

# **Human Action**

**Ludwig von Mises**

## **A Summary**

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## INTRODUCTION

Economics is the youngest of all sciences. But it opened to human science a domain previously inaccessible and never thought of - the regularity in the sequence and interdependence of market phenomena.

Economic scientific inquiry is based on the uniformity and immutability of the logical structure of the human mind. It therefore can achieve results valid for all eras, races, and social classes.

The theory of catallactics (the science of exchanges) has to be build upon the solid foundation of general theory of human action, praxeology.

Economic theory is quite obviously not perfect. But the increase in wealth and welfare were feasible only through the pursuit of those liberal policies which were the practical application of the teachings of economics.

## I. ACTING MAN

Human action is purposeful behavior, i.e., conscious adjustment to stimuli and to the conditions of its environment. It is in sharp contrast to unconscious behavior - the reflexes and the involuntary responses of the body's cells and nerves to stimuli.

There are three prerequisites of human action: uneasiness, the image of a more satisfactory state and the expectation that purposeful behavior has the power to remove or at least alleviate the felt uneasiness. Without these conditions no human action is feasible.

Concrete value judgments and definite human actions are not open to further analysis. They are ultimate given.

Human action is necessarily always rational. The opposite of action is not irrational behavior, but a reactive response which cannot be controlled by the volition of the person concerned. Because praxeology is subjectivistic (it takes the value judgments of acting man as ultimate data), it is universally valid (objective).

In a world without causality and regularity of phenomena there would be no field for human reasoning and human action. Thinking and acting are the specific human features of man. There is only one logic that is intelligible to the human mind, and there is only one mode of action which is comprehensible to the human mind. The sole suitable method for studying the conditions of our nonhuman environment is provided by the category of causality. For the comprehension of action there is cognition and analysis of our own purposeful behavior.

## II. THE EPISTEMOLOGICAL PROBLEMS OF THE SCIENCES OF HUMAN ACTION

There are two main branches of the sciences of human action: praxeology and history. The subject matter of all historical sciences is the past. The study of history makes a man wise and judicious. The natural sciences too deal with past events. Every experience is an experience of something passed away, there is no experience of future happenings. But the experience with which the sciences of human action have to deal is always an experience of complex phenomena. No laboratory experiments can be performed with regard to human action. The postulates of positivism and kindred schools of metaphysics are therefore illusory. Neither experimental verification nor experimental falsification of a general proposition are possible in this field. Praxeology is a theoretical

and systematic not historical science. Its cognition is purely formal and general without reference to the material content and the particular features of the actual case. It aims at knowledge valid for all instances in which the conditions exactly correspond to those implied in its assumptions and inferences.

There is no doubt that empiricism and pragmatism are right as far as they merely describe the procedures of the natural sciences. But it is no less certain that they are entirely wrong in their endeavors to reject any kind of a priori knowledge and to characterize logic, mathematics, and praxeology as empirical and experimental disciplines. The problem of the a priori does not deal with the problem of how consciousness and reason have emerged. It refers to the essential and necessary character of the logical structure of the human mind. The fundamental logical relations are not subject to proof or disproof. It is impossible to explain them to a being who would not possess them on his own account. The present state of the universe is the product of its past. And the category of action is logically antecedent to any concrete act.

We cannot think of a world without causality and teleology. Human knowledge is conditioned by the structure of the human mind. The content of primitive man's thoughts differs from the content of our thoughts, but the formal and logical structure is common to both. The logical structure of mind is uniform with all men of all races, ages, and countries.

Aprioristic reasoning is purely conceptual and deductive. All its implications are logically derived from the premises and were already contained in them. But cognition from purely deductive reasoning is also creative and opens for our mind access to previously barred spheres. Without theory, the general aprioristic science of human action, there is no comprehension of the reality of human action. There is no action in which the praxeological categories do not appear fully and perfectly. Experience concerning human action differs from that concerning natural phenomena in that it requires and presupposes praxeological knowledge. This is why the methods of the natural sciences are inappropriate for the study of praxeology, economics, and history. We do not maintain that the theoretical science of human action should be aprioristic, but that it is and always has been so. The experience of a complex phenomenon - and there is no other experience in the realm of human action - can always be interpreted on the ground of various antithetic theories.

Praxeology deals with the actions of individual men. All actions are performed by individuals. A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. The life of a collective is lived in the actions of the individuals constituting its body. Thus the way to a cognition of collective wholes is through an analysis of the individuals' actions. Those who want to start the study of human action from the collective units encounter an insurmountable obstacle in the fact that an individual at the same time can belong to various collective entities. The problems raised by the multiplicity of coexisting social units and their mutual antagonism can be solved only by methodological individualism.

The Ego is the unity of the acting being. It is unquestionably given and cannot be dissolved or conjured away by any reasoning or quibbling. The We is always the result of summing up which puts together two or more Egos. It is always single individuals who say We.

Praxeology does not deal with concrete action which a definite man has performed at a definite date and at a definite place, but only with what is necessary and universal in its performance. Universalism, collectivism, and conceptual realism see only wholes and universals. Thus they never find solutions, but antinomies and paradoxes only. The best-known instance is the value-paradox.

The content of human action (the ends aimed at and the means chosen and applied for the attainment of these ends) is determined by the personal qualities of every acting man. Inheritance and environment direct a man's actions. He lives not simply as man in abstracto. As soon as he discovers

that the pursuit of the habitual way may hinder the attainment of ends considered as more desirable he changes his attitude.

The study of all the data of experience concerning human action is the scope of history which should be *wertfrei* (neutral with regard to all value judgments). This postulate of *Wertfreiheit* can easily be satisfied in the field of the aprioristic science-logic, mathematics, and praxeology - and in the field of the experimental natural sciences. But History can never be anything else than distortion of fact. Economic history is possible only because there is an economic theory capable of throwing light upon economic actions. If there were no economic theory, reports concerning economic fact would be nothing more than a collection of unconnected data open to any arbitrary interpretation.

Sciences of human action are the comprehension of the meaning and relevance of human action. They apply for this purpose two different epistemological procedures: conception and understanding. Conceptions is the mental tool of praxeology, understanding is the specific mental tool of history. In the realm of physical and chemical events there exist constant relations between magnitudes, and man is capable of discovering these constants with a reasonable degree of precision by means of laboratory experiments. No such constant relations exist in the field of human action. We cannot substitute "quantitative economics" for "qualitative economics". There are no constant relations, and consequently no measurement is possible. Different individuals value the same things in a different way, and valuations change with the same individuals with changing conditions.

Everybody uses understanding in dealing with the uncertainty of future events to which he must adjust his own action. Action necessarily always aims at future uncertain conditions and thus is always speculation.

History deals with unique and unrepeatable events, with the irreversible flux of human affairs. Ideal types are the specific notions employed in the historical research and in the representation of its results. The ideal type has nothing at all to do with statistical means and averages. The ideal type is always the representation of complex phenomena of reality, either of men, of institutions, or of ideologies, therefore *Homo oeconomicus* is no ideal type.

