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A MEMORIAL

With this issue of *The Freeman* we celebrate the centenary of the birth of economist Ludwig von Mises who was born on September 29, 1881, in Lemberg, Austria. In his honor, this issue is devoted primarily to excerpts from his great work *Human Action*, selected and arranged topically by one of his former students, George Koether.

SUBJECTS

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The Practice of Human Action

From the Introduction to *Human Action* by Ludwig von Mises, 1949.

THERE are people who assert that something must be wrong with the social sciences because social conditions are unsatisfactory. The natural sciences have achieved amazing results in the last two or three hundred years, and the practical utilization of these results has succeeded in improving the general standard of living to an unprecedented extent. But, say these critics, the social sciences have utterly failed in the task of rendering social conditions more satisfactory. They have not stamped out misery and starvation, economic crises and unemployment, war and tyranny. They are sterile and have contributed nothing to the promotion of happiness and human welfare.

These grumblers do not realize that the tremendous progress of technological methods of production and the resulting 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. It was the ideas of the classical economists that removed the checks imposed by age-old laws, customs, and prejudices upon technological improvement and freed the genius of reformers and innovators from the straitjackets of the guilds, government tutelage, and social pressure of various kinds. It was they that reduced the prestige of conquerors and expropriators and demonstrated the social benefits derived from business activity. None of the great modern inventions would have been put to use if the mentality of the pre-capitalistic era had not been thoroughly demolished by the economists. What is commonly called the "industrial revolution" was an offspring of the ideological revolution brought about by the doctrines of the economists. The economists exploded the old tenets: that it is unfair and unjust to outdo a competitor by producing better and cheaper goods; that it is iniquitous to deviate from the traditional methods of production; that machines are an evil because they bring about unemployment; that it is one of the tasks of civil government to prevent efficient businessmen from getting rich and to protect the less efficient against the competition of the more efficient; that to restrict the freedom of entrepreneurs by government compulsion or by coercion on the part of other social powers is an appropriate means to promote a nation's well-being. British political economy and French Physiocracy were the pacemakers of modern capitalism. It is they that made possible the progress of the natural sciences that has heaped benefits upon the masses.

What is wrong with our age is precisely the widespread ignorance of the role which these policies of economic freedom played in the technical evolution of the last two hundred years.

It is true that economics is a theoretical science and as such abstains from any judgment of value. It is not its task to tell people what ends they should aim at. It is a science of the means to be applied for the attainment of ends chosen, not, to be sure, a science of the choosing of ends. Ultimate decisions, the valuations and the choosing of ends, are beyond the scope of any science. Science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.

photo by Bettina Bien Greaves

The Wisdom of Ludwig von Mises

Human Action, generally considered to be the greatest work of the greatest economist of our times, is a towering monument to the mind of a genius. Its 885 pages of text contain insights that have revolutionized economic thought and are moving the world toward a true and complete understanding of human freedom.

Because of the "warp and woof" nature of all human action—with one strand of action by one individual affecting and being affected by the action of all other individuals, and because of the necessity for recognizing and explaining this connexity of all economic phenomena—*Human Action* is not a book one *reads;* it is a book one *studies.*

As every human action bears on every other human action, so every principle of economic analysis relates to every other principle. Thus, in dealing topically with one subject, Professor Mises never overlooked its relation to all others. Hence his convictions on any one topic were spread throughout his book.

In these extracts I have sought to capture the essence of his thought on a number of topics, but for purposes of brevity and ease of comprehension, sentences have been shortened and juxtaposed, words eliminated, paragraphing changed and punctuation sometimes altered. Yet, with the exception of a very few words in brackets, every word in these extracts is pure Mises, every word is taken from *Human Action.*

May those who have never savored the fine flavor of this wine of wisdom be tempted, by this small sip, to enjoy deep draughts from the full bottle.

—GEORGE KOETHER

ACCOUNTING

The numerical exactitude of business accounts and calculations must not prevent us from realizing the uncertainty and speculative character of their items and of all computations based on them.

The essential elements of economic calculation are speculative anticipations of future conditions.

There is accuracy in the keeping of books. But they are accurate only with regard to these rules. The book values do not reflect precisely the real state of affairs. The proof is that the Stock Exchange appraises them without any regard to these figures.

ADVERTISING

The consumer is, according to legend, defenseless against "high-pressure" advertising. If this were true, success or failure in business would depend on the mode of advertising only. However, nobody believes that any kind of advertising would have succeeded in making the candlemakers hold the field against the electric bulb, the horsedrivers against the motorcars, the goose quill against the steel pen and later against the fountain pen. Advertising pays the advertiser only if examination of the first sample bought does not result in the consumer's refusal to buy more of it.

BANKING

The demand of the public for credit is a magnitude dependent on the banks' readiness to lend, and banks which do not bother about their own solvency are in a position to expand circulation credit by lowering the rate of interest below the market. Lowering the rate of interest is tantamount to increasing the quantity of what is mistakenly considered as the fair and normal requirements of business.

Banknotes became fiduciary media within the operation of the unhampered market economy. Deposits subject to check are money-substitutes and, as far as their amount exceeds the reserve kept, [are] fiduciary media, and consequently no less a vehicle of credit expansion than are banknotes. The begetter of credit expansion was the banker, not the authority. But today credit expansion is exclusively a government practice.

While the size of the credit expansion that private banks and bankers are able to engineer on an unhampered market is strictly limited, governments aim at the greatest possible amount of credit expansion. Credit expansion is the governments' foremost tool in their struggle against the market economy.

What is needed to prevent further credit expansion is to place the banking business under the general rules of commercial and civil laws compelling every individual and firm to fulfill all obligations in full compliance with the terms of the contract.

Free banking is the only method for prevention of the dangers inherent in credit expansion. Only free banking would have rendered the market economy secure against crises and depressions.

