplete entities. So distinction is not separability; nor does it imply it. Hence we see the falsity of such remarks as the following: ‘To put forward a real distinction is to put forward a distinction between two things which possess their reality independently one of the other.’\(^3\)

Recognizing essential distinctions constitutes the process of abstraction by which man can understand the component elements of any complex reality. By their very nature, catallactic phenomena are the effects of multiple causal factors. Catallactics is the science of interpersonal exchange, which definitionally involves a plurality of agents and goods. These phenomena, no matter how simple or difficult they are to apprehend, are thus always and everywhere complex. Insofar as economic science takes an Aristotelian \(a\ priori\) approach\(^4\)–deriving effects from causes–it must pursue one chain of causality at a time before it can have any vision of a complex phenomenon. This is true of the \(a\ priori\) deduction of a system that allows multiple factors to influence a phenomenon; “in order to study the various causal factors that interact to form the actual historical result, it is necessary to isolate each one

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\(^2\)Hülsmann (2003) 87. This distinction goes all the way back to Aristotle (Posterior Analytics 92b10), but was developed further by later thinkers, most notably Aquinas.


\(^4\)Not to be confused with Mises’s Kantian use of \(a\ priori\).
and consider what would be its effect if the others remained unchanged.”\(^5\)

Suppose that \(C\) is the set of every cause \(c_i\) of phenomenon \(p\). Since economics is deductive, we do not start with the knowledge of \(C\)’s relationship to \(p\), but rather must deduce the praxeological relationship of any \(c_i\) to \(p\) \((c_i \rightarrow p)\). That is, we start from \(c_1\) and determine its essential relationship to \(p\), and in so doing we necessarily ignore the effects of \(c_2-c_n\).\(^6\) This is why we say that \(c_2-c_n\) are “held constant”; they are not assumed to not exist (more on this below) but our judgment of their influence on \(p\) is necessarily suspended in the process of abstracting to \(c_1 \rightarrow p\).

The accusation that Hülsmann levels at CP modifiers is that they only hold when the CP conditions hold. This critique misses the mark, in that it is a fundamental misunderstanding of the nature of a CP claim. The CP claim is not a claim that \(c_2-c_n\) do not exist; this would be a claim about a necessary existential condition of the separation of the elements of \(C\) for \(c_1 \rightarrow p\) to hold. Rather than such an existential separation, the CP modifier asserts an essential distinction. It is a statement about the praxeological relationship between \(c_1\) and \(p\) in light of the existence (or potential existence) of \(c_2-c_n\), namely that it is a single distinct relationship in an array of other relevant relationships.\(^7\) This has several important implications.

First, a CP claim is thus a claim about a real-world relationship based on the formal character of action; there is no divide between derivation and application. A CP claim is a claim about the universally valid relationship of some element of \(C\) to \(p\). In light of the difference between essential distinctions and existential separations, no Mengerian should be ashamed to affirm


\(^{6}\)In the historical act of deriving a law, \(p\) is not known (with the tools of praxeological science, though we may know from experience that there are such things as ‘prices’ prior to the deduction) until the chain of reasoning connecting \(c_1\) to it is complete. This is why *ceteris paribus* modifiers often seem to be tacked on at the end of a derivation; how does one know to suspend judgment on \(c_2-c_n\) until one has arrived at \(p\)? In the event that \(c_2-c_n\) are not known, the economist is simply admitting of other potential causes, allowing his statements to be more scientifically precise.

\(^{7}\)Hülsmann, “A Realist Approach to Equilibrium Analysis”, *Quarterly Journal of Austrian Economics* Vol. 3, No. 4 (Winter 2000): 351, gives a very similar explanation of what he means by the data of action being “given,” asserting that they merely exist independently (p. 15). This is extremely close to the idea that we argue for, except that we do not assert that the givens must be outside of action or must exist independently, but rather must only be essentially distinguishable.
the use of CP modifiers as a necessary part of the causal realistic approach to understanding catallactic phenomena.