All that is needed for the deduction of all praxeological theorems is knowledge of the essence of human action. Like logic and mathematics, praxeological knowledge is in us. The end of science is to know reality. Therefore praxeology restricts its inquires to the study of acting under those conditions and presuppositions which are given in reality. All theorems of economics are necessarily valid in every instance in which all the assumptions presupposed are given. Of course, they have no practical significance in situations where these conditions are not established. Praxeology - and consequently economics too - is a deductive system. No economic theorem can be considered sound that is not solidly fastened upon this foundation by an irrefutable chain of reasoning.

### **III. ECONOMICS AND THE REVOLT AGAINST REASON**

The economists had entirely demolished all socialist schemes produced up to their time. Therefore only one way could lead the socialists out of this impasse. They could attack logic and reason and substitute mystical intuition for ratiocination. Marx had asserted that human reason is constitutionally unfitted to find truth. The logical structure of mind is different with various social classes. The essence of Marxian philosophy is this: We are right because we are the spokesmen of the rising proletarian class.

It is different with the polylogism of the racists. The racists assert that there exists between various races a difference in the logical structure of mind.

But the categories of human thought and action are neither arbitrary products of the human mind nor conventions. They are biological facts and have a definite function in life and reality.

Therefore the statement that the interests of all proletarians uniformly require the substitution of socialism for capitalism is an arbitrary postulate of Marx and the other socialists.

Some supporters of the tenets of Marxism and racism are ready to admit that the logical structure of mind is uniform for all races, nations, and classes. They say that historical understanding, aesthetic empathy, and value judgments are conditioned by a man's background.

But a theory is either correct or incorrect. It can never be valid for a bourgeois or an American if it is invalid for a proletarian or a Chinese.

#### **IV. A FIRST ANALYSIS OF THE CATEGORY OF ACTION**

The end, goal, or aim of any action is always the relief from a felt uneasiness. A means is what serves the attainment of any end, goal, or aim. In this universe there exist only things. A thing becomes a means when human reason plans to employ it for attainment of some end and human action really employs it for this purpose. Economics is not about things and tangible material objects, it is about men, their meanings and actions. If means were not scarce, there would not be any action with regard to them. Economic goods which are fitted to satisfy human wants directly are called consumers' goods. Means which can satisfy wants only indirectly are called producers' goods. Those producers' goods which are nearest to the production of a consumers' good are ranged in the second order, and accordingly those which are used for the production of goods of the second order in the third order and so on. The purpose of such an arrangement of goods in orders is to provide a basis for the theory of value and prices of the factors of production. The first and ultimate valuation of external things refers only to consumers' goods. All other things are valued according to the part they play in the production of consumers' goods.

These scales are nothing but an instrument for the interpretation of a man's acting. Value is not intrinsic. It is reflected in human conduct. There is no room left in the field of economics for a scale of needs different from the scale of values reflected in man's actual behavior.

Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one, i.e., exchange. The difference between the value of the price paid (the costs incurred) and that of the goal attained is called gain. Profit is purely subjective and ordinal. Therefore any calculation of values is impossible.

#### **V. TIME**

The concepts of change and of time are inseparably linked together. Human reason is even incapable of conceiving ideas of timeless existence and of timeless action. The praxeological system implies the categories both of time and of causality.

Man becomes conscious of time when he plans to convert a less satisfactory present state into a more satisfactory future state.

Man's time is scarce. He must economize it as he does other scarce factors. The economization of time is independent of the economization of economic goods and services

Two actions of an individual are never synchronous. They succeed one another. Value judgments are not immutable and therefore a scale of value, which is abstracted from various, necessarily nonsynchronous actions of an individual, may be self-contradictory.

## **VI. UNCERTAINTY**

To acting man the future is hidden. If man knew the future, he would not have to choose and would not act. He would be like an automaton, reacting to stimuli without any will of his own. The most that can be attained with regard to reality is probability.

There are two entirely different instances of probability. We may call them class probability (frequency probability) and case probability (the specific understanding of the sciences of human action).

Class probability means: We know or assume to know, with regard to the problem concerned, everything about the behavior of a whole class of events or phenomena, but about the actual singular events or phenomena we know nothing but that they are elements of this class.

Case probability means: We know, with regard to a particular event, some of the factors which determine its outcome, but there are other determining factors about which we know nothing. Case probability is not open to any kind of numerical evaluation.

Praxeological knowledge makes it possible to predict the outcome of various modes of action. But it can never imply anything regarding quantitative matters.

## **VII. ACTION WITHIN THE WORLD**

Action does not attach the same value to the various portions of a supply of homogeneous means. Each portion is valued separately. What counts always and alone in valuing a compound of several units is the utility of this compound as a whole, i.e., the increment in well being dependent upon it. The praxeological notion of utility (subjective use-value in the terminology the earlier Austrian economists) must be sharply distinguished from the technological notion of utility (objective use-value in the terminology of the same economists). Action does not measure utility or value, it chooses between alternatives. There is no such thing as a calculation of values. Man decides on the basis of marginal utility. Marginal utility is the utility derived from the least urgent employment of a unit of a homogeneous supply.

The law of returns (popularly called the law of diminishing returns) asserts that for the combination of economic goods of the higher orders (factors of production) there exists an optimum. If one deviates from this optimum by increasing the input of only one of the factors, the physical output either does not increase at all or at least not in the ratio of the increased input. If the effect brought about by one of the complementary factors is indivisible, the optimum is the only combination which results in the outcome aimed at.

The employment of the physiological functions and manifestations of human life as a means is called labor. Labor is a means, not an end in itself. People work only when they value the return of labor higher than the decrease in satisfaction brought about by the curtailment of leisure. To work involves disutility. Labor is the most scarce of all primary means of production because it is in this restricted sense nonspecific and because every variety of production requires the expenditure of labor. There can be abundance only in segments of the labor market.

Every product is the result of the employment both of labor and of material factors. Man economizes both labor and material factors. Labor gratifies the performer. On the one hand in the attainment of the product (mediately gratifying labor) and on the other hand in the satisfaction that the performance itself gives to the worker (immediately gratifying labor).

Production is not an act of creation. It is a transformation of given elements through arrangement and combination. It is the method that man, directed by reason, employs for the best possible removal of uneasiness.

## **VIII. HUMAN SOCIETY**

The total complex of the mutual relations created by concerted actions is called society. It is the outcome of a purposeful utilization of the higher productivity of the division of labor.

Society is not an entity living its own life, independent of and separate from the lives of the various individuals, acting on its own behalf and aiming at its own ends which are different from the ends sought by the individuals.

Individualism is a philosophy of social cooperation and the progressive intensification of the social nexus. On the other hand the application of the basic ideas of collectivism cannot result in anything but social disintegration and the perpetuation of armed conflict.

Liberalism is a political doctrine. It is an application of the theories developed by praxeology and especially by economics to definite problems of human action within society. It maintains that it is possible to convince the immense majority that peaceful cooperation within the framework of society better serves their rightly understood interests than mutual battling and social disintegration.

Cooperative action is more efficient than isolated action of self-sufficient individuals. Division of labor increases output per unit of labor expended. It intensifies the innate inequality of men.