No government is willing today to give any thought to the program of free banking because no government wants to renounce what it considers a handy source of revenue. Those Americans who twice succeeded in doing away with a central bank were aware of the dangers of such institutions; it was too bad that they failed to see that the evils they fought were present in every kind of government interference with banking.

BOOM AND BUST

An increase in the quantity of money or fiduciary media is an indispensable condition of the emergence of a boom. The recurrence of boom periods, followed by periods of depression, is the unavoidable outcome of repeated 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 alternative is only whether the crisis should come sooner as the result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

The breakdown appears as soon as the banks become frightened by the accelerated pace of the boom and begin to abstain from further credit expansion. The change in the banks' conduct does not create the crisis. It merely makes visible the havoc spread by the faults which business has committed in the boom period.

The dearth of credit which marks the crisis is caused not by contraction but by the abstention from further credit expansion. It hurts all enterprises—not only those which are doomed at any rate, but no less those whose business is sound and could flourish if appropriate credit were available. As the outstanding debts are not paid back, the banks lack the means to grant credits even to the most solid firms. The crisis becomes general and forces all branches of business and all firms to restrict their activities. But there is no means of avoiding these consequences of the preceding boom.

Prices of the factors of production—both material and human—have reached an excessive height in the boom period. They must come down before business can become profitable again. The recovery and return to "normalcy" can only begin when prices and wage rates are so low that a sufficient number of people assume that they will not drop still more. Therefore the only means to shorten the period of bad business is to avoid any attempts to delay the fall in prices and wages. Any attempt of the government or labor unions to prevent or delay this adjustment merely prolongs the stagnation.

Out of the collapse of the boom there is only one way back. Wage rates must drop; people must restrict their consumption temporarily until the capital wasted by malinvestment is restored.

The belief of the advocates of credit expansion and inflation that abstention from further credit expansion and inflation would perpetuate the depression is utterly false. The remedies these authors suggest would not make the boom last forever. They would merely upset the process of recovery.

The boom can last only as long as the credit expansion progresses at an ever-accelerated pace. The boom comes to an end as soon as additional quantities of fiduciary media are no longer thrown upon the loan market. But it could not last forever even if inflation and credit expansion were to go on endlessly. It would then encounter the barriers which prevent the boundless expansion of circulation credit. It would lead to the crack-up and the breakdown of the whole monetary system.

BUREAUCRACY

Bureaucratic management, as distinguished from *profit management,* is the method applied in the conduct of administrative affairs the result of which has no cash value on the market.

Success or failure of a police department's activities cannot be ascertained according to the arithmetical procedures of profit-seeking business. No accountant can establish whether or not a police department or one of its subdivisions has succeeded.

Bureaucratic conduct of affairs is conduct bound to comply with detailed rules and regulations fixed by the authority of a superior body. It is the only alternative to profit management. Whenever the operation of a system is not directed by the profit motive it must be directed by bureaucratic rules.

No business, whatever its size or specific task, can ever become bureaucratic so long as it is entirely and solely operated on a profit basis. But as soon as it abandons profit seeking and substitutes for it what is called the service principle—it must substitute bureaucratic methods for those of entrepreneurial management.

CAPITAL

From the notion of capital goods one must clearly distinguish the concept of capital. The concept of capital is the fundamental concept of economic calculation, the foremost mental tool of the conduct of affairs in the market economy. Its correlative is the concept of income.

The idea of capital has no counterpart in the physical universe of tangible things. It is nowhere but in the minds of planning men. It is an element in economic calculation.

Capital goods are intermediary products which, in the further course of production, are transformed into consumers' goods. All capital goods, including those not called perishable, perish either in wearing out their serviceableness in production or in losing their serviceableness, even before this happens, through a change in the market data. There is no question of keeping a stock of capital goods intact. They are transient. The notion of wealth constancy is an outgrowth of deliberate planning and acting. It refers to the concept of capital as applied in capital accounting, not to the capital goods as such.

The accumulation of new capital through saving initiates the chain of actions that results in an improvement of economic conditions. Saving is the first step on the way toward improvement of material well-being and toward every further progress on this way.

These additional funds make possible the execution of projects which, for the lack of capital goods, could not have been executed previously.

Embarking upon the realization of the new projects, entrepreneurs compete on the market for the factors of production. They push up the prices of materials and wage rates. Thus wage earners, at the start of the process, already reap a share of the benefits that the abstention from consumption on the part of savers has begotten.

In the capitalist society there prevails a tendency toward a steady increase in the per capita quota of capital invested. The accumulation of capital soars above the increase in population figures. Consequently the marginal productivity of labor, real wage rates, and the wage earners' standard of living tend to rise continually. But this improvement in well-being is not the manifestation of the operation of an inevitable law of human evolution; it is a tendency resulting from the interplay of forces which can freely produce their effects only under capitalism.

That in capitalist countries the average wage earner consumes more goods and can afford more leisure than his ancestors is not an achievement of governments and labor unions. It is the outcome of the fact that profit-seeking business has accumulated and invested more capital and thus increased the marginal productivity of labor.

Capital as such does not bear interest; it must be well employed and invested not only in order to yield interest, but also lest it disappear entirely.

CAPITALISM

The system of free enterprise has been dubbed capitalism in order to deprecate and to smear it. However, this term can be considered very pertinent. It refers to the most characteristic feature of the system, its main eminence, viz., the role the notion of capital plays in its conduct.

Modern capitalism is essentially mass production for the needs of the masses. The buyers of the products are by and large the same people who as wage earners cooperate in their manufacturing.

Capitalism, says Marx, repeating the fables of the eulogists of the Middle Ages, has an inevitable tendency to impoverish the workers more and more. The truth is that capitalism has poured a horn of plenty upon the masses of the wage earners who frequently did all they could to sabotage the adoption of those innovations which render life more agreeable. It is not labor legislation and labor-union pressure that have shortened hours of work and withdrawn married women and children from the factories; it is capitalism.