*Ceteris paribus* constructions can and do embody reality and economic truth even if the *specific* constructions are not “realistic” in the sense that they are not happening at that particular moment in time. These theories are realistic because they are deduced from the fundamental and absolutely true axiom of human action, that people continually *act* by employing means to try to achieve goals.⁸

Second, CP as explained in this way (or an equivalent term) is a necessary qualifier for any $c_i \rightarrow p$ for any $C$ with more than one element. Without a CP modifier the statement is not exact precisely because $p$ has multiple determinants. The absence of the ability to make such abstractions would land one either in economic nihilism, the inability to recognize and account for such distinctions, or a sort of economic Parmenideanism, the lack of any real distinction between them at all.

While this is generally true, it is especially true of catallactics, because we can only derive universal laws regarding the formal elements of action. There may be non-praxeological factors involved in catallactic phenomena that contribute to economic outcomes; for instance, if the smooth operation of the U.S. market economy incited the vitriol of socialist Canadians, they may launch a costly communist crusade against their capitalist neighbors. Thus, actions that in themselves result in enrichment may invite accidental reactions that create countervailing forces. Mises is clear that political economy is specifically concerned with “the determination of the mutual exchange ratios of the goods and services negotiated on markets, their origin in human action and their effects upon later action.”⁹ Insofar as non-praxeological factors have an influence, they must be abstracted from, or “held constant,” in praxeology proper, as they are accidental rather than essential features of these phenomena. That is, they do not belong to $C$ necessarily.

Additionally, the material content of an act always indeterminate and may be an element of $C$, such as the decision by the Canadians to invade. Free

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will also raises a particularly nasty problem with accidental relations, both between an accidental $c_i$ and $p$ and among the elements of $C$; this makes the CP modifier all the more critical. It is clear from the plain meaning of the words that the CP modifier essentially distinguishes $c_i$ from all other elements of $C$, including other formal relations, the material content of choice, and non-praxeological influences on $p$, as is necessary for exact statements.

To illustrate Hülsmann’s failure to make the proper distinction between essential distinctions and existential separations, consider the following passage:

There could be no such thing as an economic law that presupposed the existence of an equilibrium, or even its mere tendency to exist, for such a law would contradict the nature of human choice.\(^\text{10}\)

Compare this to Mises’s understanding:

For the final state of rest will never be attained. New disturbing factors will emerge before it will be realized. What makes it necessary to take recourse to this imaginary construction is the fact that the market at every instant is moving toward a final state of rest. Every later new instant can create new facts altering this final state of rest. But the market is always disquieted by a striving after a definite final state of rest... We would unduly restrict our study of price determination if we were to look only upon the momentary market prices and the plain state of rest and to disregard the fact that the market is already agitated by factors which must result in further price changes and a tendency toward a different state of rest.\(^\text{11}\)

We must affirm that Mises here has the proper understanding. He recognizes that the essential effects of particular catallactic phenomena loose into the world a chain of causality, and the nature of that chain of causality. Their *per se* effects are to reach equilibrium; this is not to be confused, as Hülsmann seems to be doing, with the existential claim that they ever will result in a final state of rest. While he is very attentive to the choice element


\(^{11}\)Mises (1998) 246.
of action, that one alternative is foregone in favor of another, Hülsmann here seems to be neglecting its teleological aspect: that it always aims at the alleviation of some felt uneasiness.\textsuperscript{12} Action thus always and everywhere aims at an equilibrium (i.e., a state of rest).

The tendency towards equilibrium is a really existent causal factor in contributing to the always dynamic world; in fact, in catallactics these tendencies, which exist because the effects of action are intertemporal, help create the dynamism of the historical economy in the first place. It may be impossible to dig all the way to China, but when you create a ditch you really are headed in that direction. “Action thus tends toward a state of rest, absence of action.”\textsuperscript{13} Rothbard, too, holds this conception; in fact, he argues that the tendency towards equilibrium, or rest, must characterize any teleological conception of action, which is directed at attaining ends and settling uneasiness.\textsuperscript{14} Denying the tendency towards equilibrium contradicts the teleological nature of action. It would only be the attainment of that equilibrium that would contradict the existential reality of human action, a fact that Mises does recognize.