The Ricardian law of association shows that even collaboration of the more efficient in every regard with less efficient in every regard results in benefit for both.

The isolated asocial man is a fictitious construction. Seen from the point of view of the individual, society is the great means for the attainment of all his ends. People cooperate because this best serves their own interests.

Society is not merely interaction. It always involves men acting in cooperation with other men in order to let all participants attain their own ends.

Peace is the source of all social relations. Man must realize that respect for other people's lives and health better serves his aim than the opposite mode of conduct. Utilitarian philosophy and classical economics recommend popular government, private property, tolerance, and freedom not because they are natural and just, but because they are beneficial.

## **IX. THE ROLE OF IDEAS**

Praxeology deals with reason only as far as it enables man to act. Action without thinking, practice without theory are unimaginable. It is always the individual who thinks. Society does not think. We have inherited from our forefathers not only a stock of goods; we have no less inherited ideas to which our thinking owes its productivity.

A world view is an opinion concerning the best means for removing uneasiness as much as possible. Ideology is the totality of our doctrines concerning individual conduct and social relations.

They are not only scientific theories, but also doctrines about the ultimate ends which man should aim at in his earthly concerns. There can never be any cooperation between people divided by different world views. Logical thinking and real life are not two separate orbits. What is contradictory in theory, is no less contradictory in reality. The main objective of praxeology and economics is to substitute consistent correct ideologies for the contradictory tenets of popular eclecticism.

Society is always the creation of ideologies temporally and logically anterior. Action is always directed by ideas and might is the power to direct other people's actions. He who is mighty, owes his might to an ideology.

Men are not infallible, they err very often. Only if men finally espouse policies reasonable and likely to attain the ultimate ends aimed at, will civilization improve.

## **X. EXCHANGE WITHIN SOCIETY**

An action performed by an individual without any reference to cooperation with other individuals, we may call autistic exchange. Within society cooperation substitutes interpersonal or social exchange for autistic exchanges.

There are two different kinds of social cooperation: cooperation based on contract (the logical relation between the cooperating individuals is symmetrical) and cooperation based on subordination (the logical relation between these two classes of men is asymmetrical).

No other distinction is of greater significance, both for human life and for the study of human action, than that between calculable action and noncalculable action.

## **XI. VALUATION WITHOUT CALCULATION**

The gradation of the means is like that of the ends, a process of preferring *a* to *b*. The basis of modern economics is the cognition that people buy and sell only because they appraise the things given up less than those received. Thus the notion of a measurement of value is vain. Valuing means to prefer *a* to *b*. In the market society there are money prices. Economic calculation is calculation in terms of money price.

Technology tells how a given end could be attained by the employment of various means. But the projects and designs of engineers would be purely academic if they could not compare input and output on common basis, i.e., money prices. Thus money becomes the vehicle of economic calculation.

The task which acting man wants to achieve by economic calculation is to establish the outcome of acting by contrasting input and output.

## **XII. THE SPHERE OF ECONOMIC CALCULATION**

The prices of goods and services are either historical data describing past events or anticipations of probable future events. Because the main task of economic calculation is to deal with change the latter is more important

Economic calculation cannot comprehend things which are not sold and bought against money. There are things which cannot at all be evaluated in money. And so it is nonsensical to reckon national income or national wealth.

Exchange ratios (money prices) are subject to perpetual change because the conditions which produce them are perpetually changing.

Shortcomings in the government's handling of monetary matters gave birth to the ideas which finally generated the slogan "stabilization". But stability is an empty and contradictory notion. The urge toward action, i.e., improvement of the conditions of life, is inborn in man. In the realm of action there is nothing perpetual but change.

Economic calculation does not require stability of purchasing power. For the sake of economic calculation all that is needed is to avoid great and abrupt fluctuations in the supply of money. Economic calculation is not imperfect because it does not correspond to the confused ideas of people yearning for a stable income not dependent on the productive processes of men.

### **XIII. MONETARY CALCULATION AS A TOOL OF ACTION**

Monetary calculation is the method of calculating employed by people acting within the frame of society based on private control of the means of production. Praxeology and economics could only emerge when acting man had succeeded in creating methods of thinking that made it possible to calculate his actions.

### **XIV. THE SCOPE AND METHOD OF CATALLECTICS**

Economics must study not only the market phenomena, but no less the hypothetical conduct of an isolated man and of a socialist community. It must not restrict its investigations to "economic" actions, but must deal also with "uneconomic" actions.

Catallectics is the analysis of those actions which are conducted on the basis of monetary calculation.

The specific method of economics and praxeology is the method of imaginary constructions. Economics tries to elucidate the operation of a pure market economy (there is no interference of factors foreign to the market). Only at a later stage it turns to the study of the various problems raised by interference with the market on the part of governments and other agencies employing coercion and compulsion.

Action tends toward a state of rest, absence of action. People keep on exchanging on the market until no further exchange is possible because no party expects any further improvement of its own conditions from a new act of exchange. But the state of rest will disappear as soon as the momentary conditions which brought it about change.

The evenly rotating economy is characterized by the elimination of change in the data and of the time element (not to confuse it with the stationary economy). It is the only adequate method of analyzing the changes.

When economics employs the terms entrepreneur, capitalist, landowner, worker, and consumer it speaks of catallectic categories. The economic categories refer to purely integrated functions. Acting man by necessity combines various functions.

## XV. THE MARKET

The market economy is the social system of the division of labor under private ownership of the means of productions. There is in the operation of the market no compulsion and coercion. The market economy is real because it can calculate.

The fundamental notion of economic calculation is the notion of capital and its correlative, income. The immediate end of acquisitive action is to increase, or at least to preserve, the capital, the whole complex of goods evaluated in money terms.

In the past civilization and private property have been linked together. There is no experience to the effect that socialism could provide a standard of living as high as that provided by capitalism. The concept of capitalism is as an economic concept immutable. It means market economy.

Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. They determine precisely what should be produced, in what quality, and in what quantities. Capitalists, entrepreneurs, and landowners can only preserve and increase their wealth by filling best the orders of the consumers.

Biological competition must not be confused with social competition. In the market economy competition manifests itself in the facts that the sellers must outdo one another by offering better or cheaper goods and services and that the buyers must outdo one another by offering higher prices. This is catallactic competition. Its function is to safeguard the best satisfaction of the consumers which they can attain under the given state of the economic data.

Freedom and liberty are not to be found in nature. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people. The market does not directly prevent anybody from arbitrarily inflicting harm on his fellow citizens, it only puts a penalty upon such conduct. There is no kind of freedom and liberty other than the kind which the market economy brings about.

The inequality of wealth and income is an essential feature of the market economy. The rewarding of an individual's effort according to its value provides an incentive to everybody to exert his faculties and abilities to the utmost.

In the monetary calculus profit appears as a surplus of money received over money expended. The only source from which an entrepreneur's profits stem is his ability to anticipate better than other people the future demand of the consumers. If all entrepreneurs anticipated correctly the future state of the market, there would be neither profits nor losses.