The history of capitalism as it has operated in the last two hundred years in the realm of Western civilization is the record of a steady rise in the wage earners' standard of living. The inherent mark of capitalism is that it is mass production for mass consumption directed by the most energetic and far-sighted individuals, unflaggingly aiming at improvement. Its driving force is the profit motive, the instrumentality of which forces the businessman constantly to provide the consumers with more, better and cheaper amenities. An excess of profits over losses can appear only in a progressing economy and only to the extent to which the masses' standard of living improves. Thus capitalism is the system under which the keenest and most agile minds are driven to promote the welfare of the laggard many.

Government-operated enterprises and the Russian Soviet economy are, by the mere fact that they buy and sell on markets, connected with the capitalist system. They themselves bear witness to this connection by calculating in terms of money. They thus utilize the intellectual methods of the capitalist system that they fanatically condemn.

CHARITY

The fear of penury and of the degrading consequences of being supported by charity are important factors in the preservation of man's physiological equilibrium. They impel a man to keep fit, to avoid sickness and accidents, and to recover as soon as possible from injuries suffered.

The experience of the social security system, especially that of the oldest and most complete scheme, the German, has clearly shown the undesirable effects resulting from the elimination of these incentives. No civilized community has callously allowed the incapacitated to perish. But the substitution of a legally enforceable claim to support or sustenance for charitable relief does not seem to agree with human nature as it is. Not metaphysical prepossessions, but considerations of practical expediency make it inadvisable to promulgate an actionable right to sustenance.

COMPETITION

In nature there prevail irreconcilable conflicts of interests. Only the fittest plants and animals survive. The antagonism between an animal starving to death and another that snatches the food away from it is implacable. We may call this *biological competition*. [It] must not be confused with *social* competition, i.e., the striving of individuals to attain the most favorable position in the system of social cooperation. Social competition is present in every conceivable mode of social organization.

In a totalitarian system, social competition manifests itself in the endeavors of people to court the favor of those in power. In the market economy competition manifests itself in the fact that the sellers must outdo one another by offering better or cheaper goods and services, and that buyers must outdo one another by offering higher prices.

Market economy competition does not involve antagonism in the sense in which this term is applied to the hostile clash of incompatible interests. Psychologists are prone to confuse combat and competition. But praxeology must beware of such misleading equivocations. Military terms are inappropriate for the description of business operations. It is, e.g., a bad metaphor to speak of the conquest of a market. There is no conquest in the fact that one firm offers better or cheaper products than its competitors.

The owners of already operating plants have no particular class interest in the maintenance of free competition. They are opposed to confiscation and expropriation of their fortunes, but their vested interests are rather in favor of measures preventing newcomers from challenging their position. Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to unknown men who will be the entrepreneurs of tomorrow and whose ingenuity will make the life of coming generations more agreeable. They want the way left open to further economic improvements. They are the spokesmen of material progress.

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society.

DEBT

The long-term public and semipublic credit is a foreign and disturbing element in the structure of a market society. The financial history of the last century shows a steady increase in the amount of public indebtedness. Nobody believes that the states will eternally drag the burden of these interest payments. It is obvious that sooner or later all these debts will be liquidated in some way or other, but certainly not by payment of interest and principal according to the terms of the contract.

Today there prevails a tendency to push banks and insurance companies more and more toward investment in government bonds. The funds of the social security institutions completely consist in titles to the public debt. As far as public indebtedness was incurred by spending for current expenditure, the saving of the individual does not result in capital accumulation. While in the unhampered market economy saving, capital accumulation, and investment coincide, in the interventionist economy the individual citizens' savings can be dissipated by the government. The individual citizen restricts his current consumption in order to provide for his own future; in doing this he contributes his share to the further economic advancement of society and to an improvement of his fellow men's standard of living. But the government steps in and removes the socially beneficial effects of the individuals' conduct.

In the days of Solon the Athenian, of Ancient Rome's agrarian laws, and of the Middle Ages, the creditors were by and large the rich and the debtors the poor. But in this age of bonds and debentures, mortgage banks, savings banks, life insurance policies and social security benefits, the masses of people with more moderate income are themselves creditors. On the other hand, the rich, in their capacity as owners of common stock, of plants, farms, and real estate, are more often debtors than creditors. In asking for the expropriation of creditors, the masses are unwittingly attacking their own particular interests.

DEVALUATION

If one looks at devaluation not with the eyes of an apologist of government and union policies, but with the eyes of an economist, one must 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. If the other countries devalue in the same proportion, no changes in foreign trade appear. If they devalue to a greater extent, all these transitory blessings, whatever they may be, favor them exclusively. A general acceptance of the principles of the flexible standard [floating exchange rates] must therefore result in a race between the nations to outbid one another [i.e., competitive devaluation]. At the end of this competition is the complete destruction of all nations' monetary systems.

The much talked about advantages which devaluation secures in foreign trade and tourism are entirely due to the fact that the adjustment of domestic prices and wage rates to the state of affairs created by devaluation requires some time. As long as this adjustment process is not yet completed, exporting is encouraged and importing is discouraged. However, this merely means that in this interval the citizens of the devaluating country are getting less for what they are selling abroad and paying more for what they are buying abroad; concomitantly they must restrict their consumption.

Devaluation, say its champions, reduces the burden of debts. This is certainly true. The actual effect is that the indebted owners of real estate and farm land and the shareholders of indebted corporations reap gains at the expense of the majority of people whose savings are invested in bonds, debentures, savings-bank deposits and insurance policies.

ECONOMICS

Economics opened to human science a domain previously inaccessible and never thought of. The discovery of a regularity in the sequence and interdependence of market phenomena went beyond the limits of the traditional system of learning. It conveyed knowledge which could be regarded neither as logic, mathematics, psychology, physics nor biology.

The science of human action was at the beginning merely a discipline dealing with those actions which can be tested by monetary calculation. Starting from this basis, the economists were bound to widen step by step the field of their studies until they finally developed a system dealing with all human choices, a general theory of action.

Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. There are no such things as "economics of labor" or "economics of agriculture." There is only one coherent body of economics. There is economics and there is economic history. The two must never be confused. Economics, like logic and mathematics, is a display of abstract reasoning. Economics can never be experimental and empirical.

Economic knowledge is an essential element in the structure of human civilization; it deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen. It rests with men whether they will make the proper use of this knowledge. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.

The early economists devoted themselves to the study of the problems of economics. In lecturing and writing books they were eager to communicate to their fellow citizens the results of their thinking. They tried to influence public opinion in order to make sound policies prevail in the conduct of civic affairs. They 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 who is instrumental in designing various measures of government interference with business. He is an expert in the field of economic legislation, which today invariably aims at hindering the operation of the market economy.

EDUCATION

Public education can work if it is limited to reading, writing and arithmetic. With bright children it is even possible to add elementary notions of geometry, the natural sciences and the valid laws of the country. But as soon as one wants to go farther, serious difficulties appear. Teaching at the elementary level necessarily turns into indoctrination. The party that operates the schools is in a position to propagandize its tenets and to disparage those of other parties.

Equality of opportunity, it is said, could be provided only by making education at every level accessible to all. There prevails today the tendency to reduce all differences among various peoples to their education and to deny the existence of inborn inequalities in intellect, will power, and character. It is not generally realized that education can never be more than indoctrination with theories and ideas already developed. Education, whatever benefits it may confer, is transmission of traditional doctrines and valuations; it is by necessity conservative. It produces imitation and routine, not improvement and progress. Innovators and creative geniuses cannot be reared in schools. They are precisely the men who defy what the school has taught them.

In order to succeed in business a man does not need a degree from a school of business administration. These schools train the subalterns for routine jobs. They certainly do not train entrepreneurs. An entrepreneur cannot be trained.

General education plays only a minor role in the formation of the political, social and economic ideas of the rising generation. The impact of the press, the radio, and environmental conditions is much more powerful than that of teachers and textbooks. The propaganda of the churches, the political parties, and the pressure groups outstrips the influence of the schools.

ENTREPRENEURSHIP

What induces an entrepreneur to embark upon definite projects is neither high prices nor low prices as such, but a discrepancy between the costs of production, inclusive of interest on the capital required and the anticipated prices of the products.

The real entrepreneur is a *speculator,* a man eager to utilize his opinion about the future structure of the market for business operations promising profits. This specific anticipative understanding of the conditions of the uncertain future defies any rules and systematization. It can be neither taught nor learned.

Those who confuse entrepreneurship and management close their eyes to the economic problem. In labor disputes the parties are not management and labor, but entrepreneurship (or capital) and the salaried or wage-receiving employees. The capitalist system is not a managerial system; it is an entrepreneurial system.

It is impossible to eliminate the entrepreneur from the picture of a market economy. The various complementary factors of production cannot come together spontaneously. They need to be combined by the purposive efforts of men aiming at certain ends and motivated by the urge to improve their state of satisfaction. In eliminating the entrepreneur one eliminates the driving force of the whole market system.

EQUALITY

Men are born unequal and it is precisely their inequality that generates social cooperation and civilization. Equality under the law was not designed to correct the inexorable facts of the universe and to make natural inequality disappear. It was, on the contrary, the device to secure for the whole of mankind the maximum benefits it can derive from it.

The inequality of incomes and wealth is an inherent feature of the market economy. Its elimination would entirely destroy the market economy.

What those people who ask for equality have in mind is always an increase in their own power to consume. In endorsing the principle of equality as a political postulate nobody wants to share his own income with those who have less. When the American wage earner refers to equality, he means that the dividends of the stockholders should be given to him. He does not suggest a curtailment of his own income for the benefit of those 95 per cent of the earth's population whose income is lower than his.

EXCHANGE RATES

If more than one kind of money is used as a medium of exchange, the mutual exchange ratio between them is determined by their purchasing power.

As soon as domestic inflation begins to affect the prices of some commodities, long before it has exhausted all its effects upon the greater part of the prices of commodities and services, the price of foreign exchange tends to rise. The rise in foreign exchange rates merely anticipates the movement of domestic commodity prices.

Exchange ratios are permanently fluctuating. There is nothing constant and invariable in them. They defy any attempt to measure them.

GOLD STANDARD

A metallic currency is not subject to government manipulation. The gold standard was an efficacious check upon credit expansion, as it forced the banks not to exceed certain limits in their expansionist ventures. The gold standard's own inflationary potentialities were kept within limits by the vicissitudes of gold mining.

The significance of the fact that the gold standard makes the increase in the supply of gold dependent upon the profitability of producing gold is, of course, that it limits the government's power to resort to inflation. The gold standard makes the determination of money's purchasing power independent of the changing ambitions and doctrines of political parties and pressure groups. This is not a defect of the gold standard; it is its main excellence.

Nationalists are fighting the gold standard because they want to sever their countries from the world market and to establish national autarky as far as possible. Interventionist governments and pressure groups are fighting the gold standard because they consider it the most serious obstacle to their endeavors to manipulate prices and wage rates. But the most fanatical attacks against gold are made by those intent upon credit expansion.

The purchasing power of gold is not stable. But the very notions of stability and unchangeability of purchasing power are absurd. In a living and changing world there cannot be any such thing as stability of purchasing power. It is an essential feature of money that its purchasing power is changing.

The international gold standard works without any action on the part of governments. It is effective real cooperation of all members of the world-embracing market economy. There is no need for any government to interfere in order to make the gold standard work as an international standard.

What governments call international monetary cooperation is concerted action for the sake of credit expansion.

GOVERNMENT

Government has no more ability than individuals to create something out of nothing. What the government spends more, the public spends less. Public works are not accomplished by the miraculous power of a magic wand. They are paid for by funds taken away from the citizens.