2 Finding Neverland: Imaginary and Unrealistic Constructs

The method of imaginary constructions is indispensable for praxeology; it is the only method of praxecological and economic inquiry. It is, to be sure, a method very difficult to handle because it can easily result in fallacious syllogisms. It leads along a sharp edge; on both sides yawns the chasm of absurdity and nonsense. Only merciless self-criticism can prevent a man from falling headlong into these abysmal depths.\textsuperscript{15}

We are now in a position to understand the nature and function of the imaginary construct in economic analysis. Imaginary constructs, as noted above, are the cognitive processes by which economists engage in praxeolog-

\textsuperscript{12} Mises (1998) 14.
\textsuperscript{13} Mises (1998) 245.
\textsuperscript{14} Rothbard (1997) 132.
\textsuperscript{15} Mises (1998) 238.
ical chains of reasoning. It may be objected that the process of praxeological deduction is only concerned with necessary formal structure of action and thus does not rely on imaginary constructs; that is, all that is necessary is abstraction and deduction, not a fantasy market. This objection, however, ignores the status of praxeology as a causal-realistic science that grasps really existent relations. Mises explains: “An imaginary construction is a conceptual image of a sequence of events logically evolved from the elements of action employed in its formation.”¹⁶ Note that it is a “conceptual image,” meaning that its central concern is the reproduction of logical relations in the mind of the economist. These relations are formal in that they are built into action, but they really exist in action; thus, a process of deduction involving them is still an imaginary economy, albeit one with only its pure praxeological content. They are a constitutive element of the essentialist method.

While all realistic abstractions result in imaginary constructions of formal characteristics in the mind of the thinker, they are especially valuable to economists studying essentially multi-causal systems. The process of discovering \( c_1 \rightarrow p \) necessarily sets aside the influence of \( c_2 - c_n \); however, it may be necessary for certain other elements of \( C \) to exist in order to evaluate \( c_1 \). For example, if \( c_1 \) is demand and \( p \) is price, then evaluating their relationship presupposes a supply, \( c_2 \), but not a sin tax on that good, \( c_3 \). Both \( c_2 \) and \( c_3 \) influence \( p \), but only \( c_2 \) must be supposed to exist for the discovery of \( c_1 \rightarrow p \). Insofar as this is the case, an economy in miniature consisting of those elements is constructed in the mind of the praxeologist.

Imaginary constructs are also not limited to imaginary markets and governments. An indispensable part of Misesian analysis is to speak of “entrepreneurs,” a group of people that is praxeologically (essentially) rather than historically (existentially) distinguished. If Hülsmann wishes to remove such constructions, he must no longer speak of entrepreneurs as distinct from capitalists or workers as distinct from consumers. In reality, agents are all of these things.

Economics, in speaking of entrepreneurs, has in view not men, but a definite function. This function is not the particular feature of a special group or class of men; it is inherent in every action and burdens every actor. In embodying this function in an

imaginary figure, we resort to a methodological makeshift. The term entrepreneur as used by catallactic theory means: acting man exclusively seen from the aspect of the uncertainty inherent in every action. In using this term one must never forget that every action is embedded in the flux of time and therefore involves a speculation. The capitalists, the landowners, and the laborers are by necessity speculators. So is the consumer in providing for anticipated future needs. There’s many a slip ’twixt cup and lip.\footnote{Mises (1998) 253-4.}

It is not that in speaking of entrepreneurs in our constructs that we posit men whose only concern in action is the anticipation of future preferences, but that we describe the really existent but distinct entrepreneurial element in all sorts of human action. These constructs are a process of abstraction, and are not concerned with depicting agency as a whole but rather in identifying its distinct elements.

What if a construct uses material praxeological content or non-praxeological content, such as Robinson Crusoe? Obviously, the conclusions reached from the employment of such a construct are what determines whether they are universal or not. Thinkers in the Austrian school have consistently used these specific constructions to draw out universal points. This does not affect the universality of the conclusions reached by the deductions; laws derived from a Robinson Crusoe example do not apply only to people named Robinson Crusoe. These material elements essentially serve as labels that allow the abstractly grasped praxeological laws to be seen concomitantly with a physical or visual instantiation of them. No one who reads Rothbard thinks that he is talking about berries, but rather understands that berries are a graphic \textit{signa} that point to the universal \textit{res} of a good that is consumed in its use. These bits of color are not part of the process \textit{per se} and are merely illustrative tools; as such they are unnecessary. However, this does not obviate the central point about the imaginary construction of the formal relations of actions, but is merely another layer to those constructs.