In the imaginary construction of a stationary economy the total sum of all entrepreneurs' profits equals the total sum of all entrepreneurs' losses. It is different in a progressing economy, i.e., an economy in which the per capita quota capital invested is increasing. In such an economy there is an excess in the total sum of entrepreneurial profits over that of losses. We must realize that entrepreneurial profits are not lasting phenomenon but only temporary. In the long run every increase in productivity benefits exclusively the workers and some groups of the owners of land and of capital goods.

Technicians have the ability and the skill to perform definite kinds and quantities of work. But it is the entrepreneur qua entrepreneur who directs their labor toward definite goals. To relieve

himself of involvement in too much detail, he can appoint assistant managers to whose solicitude he entrusts the care of subordinate entrepreneurial duties. Whenever the operation of a system is not directed by the profit motive, it must be directed by bureaucratic rules.

Each individual, driven by the urge to remove his own uneasiness as much as possible, tries to sell on the dearest market and to buy on the cheapest market. The resultant of these endeavors is not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals.

There is no automatism in the "mechanism" of the market. There are only men consciously and deliberately aiming at ends chosen. There is no anonymity, there is I and you and Bill and Joe and all the rest. And each of us is both a producer and a consumer.

The consumer is not omniscient. To convey to him information about the actual state of the market is the task of business propaganda. It must be obtrusive and blatant. It should not be forbidden.

The market economy as such does not respect political frontiers. Its field is the world. Thus the idea of the Volkswirtschaft, the sovereign nation's total complex of economic activities directed and controlled by the government, is the most radical denial of all the principles of the market economy.

## **XVI. PRICES**

Catallactics in conceiving the pricing process necessarily reverts to the fundamental category of action, the preference given to *a* over *b*. It deals with the real prices as they are paid in definite transactions and not with imaginary prices. Market prices are entirely determined by the value judgments of men as they really act. Prices tend toward a point at which total demand is equal to total supply. We know only market prices not the curves.

The prices of the goods of higher orders are ultimately determined by the prices of the goods of the first or lowest order (consumers' goods). They are ultimately determined by the subjective valuations of all members of the market society. However we are faced with a connection of prices, not with a connection of valuations. Economic calculation always deals with prices, never with values.

In the calculation of the entrepreneur costs are the amount of money required for the procurement of the factors of production. The fact that a project is not profitable because costs are higher than proceeds is the outcome of the fact that there is a more useful employment available for the factors of production required. The entrepreneur adjusts his effort to the best possible satisfaction of the needs of the consumers by embarking upon those business projects from which he expects the highest surplus of proceeds over costs. Production must stop at the point at which the marginal utility of the increment no longer compensates for the marginal increase in the disutility of costs.

The antagonism between the logical and the mathematical economists is not a dispute about heuristic questions, but a controversy concerning the foundations of economics. The mathematical method is an entirely vicious method, starting from false assumptions and leading to fallacious inferences. There is no such thing as quantitative economics. There is in the field of human action no means of dealing with future events other than that provided by understanding. All investigations concerning the relation of prices and costs presuppose both the use of money and the market process.

Competitive prices are the outcome of a complete adjustment of the sellers to the demand of the consumers. The whole economic process is conducted for the benefit of the consumers.

Catallactics does not deal with monopoly as such but with monopoly prices. Monopoly is for the emergence of monopoly prices not the only prerequisite. There is a further condition required, namely a certain shape of the demand curve. Not every price at which a monopolist sells a monopolized commodity is a monopoly price. Monopoly prices are only prices at which it is more advantageous for the monopolist to restrict the total amount to be sold than to expand his sales to the limit which a competitive market would allow. In dealing with monopoly prices we must always search for the monopolized factor. If no such factor exists, no monopoly prices can emerge. The optimum monopoly price yields the highest net proceeds. Duopoly and oligopoly are no special varieties of monopoly prices, but merely a variety of the methods applied for the establishment of a monopoly price.

The great monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments. Monopolistic action is advantageous for the monopolist only if total net proceeds at a monopoly price exceed total net proceeds at the potential competitive price. Restrictive action is always advantageous for the privileged group and disadvantageous for those whom it excludes from the market.

The market is peopled by men who are not omniscient. The buyer must always rely upon the trustworthiness of the seller. Good will is the renown a business acquires on account of past achievements. It implies the expectation that the bearer of the good will in the future will live up to his earlier standards.

Monopoly prices can emerge only from a monopoly of supply. A monopoly of demand does not bring about a market situation different from that under not monopolized demand.

The individual consumer may react to monopoly prices in different ways. However he may react, his satisfaction appears to be impaired from the viewpoint of his own valuations. He is not so well served under monopoly prices as under competitive prices.

There can appear on the market conditions which make it possible for the seller to discriminate between two buyers. He can obtain prices which may sometimes even rise to the point at which the whole consumer's surplus of a buyer disappears. Price discrimination on the part of the buyer can only be practiced if the government interferes.

It would be absurd to look upon a definite price as if it were an isolated object in itself. What is called a price is always a relationship within an integrated system which is the composite effect of human valuations.

Prices cannot be constructed synthetically. They are the resultant of a certain constellation of market data, of actions and reactions of the members of a market society.

## **XVII. INDIRECT EXCHANGE**

Interpersonal exchange is called indirect exchange if, between the commodities and services the reciprocal exchange of which is the ultimate end of exchanging, one or several media of exchange are interposed.

In the marketability of the various commodities and services there prevail considerable differences. A medium of exchange is a good which people acquire neither for their own consumption nor for employment in their own production activities, but with the intention of exchanging it at a later date against those goods which they want to use either for consumption or for

production. Money is the most marketable good. Money serves as the generally accepted and commonly used medium of exchange.

The demand for a medium of exchange is the composite of two partial demands: the demand displayed by the intention to use it in consumption and production and that displayed by the intention to use it as a medium of exchange. The relation between the demand for money and the supply of money determines the height of purchasing power (the amount of other goods which can be obtained in giving away a medium of exchange). Today's money relation is shaped on the ground of yesterday's purchasing power.

The use of media of exchange and the keeping of cash holdings are conditioned by the changeability of economic data. Money in itself is an element of change, the driving force of new changes. The notion of a neutral money is no less contradictory than that of a money of stable purchasing power.

Changes in the purchasing power of money can either occur in the demand for and supply of money (cash-induced changes) or in the demand for and supply of the other goods and services (goods-induced changes). The quantity of money available in the whole economy is always sufficient to secure for everybody all that money does and can do.

All results of economic calculation and all conclusions derived from them are conditioned by the vicissitudes of cash-induced changes in purchasing power. A medium of exchange without a past is unthinkable. But as far as cash-induced changes in purchasing power are expected, a second factor enters the scene, the anticipation of these changes.

Under the standard of commodity money the monetary units were merely names for a definite weight of gold, within very narrow margins precisely determined by the laws. A second sort of money, credit money, evolved out of the use of money-substitutes. If credit money loses its character as a claim against a bank it will become fiat money.

Claims to a definite amount of money, payable and redeemable on demand, we call money-substitutes. Money-certificates (representatives of a corresponding amount of money kept in the reserve) do not play any role in the determination of the purchasing power of money. The quantity of fiduciary media, amount of substitutes which exceeds the money reserve, influences the determination of money's purchasing power and of prices and - temporarily - also of the rate of interest.