The more public works expand and the more the government undertakes in order to fill the gap left by the alleged "private enterprise's inability to provide jobs for all," the more the realm of private enterprise shrinks. Thus we are again faced with the alternative of capitalism or socialism.

There is no reason to idolize the police power and ascribe to it omnipotence and omniscience. It cannot conjure away the scarcity of the factors of production, it cannot make people more prosperous, it cannot raise the productivity of labor.

All this talk about contracyclical government activities aims at one goal only, namely to divert the public's attention from cognizance of the real cause of the cyclical fluctuations of business. All governments are firmly committed to the policy of low interest rates, credit expansion, and inflation. When the unavoidable aftermath of these short-term policies appears, they know only of one remedy—to go on in inflationary ventures.

Currency and credit manipulation is today the main instrument by means of which the anticapitalist governments are intent upon establishing government omnipotence.

As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. We may define freedom as that state of affairs in which the individual's discretion to choose is not constrained by government violence beyond the margin within which the praxeological law restricts it anyway.

HISTORY

No laboratory experiments can be performed with regard to human action. We are never in a position to observe the change in one element only, all other conditions of the event remaining unchanged. Historical experience as an experience of complex phenomena does not provide us with facts in the sense in which the natural sciences employ this term to signify isolated events tested in experiments. The information conveyed by historical experience cannot be used as building material for the construction of theories and the prediction of future events. Every historical experience is open to various interpretations, and is in fact interpreted in different ways. History speaks only to those people who know how to interpret it on the ground of correct theories.

HUMAN ACTION

Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors. There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and the physiological law.

Man has not the power to change the categories of human action. He must adjust his conduct to them.

IDEOLOGY

In acting, man is directed by ideologies. He chooses ends and means under the influence of ideologies. The might of an ideology is either direct or indirect. It is direct when the actor is convinced that the content of the ideology is correct and that he serves his own interests directly in complying with it. It is indirect when the actor rejects the content of the ideology as false but is under the necessity of adjusting his actions to the fact that this ideology is endorsed by other people.

Any existing state of social affairs is the product of ideologies previously thought out. Society is always the creation of ideologies temporally and logically anterior. Action is always directed by ideas; it realizes what previous thinking has designed. The power of an ideology consists precisely in the fact that people submit to it without any wavering and or scruples.

A man does not himself create his ideas and standards of value; he borrows them from other people. His ideology is what his environment enjoins upon him. Only very few men have the gift of thinking new and original ideas and of changing the traditional body of creeds and doctrines.

Common man does not speculate about the great problems. Yet the common man does choose. He chooses to adopt traditional patterns or patterns adopted by other people because he is convinced that this procedure is best fitted to achieve his own welfare. And he is ready to change his ideology and consequently his mode of action whenever he becomes convinced that this would better serve his interests.

In the days of laissez faire people looked upon government as an institution whose operation required an expenditure of money which must be defrayed by taxes paid by the citizens. In the individual citizens' budgets the state was an item of expenditure. Today the majority of the citizens look upon government as an agency dispensing benefits. The wage earners and the farmers expect to receive from the treasury more than they contribute to its revenues. The state is in their eyes a spender, not a taker.

What determines the course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology.

Never before has the world known such a cleverly contrived system of propaganda and oppression as that instituted by contemporary governments, parties, and pressure groups. However, all these edifices will crumble like houses of cards as soon as a great ideology attacks them.

INDIVIDUALISM

Society is nothing but the combination of individuals for cooperative effort. It exists nowhere else than in the actions of individual men. It is a delusion to search for it outside the actions of individuals.

All actions are performed by individuals. It is always the individual who thinks. Society does not think any more than it eats or drinks. Thinking is always an achievement of individuals. There is joint action but no joint thinking.

A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. For a social collective has no existence and reality outside of the individual members' actions.

The reason the market economy can operate without government orders telling everybody precisely what he should do and how he should do it is that it does not ask anybody to deviate from those lines of conduct which best serve his own interests. What integrates the individual's actions into the whole of the social system of production is the pursuit of his own purposes.

In indulging his "acquisitiveness" each actor contributes his share to the best possible arrangement of production activities. Thus, within the sphere of private property and the laws protecting it against encroachments on the part of violent and fraudulent action, there is no antagonism between the interests of the individual and those of society.

Those who want to study human action from the collective units encounter an insurmountable obstacle in the fact that an individual at the same time can belong and really belongs to various collective entities. The problems raised by the multiplicity of coexisting social units and their mutual antagonisms can be solved only by methodological individualism.

The collaboration of collectivist creeds in their attempts to destroy freedom has brought about the mistaken belief that the issue in present-day political antagonisms is individualism versus collectivism. In fact it is a struggle between individualism on the one hand and a multitude of collectivist sects on the other. It is not a uniform Marxian sect that attacks capitalism, but a host of Marxian groups. These groups fight one another with the utmost brutality and inhumanity. A substitution of collectivism for liberalism would result in endless bloody fighting.

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.

INFLATION

A general rise in prices can only occur if there is either a drop in the supply of all commodities or an increase in the supply of money. If one wants to know whether or not there is credit expansion, one must look at the supply of fiduciary media, not at the arithmetical state of interest rates.

The notions of inflation and deflation are not praxeological concepts. They were not created by economists, but by the mundane speech of the public and of politicians. They implied the popular fallacy that there is such a thing as neutral money or money of stable purchasing power.

However, those applying these terms are not aware of the fact that purchasing power never remains unchanged and that consequently there is always either inflation or deflation.

What many people today call inflation or deflation is no longer the great increase or decrease in the supply of money, but its inexorable consequences, the general tendency toward a rise or fall in commodity prices and wage rates. This innovation is by no means harmless.