If, on the other hand, Rothbard had generalized based on his visual metaphors, such conclusions would obviously only apply to situations which matched those of the imaginary construction. Fortunately, we do not find him making claims such as “society grows richer based on how many sticks
it has” or “the third horse is always preferred to the second cow.” Rather, these constructs are used as instantiations of universal formal relations of action. Another important example is Rothbard’s explanation of the regression theorem, which uses the construct of a “day.” Rothbard is not really claiming that these events happened on successive rotations of the earth, but is rather using the word day as a label for a unit of time made discrete by the discreteness of human action.

A construct takes on the character of being “unrealistic” if the $c_1$ under consideration is existentially inseparable from $c_2$, such as means and ends, and $c_2$ is not part of the consideration of the economist. That is, $c_1$ and $c_2$ never appear one apart from the other. Such abstractions are only “unrealistic” in a deleterious sense if they are taken to be descriptive of reality as a whole. However, such abstractions are not only useful but also necessary to analyze essentially distinct elements of a phenomenon that are existentially inseparable. Mises’s evenly rotating economy follows this example: uncertainty and time preference are two distinguishable formal characteristics of action, and the ERE abstracts from the former in order to derive the relation of the latter to the phenomenon of interest. It is only when it is taken as an exhaustive description of reality that its unrealism is problematic. On the other hand, what is abstracted from by the ERE is precisely what it is not used to make a judgment on; only that which is left intact in the mind of the economist is then applied to reality. For example, we must be careful how we interpret Mises when he says, “In designing such an imaginary construction the economist is not concerned with the question of whether or not it depicts the conditions of reality which he wants to analyze.” Here, Mises must mean the existential conditions of the real economy; he would be abusing the imaginary construct if he were, for instance, abstracting from time to explain interest. It is precisely because other elements of action are not part of $c_1 \to p$ that they are abstracted from.

Hülsmann claims that these methods are the methods of the positivists, the last vestiges of a flawed epistemological understanding of economics that must be excised from the Austrian system. He boasts that his counterfactual laws “do not need to be complemented by specially constructed dynamic models because they are dynamic.” This implies that the imaginary

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18 Rothbard (2004) 270-1
constructs of the Austrian school are an attempt to model the economy; Rothbard could not be more clear that this is not the case in the Misesian tradition:

It will be noted that we have avoided using the very fashionable term “model” to apply to the analyses in this book. The term “model” is an example of an unfortunate bias in favor of the methodology of physics and engineering, as applied to the sciences of human action. The constructs are imaginary because their various elements never coexist in reality; yet they are necessary in order to draw out, by deductive reasoning and ceteris paribus assumptions, the tendencies and causal relations of the real world. The “model” of engineering, on the other hand, is a mechanical construction in miniature, all parts of which can and must coexist in reality. The engineering model portrays in itself all the elements and the relations among them that will coexist in reality. For this distinction between an imaginary construct and a model, the writer is indebted to Professor Ludwig von Mises.\(^{21}\)

The constructs are not used as models to predict existent market conditions, but to discover or explain essentially distinguishable relations between individual causes and the phenomena which they produce. The issue of their dynamism is a red herring: they are universal characteristics of human action and do not assume unchanging time, so they are immediately descriptive of the dynamic world.

3 Historical Usage

An objection that may be raised that this understanding of CP and imaginary constructs is that it is not the understanding traditionally expounded in Austrian methodological texts. This is a partially valid objection; Austrian economists have not been consistent in how they have employed these terms. Rothbard mentions a case in which “the ceteris paribus condition will tend to be violated.”\(^{22}\) This is, in light of the above analysis, probably a misunderstanding of CP claims as conditional requirements for the validity of the


analysis to hold. Mises, too, seems to mix up the two potential meanings (essential and existential) of an imaginary construct:

The main formula for designing of imaginary constructions is to abstract from the operation of some conditions present in actual action. Then we are in a position to grasp the hypothetical consequences of the absence of these conditions and to conceive the effects of their existence.\(^\text{23}\)

The first sentence is in line with the model that we have presented, an abstraction from \(c_2-c_n\). The second sounds like he is wandering into possible worlds scenarios, in which we imagine other dimensions that actually operate by only these properties. It would be more true to the way that imaginary constructions have actually been used to state that “we are in a position to grasp the real consequences of the conditions still in operation.”