Limits to the increase in the quantity of fiduciary media, if there is only one bank:

First : It must avoid any action which could make the clients suspicious.

Second : It must not increase the amount of fiduciary media at such a rate and with such speed that the clients get the conviction that the rise in prices will continue endlessly at an accelerated pace.

For a multiplicity of independently coexisting banks the limits are narrower than those drawn for a single bank with an unlimited clientele. A bank can never issue more money - substitutes than its clients can keep in their cash holdings. The individual client can never keep a larger portion of his total cash holding in money-substitutes than that corresponding to the proportion of his turnover with other clients of his bank to his total turnover. Thus a limit is drawn to the issue of fiduciary media. So not government but free banking is the only method available for the prevention of the dangers inherent in credit expansion.

The role money plays in international trade is not different from that in domestic trade. A transfer of money from one country into another country is always the outcome of intended changes in the cash holdings of the residents. But the balance of payments is always in balance.

If there is only one kind of money. Then the final price of cotton in Amsterdam cannot exceed the final price in New York by more than the cost of transportation. If more than one kind of money is used as medium of exchange, the mutual exchange ratio between them is determined by

their purchasing power. The so called unfavorable balance of payments is the effect of a deliberate restriction of cash holdings.

Things on the money market are the same as on all other markets. The lender from country A will therefore only venture lending in country B if the difference in the market rate of interest between A and B is large enough to cover an expected fall in the price of currency B as against currency A.

In the money economy there is a very substantial difference in the degree of marketability of the various commodities. One may speak of the secondary marketability of the vendible goods. Thus the size of cash holding can be reduced if goods of a high degree of secondary marketability, secondary media of exchange, are available.

The inflationist assertion that "expansionism" is the driving force of economic progress is the worst of all evils. The general progressive upward movement of all prices does not bring about improvement in well-being. It results in the complete breakdown of the monetary system.

The attempts to create a double standard of both metals, gold and silver, failed lamentably. It was this failure which generated the gold standard. The gold standard was the world standard of the age of capitalism, increasing welfare, liberty, and democracy, both political and economic. It was an international standard as required by international trade and the transactions of the international money and capital market. People fight the gold standard because they want to substitute national autarky for free trade, war for peace, totalitarian government omnipotence for liberty.

## **XVIII. ACTION IN THE PASSING OF TIME**

Between the action and the attainment of the end sought there always elapses a fraction of time. The period of production and the duration of serviceableness are for acting man categories in planning future action. He chooses also between want-satisfaction in the nearer and in the remoter future (choice of a period of provision).

Time for man is not a homogeneous substance of which only length counts. Satisfaction of a want in the nearer future is, other things being equal, preferred to that in the farther distant future. Time preference is a categorical requisite of human action. If not, we would always accumulate, we would never consume and so satisfy our wants. Every step toward want-satisfaction is guided by time preference.

Saving and accumulation of capital is the first step on the way toward improvement of material well-being. The capital goods have no productive power of their own. The difference between the price of a capital good and the sum of the prices of the complementary original factors of production required for its reproduction is entirely due to the time difference.

Neither acting man himself nor economic theory needs a measurement of the time expended in the past for the production of goods available today. To satisfy the most urgent of the not yet satisfied wants, he must know the length of the waiting time which separates him from the attainment of the various goals among which he has to choose. Acting man counts waiting time and the period of production always from today on. If one wants to resort to methods of production with which the quantity of output is higher per unit of input expended, one must lengthen the period of production.

Capital is always in the form of definite capital goods. Every unit of capital is therefore dedicated to definite processes of production. The conversion of a process of production (the convertibility of capital goods - the opportunity to adjust their utilization to a change in the data of production) becomes as a rule the more difficult the nearer it has come to its termination.

All material wealth is a residuum of past activities and is embodied in concrete capital goods of limited convertibility. Thus the choice of ends and of the means for the attainment of our ends is influenced by the past. The smaller the degree of convertibility, the more realization of technological improvement is delayed.

All capital goods are transient. Capital is always accumulated by individuals. Some actors are accumulating additional capital. Others are at the same time consuming capital previously accumulated. We may say that a transfer of capital took place.

The limited convertibility of the capital goods does not immovably bind their owner. In this sense the stock exchange becomes simply "the market," the focal point of the market economy.

If an individual employs a sum of money not for consumption but for the purchase of factors of production, saving is directly turned into capital accumulation, increased cash holding and increased capital accumulation.

## **XIX. THE RATE OF INTEREST**

Time preference manifests itself in ordinary interest, i.e., the discount of future goods as against present goods. Ordinary interest is the ratio of the value assigned to want-satisfaction in the immediate future and the value assigned to want-satisfaction in remoter periods of the future. Interest is not the specific income derived from the utilization of capital goods. It is an outcome of the higher valuation of present goods as compared with future goods. There prevails a tendency toward the equalization of this ratio for all commodities. It is not "the price paid for the services of capital."

Under the conditions of a market economy the rate of ordinary interest is equal to the ratio of a definite amount of money available today and the amount available at a later date which is considered as its equivalent.

But every gross interest in the changing economy includes not only ordinary interest but also entrepreneurial profit. The activities of the entrepreneurs tend toward the establishment of a uniform rate of ordinary interest in the whole market economy.

## **XX. INTEREST, CREDIT EXPANSION, AND THE TRADE CYCLE**

The neutral rate of interest is the ratio between prices of present and of future goods. With neutral money, a neutral rate of interest would be conceivable. But if there were deferred payments we must furthermore assume the eventuality of future changes in purchasing power. Neutralization of the rate of interest could be attained by allowance for such changes, i.e., the positive or negative price premium. However, all these assumptions are only imaginary. In the changing economy, the rate of interest can never be neutral. The price premium is not the product of an arithmetical operation. It is the outcome of the promoters' understanding of the future. The price premium always lags behind the changes in purchasing power.

The gross rates of interest as determined on the loan market are not uniform. They include an entrepreneurial component which varies for each specific deal. If the market rate deviates from the height which the state of ordinary interest and the supply of capital goods available for production would require, then the market rate of interest fails to fulfill the function it plays in guiding entrepreneurial decision. Changes in the money relation can possibly influence the rate of ordinary interest.

The rate of originary interest is determined by the discount of future goods as against present goods. It is essentially independent of the supply of money. But the gross market rate of interest can be affected by changes in the money relation as long as credit expansion goes on. There continues a pressure upon the gross market rate of interest. The gross market rate would have to rise on account of the positive price premium. Now the drop in interest rates makes some projects appear profitable and realizable which a correct calculation, based on an interest rate not manipulated by credit expansion, would have shown as unrealizable. Business activities are stimulated. A boom begins. In order to continue enlarged production all entrepreneurs need additional funds. But if the credit expansion consists in a single injection the boom must very soon stop. The entrepreneurs cannot procure the funds they need for the further conduct of their ventures. The boom can last only as long as the credit expansion progresses at an ever-accelerated pace. The additional investment is only possible to the extent that there is an additional supply of capital goods available. But the boom is not overinvestment. It does not result in restriction of consumption but rather in an increase in consumption, it does not procure more capital goods for new investment. The final outcome of the credit expansion is general impoverishment.