Those engaged in futile and hopeless attempts to fight the inevitable consequences of inflation—the rise in prices—are disguising their endeavors as a fight against inflation. While merely fighting symptoms, they pretend to fight the root causes of the evil. Because they do not comprehend the causal relation between the increase in the quantity of money on the one hand and the rise in prices on the other, they make things worse.

The course of a progressing inflation is this: At the beginning the inflow of additional money makes the prices of some commodities and services rise; other prices rise later. The price rise affects the various commodities and services at different dates and to a different extent.

The first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.

But then finally the masses wake up. They become suddenly aware that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. Everybody is anxious to swap his money against "real" goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.

It was this that happened with the

Continental currency in America in 1781, with the French *mandats territoriaux* in 1796 and with the German *Mark* in 1923. It will happen again whenever the same conditions appear. Inflation is a policy that cannot last. The monetary system breaks down; all transactions in money cease. People return either to barter or to use of another kind of money.

INTEREST

Originary interest is the ratio of value assigned to want-satisfaction in the immediate future and the value assigned to want-satisfaction in remote periods of the future. Originary interest is not "the price paid for the services of capital."

If future goods were not bought and sold at a discount as against present goods, the buyer of land would have to pay a price which equals the sum of all future net revenues and which would leave nothing for a current reiterated income.

In every act of lending, even apart from the problem of changes in the monetary unit's purchasing power, there is an element of entrepreneurial venture. The granting of credit is necessarily always an entrepreneurial speculation which can possibly result in failure and the loss of a part or of the total amount lent. Every interest stipulated and paid in loans includes not only originary interest but also entrepreneurial profit.

The role which the rate of interest plays in the deliberations of the planning businessman is obvious. It prevents him from embarking upon projects the execution of which would not agree with the limited amount of capital goods provided by the saving of the public.

In the rate of originary interest there is no more permanence than in prices or wage rates.

It was a blunder to explain interest as an income derived from the productivity of capital. There were schools of thought for whom interest was merely a price paid for obtaining the disposition of a quantity of money or money substitutes. From this belief they quite logically drew the inference that abolishing the scarcity of money and money substitutes would abolish interest altogether and result in the gratuitousness of credit.

The banks and the monetary authorities are guided by the idea that the height of interest rates as the free loan market determines it is an evil, that it is the objective of a good economic policy to lower it, and that credit expansion is an appropriate means of achieving this end without harm to anybody but parasitic moneylenders. It is this infatuation that causes them to embark upon ventures which must finally bring about a slump.

The cyclical fluctuations of business are not an occurrence originating in the sphere of the unhampered market, but a product of government interference with business conditions designed to lower the rate of interest below the height at which the free market would have fixed it.

Therefore there cannot be any question of abolishing interest by any institutions, laws or devices of bank manipulation. He who wants to "abolish" interest will have to induce people to value an apple available in a hundred years no less than a present apple. What can be abolished by laws and decrees is merely the right of the capitalists to receive interest. But such decrees would bring about capital consumption and would very soon throw mankind back into the original state of natural poverty.

INTERVENTION

In society's economic organization there are the liberals advocating private ownership of the means of production, the socialists advocating public ownership of the means of production, and the interventionists advocating a third system which, they contend, is as far from socialism as it is from capitalism.

The issue is: How does a system of interventionism work? Can it realize those ends which people, in resorting to it, want to attain?

The interventionist in advocating additional public expenditure is not aware of the fact that the funds available are limited. In his opinion there is plenty of money available. The income and wealth of the rich can be freely tapped.

With the present height of income and inheritance tax rates, this reserve fund out of which the interventionists seek to cover all public expenditure is rapidly shrinking. It has practically disappeared in most European countries. In the United States the recent advances in tax rates produced only negligible revenue results beyond what would be produced by a progression which stopped at much lower rates. From day to day it becomes more obvious that large-scale additions to the amount of public expenditure cannot be financed by "soaking the rich," but that the burden must be carried by the masses. Those anxious to get subsidies will themselves have to foot the bill.

All these champions of interventionism fail to realize that their program thus implies the establishment of full government supremacy in all economic matters and ultimately brings about socialism. If it is in the jurisdiction of the government to decide whether or not definite conditions of the economy justify its intervention, no sphere of operation is left to the market. Then it is no longer the consumers who ultimately determine what should be produced, in what quantity, of what quality, by whom, where and how—but it is the government.

It is difficult to find out how many of the supporters of interventionism are conscious of the fact that the policies they recommend directly lead to socialism, and how many hold fast to the illusion that what they are aiming at is a middle-of-the-road system that can last as a permanent system—a "third solution."

An essential element of the doctrines advanced both by socialists and interventionists is that the recurrence of depressions is a phenomenon inherent in the very operation of the market economy. Yet the evils in the great depression that started in 1929 were not created by capitalism, but, on the contrary, by the endeavors to "reform" and "improve" the operation of the market economy by interventionism. The crash was the necessary outcome of the attempts to lower the rate of interest by credit expansion. Institutional unemployment was the inevitable result of the policy of fixing wage rates above the potential market height.

The interventionist interlude must come to an end because all varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors, but bring about a state of affairs which is less desirable than the previous state they were designed to alter. If one wants to correct [this] by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.

Men must choose between the market economy and socialism. They cannot evade deciding between these alternatives by adopting a "middle-of-the-road" position, whatever name they may give to it. In abolishing economic calculation the general adoption of socialism would result in complete chaos and the disintegration of social cooperation under the division of labor.

INVESTMENT—DOMESTIC

When governments initiated their policies of long-term irredeemable and perpetual loans, the state offered to the citizen an opportunity to put his wealth in safety and to enjoy a stable income secure against all vicissitudes. It opened a way to free the individual from the necessity of risking and acquiring his wealth and his income anew each day in the capitalist market. He who invested his funds in bonds issued by the government and its subdivisions was no longer subject to the inescapable laws of the market and the sovereignty of the consumers. Henceforth his income no longer stemmed from the process of supplying the wants of consumers in the best possible way, but from taxes levied by the state's apparatus of compulsion and coercion. He was no longer a servant of his fellow citizens, subject to their sovereignty; he was a partner of the government which ruled the people and exacted tribute from them.