While admitting this inconsistency of language in describing these methods, we maintain that the Misesian-Rothbardian line of Austrian thought has actually used these methods in a manner that is in conformity with the above analysis, i.e., the isolation of individual causal factors in a catallactic system. This is a crucial point of difference between the Austrian method and the attempts to model the economy that dominate the mainstream. Mises abstracts from uncertainty to analyze a single relation that is still present in his imaginary construct. Mainstream economists abstract from various economic truths in order to model and predict the whole system of the economy.

4 Objections to *Ceteris Paribus*

Having laid out a positive defense of CP and imaginary constructions, we are now in a position to easily answer Hülsmann’s objections to the method. Most have been answered above, so these responses will be brief.

**Objection** Hülsmann’s main objection is that the use of CP, since it is dependent on hypothetical and unrealistic assumptions as a methodological crutch, cannot be applied to reality.\(^\text{24}\) That is, the conditions which would make the propositions true are never historically present, and so they are inapplicable to the world.


\(^{24}\)Hülsmann (2003) 69, 74.
Reply As stressed repeatedly above, CP does not make assumptions about reality, but rather distinguishes between its individual causal elements. CP modifiers are properly and necessarily applied to any $c_i \rightarrow p$ statements that are not exhaustive of $C$, and thus express intellectually isolable real relations. They do not need to be made more dynamic, for their purpose is to describe individual, universally valid relations, and they are immediately descriptive of (and thus applicable to) the real world.

Objection Hülsmann wonders about a situation in which “there are secondary effects as a consequence of the primary effects,” namely how one could ever identify what the “net effect” would be, especially in cases where two effects push in the opposite direction.25

Reply CP and imaginary constructs, as we have explained them, do not make claims about net effects at all. All we can do is identify the various causal forces; it is exactly the ability to posit distinguishing, rather than merely separating, modifiers that allows us to identify these two different effects. We wonder how counterfactual analysis would manage to fare any better, for it would seem that it would be forced to posit something like “prices are both higher and lower than they otherwise would be.”

Objection The essentialist method seeks “to salvage the central positivist tenet (that economic laws are relationships between observable events) by claiming that certain observations could be made if certain hypothetical and unreal conditions were given.”26

Reply This objection is simply an example of using loaded language. Economics laws are not “observable,” but rather ascertainable. It is the meaningfulness of the concept of action that allows not bare observation, but rather accurate interpretation of the world. They are not discovered by observation, but rather abstraction.

Objection Part of the “frozen data” of a CP condition are the choices of other agents; however, choice cannot be held constant without running into a performative contradiction.

Reply  This objection only follows if one posits the existence of a non-choosing agent, not if one makes an essential distinction of the kind that we have defended. Mises is inexact on this point:

Nor does he bother about the construction of whether or not such a system as his imaginary construction posits could be conceived as really existent and in operation. Even imaginary constructions which are inconceivable, self-contradictory, or unrealizable can render useful, even indispensable services in the comprehension of reality, provided the economist knows how to use them properly.27

Mises here is dead-on except for “self-contradictory,” for it is clear that only in the realm of existential claims that such a contradiction could take place.

Objection  CP modifiers prevent one from tracing out the effects of an event, for “[w]hat could one possibly understand by the ‘effects’ of an event if not a modification of ‘other things’?”28

Reply  This is the most trivial of objections; no one disputes that the purpose of praxeology is to trace out chains of causation. “Other things” are modified in the essential method, but only those that are part of the praxeological chain of reasoning. Mises could not be more clear: “The idea implied in the inappropriate term level of prices, as if–other things being equal–prices could rise or drop evenly, is untenable. Other things cannot remain equal if the purchasing power of money changes.”29 That is, if \( c_2 \) is part of \( c_1 \to p \), then \( c_2 \) is only held constant from changes independent of \( c_1 \).

5 Conclusion

The endeavor to place economic science on firmly realist grounds is indeed a noble one. In pursuing this goal, however, one must be careful not to make

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equivocations between the Austrian tradition and the mainstream, positivist approach.

The proper use of *ceteris paribus* modifiers, equilibrium tendencies, and imaginary constructs, the use that has characterized the Austrian school, is not to make exhaustive claims about historical (or possible) economies. These methods are not mere tools of comparison, either. Rather, they are realistic descriptions of some of the necessary causal factors at work in the economy. They are claims about parts rather than the whole, and they constitute the heart of the deductive essentialist method.