In the course of a deflationary process a temporary tendency toward a rise in the gross market rate of interest ensues. Projects which would have appeared profitable before appear so no longer. The deadlock ceases only when falling prices and wage rates are by and large adjusted to the new money relation. Then the loan market (gross market rate of interest) too adapts itself to the new state of affairs. But this contraction produces neither malinvestment nor overconsumption.

All present-day governments are fanatically committed to an easy money policy. The recurrence of periods of boom which are followed by periods of depression, is the unavoidable outcome of the attempts to lower the gross market rate of interest by means of credit expansion. There is no means of avoiding the final collapse of a boom brought about by credit expansion.

The popularity of inflation and credit expansion manifests itself clearly in the customary terminology. The boom is called good business, prosperity, and upswing. Depression is called crisis, slump, bad business. But real economic progress means improvement in the quality and quantity of products. If we apply this yardstick to the various phases of the cyclical fluctuation of business, we must call the boom retrogression and the depression progress. Wage rates must drop and people must restrict their consumption temporarily until the capital wasted by malinvestment is restored.

## **XXI. WORK AND WAGES**

A man may overcome the disutility of labor for various reasons. On this basis we may distinguish introversive labor from the extroversive labor.

But only extroversive, not immediately gratifying labor is a topic of catallactic disquisition. It is performed for the sake of an end which is beyond its performance and the disutility which it involves. The joy and the tedium of labor are psychological phenomena which influence neither the individual's subjective valuation of the disutility and the mediate gratification of labor nor the price paid for labor on the market.

If bare labor is sold and bought as such, either by an entrepreneur engaged in production for sale or by a consumer eager to use the services rendered for his own consumption, the price paid is called wages. For acting man his own labor is not merely a factor of production but also the source of disutility. A uniform type of labor or a general rate of wages do not exist. Indirectly each sector of the labor market is connected with all other sectors. Connexity exists no less between labor and the

material factors of production. The height of wage rates for each kind of labor is determined by its marginal productivity.

A job-seeker who does not want to wait will always get a job in the unhampered market economy. It is only necessary to reduce the amount of pay he is asking for or to alter his occupation or his place of work. We may call this kind of unemployment market-generated catallactic unemployment. Unemployment in the unhampered market is always voluntary. Unemployment is a phenomenon of a changing economy.

Catallactics always refers to gross wage rates. If laws or business customs force the employer to make other expenditures besides the wages he pays to the employee, the height of net wage rates is reduced.

The horror of starvation no longer terrifies people living in a capitalist society. He who is able to work earns much more than is needed for bare sustenance. In the capitalist society there prevails a tendency toward a steady increase in the per capita quota of capital invested. Consequently the marginal productivity of labor, wage rates, and the wage earners' standard of living tend to rise continually. But this improvement is not the manifestation of an inevitable law. It is tendency resulting from the interplay of forces which can freely produce their effects only under capitalism. Within a capitalist commonwealth the minimum of subsistence plays no catallactic role.

The fundamental facts affecting the supply of labor are:

1. Every individual can expend only a limited quantity of labor.
2. This definite quantity cannot be performed at any time desired. The interpolation of periods of rest and recreation is indispensable.
3. Not every individual is able to perform any kind of labor.
4. Special care is needed to preserve man's abilities.
5. Fatigue impairs the quantity and the quality of the performance.
6. Men prefer leisure to labor. They attach disutility to labor.

Wage earners stop working at the point at which the mediate gratification expected no longer outweighs the disutility involved in the performance of additional work. The terms of the labor contract refer to all working conditions, not merely to the height of wage rates. The labor legislation by and large achieved nothing more than to provide a legal ratification for changes which the interplay of market factors had brought about previously.

The price which the seller of labor can obtain on the market depends on the data of the market. Wage rates are always equal to the price of the full produce of labor. The particular feature of the labor market is that the worker is not merely the purveyor of the factor of production labor, but also a human being and that it is impossible to sever the man from his performance. In the absence of institutional migration barriers workers move from the comparatively overpopulated areas to the comparatively underpopulated until everywhere (market wage rates)  $M = (\text{standard wage rates}) S + (\text{attachment component}) A + (\text{cost component}) C$ .

## **XXII. THE NONHUMAN ORIGINAL FACTORS OF PRODUCTION**

Differential rent is a general phenomenon and is not limited to the determination of the prices of land. The abler worker earns a "rent" when compared with the wages earned by his less skillful competitors. Land is a factor of production, and the laws determining the formation of the price of land are the same that determine the formation of the prices of other factors of production.

With regard to the soil, too, the actors must choose between processes of production which render higher output at the expense of productivity in later periods and processes which do not impair future physical productivity.

The quantity of soil available is so vast that only the most productive pieces of land are utilized. Consequently the marginal soil yields no rent in the Ricardian sense. Submarginal land is appraised positively because one anticipates its utilization in later days.

Its price is the sum of all its future rents, each of them discounted at the rate of originary interest. In the changing economy people take due account of expected changes in the market data.

### **XXIII. THE DATA OF THE MARKET**

For praxeology data are the bodily and psychological features of the acting men. These data, although permanent in their structure, are perpetually fluctuating and varying. But no statement concerning these data can be made without reference to a definite set of economic theorems.

All the theorems of catallactics are valid also with regard to action influenced by social or physical pressure, e.g., war and conquest.

The subject matter of praxeology is not only the study of society, but the study of real man as a datum. Thus economics is neutral with regard to all value judgments of people.

Every change in the market data has its definite effects upon the market. It takes a definite length of time, the period of adjustment, before the market is completely adjusted to the new state of affairs. Catallactics deals with all the various individuals' reactions to the changes in the data.

The legal concepts of property do not fully take account of the social function of private property. The right of property should entitle the proprietor to claim all the advantages which the good's employment may generate on the one hand and would burden him with all the disadvantages resulting from its employment on the other hand. But if some of the consequences of his action are outside of this sphere, he will disregard them. He will embark upon certain projects only because the laws release him from responsibility for some of the costs incurred. He will abstain from other projects merely because the laws prevent him from harvesting all the advantages derivable. The laws are in some respects deficient. A law that is not valid for all, may grant to those who are exempt the opportunity to reap either differential rent or monopoly gains.

### **XXIV. HARMONY AND CONFLICT OF INTERESTS**

What produces a man's profit in an unhampered market society is not his fellow citizen's plight, but the fact that he alleviate or entirely removes what causes his fellow citizen's feeling of uneasiness. The ultimate source of profits is always the foresight of future conditions.

Men want more than merely to live and to copulate, they want to live humanly. An improvement in conditions usually results in a smaller increase in population figures. If not, men would have never succeeded in the establishment of social bonds and in the development of civilization. Acting man rationalizes the satisfaction of his sexual appetites. The transition to capitalism is thus accompanied by two phenomena: a decline both in fertility rates and in mortality rates. The average duration of life is prolonged.