However, even the most ruthless government in the long run is not able to defy the laws determining human life and action. If the government invests funds and no surplus results, or if it spends the money for current expenditure, the capital borrowed shrinks or disappears entirely, and no source is opened from which interest and principal could be paid.

The irredeemable perpetual public debt presupposes the stability of purchasing power. Although the state and its compulsion may be eternal, the interest paid on the public debt could be eternal only if based on a standard of unchanging value.

The investor who for security's sake shuns the market, entrepreneurship and investment in free enterprise and prefers government bonds is faced again with the problem of the changeability of all human affairs. He discovers that in the frame of a market society there is no room left for wealth not dependent upon the market. His endeavors to find an inexhaustible source of income fail. There are in this world no such things as stability and security and no human endeavors are powerful enough to bring them about.

INVESTMENT—FOREIGN

Under the conditions of the latter nineteenth century it did not matter whether or not a nation was prepared and equipped with the required capital in order to utilize adequately the natural resources in its territory. There was practically free access for everybody to every area's natural wealth. In searching for the most advantageous opportunities for investment, capitalists and promoters were not stopped by national borderlines. As far as investment was concerned the greater part of the earth's surface could be considered as integrated into a uniform world-embracing market system. In fact the internationalization of the capital market, together with free trade and the freedom of migration, was instrumental in removing the economic incentives to war and conquest.

The inflow of foreign capital did not harm the receiving nations. It was European capital that accelerated considerably the marvelous economic evolution of the United States and the British Dominions. Thanks to foreign capital the countries of Latin America and Asia are today equipped with facilities for production and transportation which they would have had to forego for a very long time if they had not received this aid. Real wage rates and farm yields are higher today in those areas than they would have been in the absence of foreign capital. The mere fact that almost all nations are vehemently asking today for "foreign aid" explodes the fables of the Marxians and the nationalists.

However, the mere lust for imported capital goods does not resuscitate the international capital market. Investment and lending abroad are only possible if the receiving nations are unconditionally and sincerely committed to the principle of private property and do not plan to expropriate the foreign capitalists at a later date. It was such expropriations that destroyed the international capital market. Intergovernmental loans are no substitute for the functioning of an international capital market.

LABOR UNIONS

The improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about.

As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were superfluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

If unions were really bargaining agencies, their collective bargaining could not raise the height of wages above the point of the unhampered market. As long as there are still unemployed workers available, there is no reason for an employer to raise his offer. Real collective bargaining would not differ from individual bargaining.

What is euphemistically called collective bargaining by union leaders and "pro-labor" legislation is bargaining at the point of a gun. It is bargaining between an armed party, ready to use its weapons, and an unarmed party under duress. It is not a market transaction.

It is a dictate forced upon the employer and it produces institutional unemployment. If a government decree or labor union pressure and compulsion fix wage rates above the height of the potential market rates, institutional unemployment results.

The problem is not the right to strike, but the right—by intimidation or violence—to force other people to strike, and the further right to prevent anybody from working in a shop in which a union has called a strike. When the unions invoke the right to strike in justification of such intimidation and deeds of violence, they are on no better ground than a religious group would be in invoking the right of freedom of conscience as a justification for persecuting dissenters.

LAISSEZ FAIRE

In eighteenth-century France the saying *laissez faire* [let people do or make what they choose] and *laissez passer* [let pass or go] was the formula into which some of the champions of the cause of liberty compressed their program.

Laissez faire does not mean: Let soulless mechanical forces operate. It 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.

Planning means: Let the government alone choose and enforce its rulings by the apparatus of coercion and compulsion.

The alternative is not between a dead mechanism or a rigid automatism on one hand and conscious planning on the other hand. The question is whose planning?

LAND REFORM

Plans aiming at a more or less equal distribution of the soil among the farming population are, under the conditions of the market economy, merely plans for granting privileges to a group of less efficient producers at the expense of the immense majority of consumers. The operation of the market tends to eliminate all those farmers whose cost of production is higher than the marginal costs needed for the production of that amount of farm products the consumers are ready to buy. It determines the size of farms as well as the methods of production applied. If the government interferes in order to make a different arrangement of the conditions of farming prevail, it raises the average price of farm products.

MACHINES

Labor is more scarce than the material factors of production. There are material factors of production which remain unused because the labor required is needed for the satisfaction of more urgent needs. In our world there is no abundance, but a shortage of manpower, and there are unused material factors of production, i.e., land, mineral deposits, and even plants and equipment.

The substitution of more efficient methods of production for less efficient ones does not render labor abundant, provided there are still material factors available whose utilization can increase human well-being. On the contrary, it increases output and thereby the quantity of consumers' goods. "Labor-saving" devices increase supply. They do not bring about "technological unemployment."

THE MARKET

It is customary to speak metaphorically of the automatic and anonymous forces actuating the "mechanism" of the market. Such metaphors disregard the fact that the only factors directing the market and the determination of prices are purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen.

The market is a social body; it is the foremost social body. Everybody in acting serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. Everybody is both a means and an end in himself, an ultimate end for himself and a means to other people in their endeavors to attain their own ends.

Each man is free; nobody is subject to a despot. Of his own accord the individual integrates himself into the cooperative system. The market directs him and reveals to him in what way he can best promote his own welfare as well as that of other people. The market is supreme. The market alone puts the whole social system in order and provides it with sense and meaning.

The market is not a place, a thing or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor.

The recurrence of individual acts of exchange generates the market step by step with the evolution of the division of labor within a society based on private property. Such exchanges can be effected only if each party values what he receives more highly than what he gives away.

The divisibility of money, unlimited for all practical purposes, makes it possible to determine the exchange ratios with nicety.