Nature does not generate peace and good will. The means of subsistence are scarce and do not grant survival to all. What makes friendly relations between human beings possible is the higher

productivity of the division of labor. It removes the natural conflict of interests. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society. The catallactic competition of those who are eager to have shoes makes shoes cheaper, not more expensive. This meaning of the theorem of harmony of the rightly understood interests of all members of the market society stresses two points: First, that everybody is interested in the preservation of the social division of labor. Second, that in the market society consumers' demand ultimately directs all production activities.

In the market society the proprietors of capital and land can enjoy their property only by employing it for the satisfaction of other people's wants.

Economic conflicts do not spring from the operation of the unhampered market society. It is not capitalism that produces them, but precisely the anticapitalistic policies designed to check the functioning of capitalism. They are an outgrowth of the various governments' interference with business.

## **XXV. THE IMAGINARY CONSTRUCTION OF A SOCIALIST SOCIETY**

All older social reformers wanted to realize the good society by a confiscation of all private property and its subsequent redistribution. These plans became unrealizable when the large-scale enterprises in manufacturing, mining, and transportation appeared. The age-old program of redistribution was superseded by the idea of socialization.

The socialist doctrine rests upon three dogmas:

1. Society is an omnipotent and omniscient being.
2. The coming of socialism is inevitable.
3. The coming of socialism is desirable.

The essential mark of socialism is that one will alone acts. The employment of all factors of production is directed by one agency only.

## **XXVI. THE IMPOSSIBILITY OF ECONOMIC CALCULATION UNDER SOCIALISM**

The problem under socialism is that one cannot, in comparing costs to be expended and gains to be earned, resort to any arithmetical operation. There is no rational choice of means for the best possible attainment of the ultimate ends sought.

Only in the last years have socialist writers embarked upon designing schemes for socialist economic calculation. Of course, they have lamentably failed in this task.

The problem of socialist economic calculation is precisely this: in the absence of a capital market (an outcome of abolition of private property of the means of production), i.e., market prices for the factors of production, a computation of profit or loss is not feasible.

The neosocialists want to abolish private control of the means of production, market exchange, market prices, and competition. But at the same time they want to organize the socialist utopia in such a way that people could act as if these things were still present. But the capitalist system is not a managerial system. One cannot play speculation and investment.

The state of equilibrium cannot be computed (by means of mathematical equations and operations) on the basis of the knowledge of conditions in a nonequilibrium state. It is no less

erroneous to believe that such knowledge of the conditions under a hypothetical state of equilibrium could be of any use for acting man in a changing economy.

## **XXVII. THE GOVERNMENT AND THE MARKET**

Capitalism and socialism can never be confounded with one another. The system of interventionism or of the hampered market economy is still market economy. The authority interferes with the operation of the market economy, but does not want to eliminate the market altogether.

State and government are not ends, but means. They are designed to make the social order adopted operate safely, the delimitation of governmental functions must be adjusted to its requirements. They have to safeguard the smooth functioning of social cooperation.

There is the idea of erecting a social system on the twofold basis of private property and of moral principles restricting the utilization of private property. The system recommended, say its advocates, will be neither socialism nor capitalism nor interventionism. But the supporters of these doctrines fail to recognize the role which those motives of action they condemn as vicious play in the operation of the market economy. Because what integrates the individual's actions into the whole of the social system of production is the pursuit of his own purposes.

Laissez faire means: Let each individual choose how he wants to cooperate in the social division of labor, let the consumers determine what the entrepreneurs should produce. Let the common man choose and act, do not force him to yield to a dictator.

The problems involved in direct government interference with consumption are not catallactic problems.

## **XXVIII. INTERFERENCE BY TAXATION**

To keep the social apparatus of coercion and compulsion running, governments must resort to taxation.

A neutral taxation would not divert the operation of the market from the lines in which it would develop in the absence of any taxation. But the idea of neutral tax is unrealizable. The total tax is the antithesis of the neutral tax. It confiscates all incomes and estates.

The fiscal and nonfiscal objectives of taxation do not agree with one another. The appropriate taxes are low and do not perceptibly disarrange production and consumption. Beyond a moderate limit, taxes turn into devices for the destruction of the market economy.

There are three classes of tax interventionism:

1. The tax aims at totally suppressing or at restricting the production of definite commodities.
2. The tax expropriates a part of income or wealth.
3. The tax expropriates income and wealth entirely.

## **XXIX. RESTRICTION OF PRODUCTION**

Restriction of production means that the government either forbids or makes more difficult or more expensive the production of definite articles. The effect of its interference is that people are prevented from using their knowledge and abilities, their labor, and their material means of production in the way in which they would earn the highest returns and satisfy their needs as much as possible. Such interference makes people poorer and less satisfied.

A restrictive measure, while placing the immense majority at a disadvantage, may temporarily improve some people's position. They are asking for such measures because they want to be privileged. The most striking example is provided by protectionism. The main function of protectionist devices today is to disguise the real effects of interventionism. These popular policies pretend to improve the wage earners' material well-being while they are in fact impairing it.

One cannot construct a system of economic action out of such restrictive measures alone. No complex of such measures can be linked together into an integrated economic system. They belong in the sphere of consumption, not in the sphere of production.

### **XXX. INTERFERENCE WITH THE STRUCTURE OF PRICES**

Interference with the structure of the market means that the authority aims at fixing prices for commodities and services and interest rates at a height different from what the unhampered market would have determined. In resorting to such measures the government wants to favor either the buyer (maximum prices) or the seller (minimum prices).

The market price equalizes supply and demand at every instant. But if government fixes prices this equilibrium of demand and supply is disturbed. There emerges a tendency to shift production activities from the production of the goods affected by the maximum prices into the production of other goods. This outcome is, however, manifestly contrary to the intentions of the government. It is a complete failure. The policy of interventionism will by necessity always disintegrate and destroy any social entity.

The market wage rates tend toward the establishment of full employment. Where there is neither government nor union interference with the labor market, there is only voluntary or catallactic unemployment. But as soon as external pressure and compulsion, be it on the part of the government or on the part of the unions, tries to fix wage rates at a higher point institutional unemployment emerges. No one has ever succeeded in the effort to demonstrate that unionism could improve the conditions and raise the standard of living of all those eager to earn wages.

The only point that matters is the relation between the number of workers and the quantity of capital goods available. A tendency toward higher wage rates is not the cause, but the effect, of technological improvement and capital accumulation.

### **XXXI. CURRENCY AND CREDIT MANIPULATION**

The simplest and oldest variety of monetary interventionism is debasement of coins for the sake of debt abatement. The authority assigns to the cheaper currency full legal tender power. While debt abatement improves the conditions of those who were already indebted at the moment, it impairs the position of those eager or obliged to contract new debts.

A metallic currency was not subject to government manipulation. The new variety of the gold exchange standard called the flexible gold exchange standard has been substituted for the principle of

the rigid parity. The only reason for its acceptance was to make reiterated inflationary moves technically as simple as possible for the authorities.

The objectives of devaluation were:

1. To preserve the height of nominal wage rates while real wage rates should rather sink.
2. To make commodity prices, especially the prices of farm products, rise in terms of domestic money.
3. To favor the debtors at the expense of the creditors.
4. To encourage exports and to reduce imports.
5. To attract more foreign tourists and to make it more expensive for the country's own citizens to visit foreign countries.

One must first of all stress the point that all its alleged blessings are temporary only. Moreover, they depend on the condition that only one country devalues while the other countries abstain from devaluing their own currencies. A general acceptance of the principles of the flexible standard must therefore result in a mutual overbidding between the nations. At the end of this race is the complete destruction of all nations' monetary systems.

Credit expansion is the government's foremost tool in its struggle against the market economy. The inescapable consequences of credit expansion are shown by the theory of the trade cycle. While making the whole community poorer, it may still enrich some strata.

If a government fixes the parity of its domestic credit or fiat money against gold or foreign exchange at a higher point than the market a state of affairs results which - very inadequately - is called a scarcity of foreign exchange. To maintain such artificial state of affairs, the government has to go a step further. It nationalizes foreign exchange transaction, it subsidizes the export, it raises import duties. Then, of course, foreign exchange control works.

### **XXXII. CONFISCATION AND REDISTRIBUTION**

In the market economy the dualism of two independent processes, that of production and that of distribution, does not exist. If government wants to distribute it must first confiscate. But capitalism is founded upon the expectation that no such expropriation will occur. If this expectation is absent, people will prefer to consume their capital instead of safeguarding it for the expropriator.

The main instrument of confiscatory interventionism is taxation. Thus the accumulation of new capital is slowed down. A check is placed upon the rise in the productivity of labor and upon the concomitant rise in real wage rates.

### **XXXIII. SYNDICALISM AND CORPORATIVISM**

Syndicalism wants to give the ownership of the plants to the workers employed in them. The syndicalists want to transform consumers' democracy into a producers' democracy. But this idea is fallacious, for the sole end and purpose of production is consumption. Corporativism was merely an Italian replica of British guild socialism. The fundamental idea both of guild socialism and of corporativism is that every branch of business forms a monopolistic body, the guild or corporazione. This entity enjoys full autonomy and self-government. The mutual relations between the various guilds are settled by direct bargaining from guild to guild or by the decisions of a general assembly of the

delegates of all guilds. The government interferes only when an agreement between the various guilds cannot be attained.

Things are turned upside down. Production becomes an end in itself. In short, it is nonsense.

#### **XXXIV. THE ECONOMICS OF WAR**

The wars fought by primitive tribes were unlimited or total wars. They aimed at total victory and total defeat. The disintegration of feudalism produced the limited warfare.

The idea of durable peace was resurrected in the body of nineteenth-century liberalism. These liberals realize that what can safeguard durable peace is not simply government by the people, but government by the people under unlimited laissez faire. While laissez faire eliminates the causes of international conflict, government interference with business and socialism create conflicts for which no peaceful solution can be found. The substitution of the welfare state for the laissez-faire state has transformed the limited war between royal armies into total war.

In the long run war and the preservation of the market economy are incompatible. But this does not mean that a nation which is forced to repel foreign aggressors must substitute government control for private enterprise. If it were to do this, it would deprive itself of the most efficient means of defense.

The emergence of the international division of labor requires the total abolition of war. Modern civilization is a product of this philosophy.

#### **XXXV. THE WELFARE PRINCIPLE VERSUS THE MARKET PRINCIPLE**

The various schools of Sozialpolitik admit that the market economy increases the quantity and improves the quality of products. But it is deficient from the social point of view. The principle of welfare must be substituted for that of profits. Capitalism is bad, they say, because there is poverty, inequality of incomes and wealth, and insecurity.

But poverty is not caused by capitalism, but by the absence of capitalism. What is wrong with poor countries is that the per capita quota of capital invested is extremely low when compared with the capital equipment of the rich countries.

The inequality of incomes and wealth is an inherent feature of the market economy. Its elimination would entirely destroy the market economy. It is precisely inequality that generates social cooperation and civilization. It is the device to secure for the whole of mankind the maximum of benefits it can derive from it. What makes the existence and the evolution of society possible is precisely the fact that peaceful cooperation under the social division of labor in the long run best serves the selfish concerns of all individuals. Under the system of inequality the selfishness impels a man to save and always to invest his savings in such a way as to fill best the most urgent needs of the consumers. Under the system of equality this motive fades. And it is additional capital accumulation alone that brings about technological improvement, rising wage rates, and a higher standard of living.

The concept of security is the wage earners and small farmers match to the concept of stability held by the capitalists. But in an unhampered market economy the absence of security is the principle for a steady improvement in material well-being.

Neither economic thinking nor historical experience suggest that any other social system could be more beneficial to the masses than capitalism. The results speak for themselves.

## **XXXVI. THE CRISIS OF INTERVENTIONISM**

Wars, economic depressions, mass unemployment and famines are not the outcome of capitalism but of interventionism.

The essence of the interventionist policy is to take from one group to give another. With the present height of income and inheritance tax rates the reserve fund out of which the interventionists seek to cover all public expenditure is rapidly shrinking. The whole doctrine of interventionism collapses when this fountain is drained off.

The reasons are twofold:

First: Restrictive measures always restrict output and the amount of goods available for consumption. Second: All varieties of interference with the market phenomena not only fail to achieve the ends aimed at, but bring about a state of affairs which is less desirable than the previous state of affairs.

## **XXXVII. THE NONDESCRIPT CHARACTER OF ECONOMICS**

Particular theorems of economics are not open to any verification or falsification on the ground of experience. They cannot work if not accepted by a majority of the people. The masses choose between the ideologies developed by the intellectual leaders of mankind. If they prefer bad doctrines, nothing can prevent disaster. A social system, however beneficial, cannot work if it is not supported by public opinion.

## **XXXVIII. THE PLACE OF ECONOMICS IN LEARNING**

Economics, like logic and mathematics, is a display of abstract reasoning. Economics can never be experimental and empirical.

The early economists never conceived of economics as a profession. The development of a profession of economists is an offshoot of interventionism. The professional economist is the specialist in designing various measures of government interference with business.

The economist does not and cannot calculate the future structure of the market. What people expect from the economists is beyond the power of any mortal man.

Economics deals with the interconnectedness of all the phenomena of action. The catallactic problems cannot become visible if one deals with each branch of production separately. There are no such things as "economics of labor" or "economics of agriculture". There is only one coherent body of economics.

Teaching at the elementary level necessarily, as soon as one concerns the teaching of history and economics, turns into indoctrination. But this cannot mean that economics should remain an esoteric branch of knowledge accessible only to small groups of scholars and specialists. On the contrary, it is the main and proper study of every citizen.

## **XXXIX. ECONOMICS AND THE ESSENTIAL PROBLEMS OF HUMAN EXISTENCE**

Science (economics) does not value, but it provides acting man with all the information he may need with regard to his valuations. But praxeology and economics never tell a man what ends he should aim at. They merely show how a man must act if he wants to achieve his ends. Economics does not value the aims sought by a man. It deals only with the means fit for the attainment of definite ends.

If people disregard its teachings and warnings, they will not annul economics, they will stamp out society and the human race.