The market process is coherent and indivisible. It is an indissoluble intertwinement of actions and reactions, of moves and countermoves. But the insufficiency of our mental abilities enjoins upon us the necessity of dividing it into parts and analyzing each of these parts separately. In resorting to such artificial cleavages we must never forget that the seemingly autonomous existence of these parts is an imaginary makeshift of our minds. They are only parts, that is, they cannot even be thought of as existing outside the structure of which they are parts.

The market economy as such does not respect political frontiers. Its field is the world. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops.

To assign to everybody his proper place in society is the task of the consumers. Their buying and abstention from buying is instrumental in determining each individual's social position. The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. It is true, in the market the various consumers have not the same voting right. The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process.

If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt. Other men who did better in satisfying the demand of the consumers replace him.

The consumers make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. They do not care one whit for past merit and vested interests.

Market prices tell producers what to produce, how to produce, and in what quantity. The market is the focal point to which activities of the individuals converge. It is the center from which the activities of individuals radiate.

The market economy, or capitalism, as it is usually called, and the socialist economy preclude one another. There is no mixture of the two systems possible or thinkable; there is no such thing as a mixed economy, a system that would be in part capitalistic and in part socialist. The market economy is the product of a long evolutionary process. It is the strategy, as it were, by the application of which man has triumphantly progressed from savagery to civilization.

MATHEMATICS AND ECONOMICS

The fundamental deficiency implied in every quantitative approach to economic problems consists in the neglect of the fact that there are no constant relations between what are called economic dimensions. There is neither constancy nor continuity in the valuations and in the formation of exchange ratios between various commodities.

In the realm of physical and chemical events there exist (or, at least, it is generally assumed that 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 outside of physical and chemical technology and therapeutics.

Those economists who want to substitute "quantitative economics" for what they call "qualitative economics" are utterly mistaken. There are, in the field of economics, no constant relations, and consequently no measurement is possible. The mathematical economist, blinded by the prepossession that economics must be construed according to the pattern of Newtonian mechanics and is open to treatment by mathematical methods, misconstrues entirely the subject matter of his investigations. He no longer deals with human action but with a soulless mechanism mysteriously actuated by forces not open to further analysis.

The mathematical economist eliminates the entrepreneur from his thought. He has no need for this mover and shaker whose never-ceasing intervention prevents the system reaching the state of perfect equilibrium and static conditions. As the mathematical economist sees it, the prices of the factors of production are determined by the intersection of two curves, not by human action.

Mathematical economists substitute algebraic symbols for the determinate terms of money as used in economic calculation and believe that this procedure renders their reasoning more scientific. They deal with equilibrium in various mathematical symbols as if it were a real entity and not a limiting notion, a mere mental tool. What they are doing is vain playing with mathematical symbols, a pastime not suited to convey any knowledge. They strongly impress the gullible layman. In fact they only confuse and muddle things which are satisfactorily dealt with in textbooks of commercial arithmetic and accountancy.

The equations formulated by mathematical economics remain a useless piece of mental gymnastics and would remain so even if they were to express much more than they do.

MONEY

Money is a medium of exchange.

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.

Nothing can enter into the function of a medium of exchange which was not already previously an economic good to which people assigned exchange value before it was demanded as such a medium.

Money is the thing which serves as the generally accepted and commonly used medium of exchange. This is its only function. All other functions which people ascribe to money are merely particular aspects of its primary and sole function, that of a medium of exchange.

What is employed as money is a commodity which is used also for nonmonetary purposes. Under the gold standard, gold is money and money is gold. It is immaterial whether or not the laws assign legal tender quality only to gold coins minted by the government. What counts is that these coins really contain a fixed weight of gold and that every quantity of bullion can be transformed into coins. Under the gold standard the dollar and the pound sterling were merely names for a definite weight of gold. We call such a money *commodity* money.

A second sort of money is *credit money*. Credit money evolved out of the use of money-substitutes. It was customary to use claims, payable on demand and absolutely secure, as substitutes for the sum of money to which they gave claim.

As long as these claims had been daily maturing claims against a debtor of undisputed solvency and could be collected without notice and free of expense, their exchange value was equal to their face value; it was this perfect equivalence which assigned to them the character of money substitutes.

Fiat money is money consisting of mere tokens which can neither be employed for any industrial purposes nor convey a claim against anybody. The important thing to be remembered is that with every sort of money, demonetization—i.e., the abandonment of its use as a medium of exchange—must result in a serious fall of its exchange value.

In the course of history various commodities have been employed as media of exchange. A long evolution eliminated the greater part of these commodities from the monetary function. Only two, the precious metals gold and silver, remained. In the second part of the nineteenth century more and more governments deliberately turned toward the demonetization of silver.

The choice of the good to be employed as a medium of exchange and as money is never indifferent. It determines the course of the cash-induced changes in purchasing power. The question is only who should make the choice: the people buying and selling on the market, or the government? It was the market which in a selective process, going on for ages, finally assigned to the precious metals gold and silver the character of money. For two hundred years the governments have interfered with the market's choice of the money medium. Even the most bigoted étatists [statists] do not venture to assert that this interference has proved beneficial.

MONEY "SUPPLY" AND "STABILITY"

The fateful errors of popular monetary doctrines which have led astray the monetary policies of almost all governments would hardly have come into existence if many economists had not themselves committed blunders in dealing with monetary issues and did not stubbornly cling to them.

There is first of all the spurious idea of the supposed neutrality of money. An outgrowth of this doctrine was the notion of the "level" of prices that rises or falls proportionately with the increase or decrease in the quantity of money in circulation. It was not realized that changes in the quantity of money can never affect the prices of all goods and services at the same time and to the same extent. Nor was it realized that changes in the purchasing power of the monetary unit are necessarily linked with changes in the mutual relations between those buying and selling.

The assumption that the medium of exchange is a neutral factor was a serious blunder. People tacitly assumed that changes in purchasing power occur with regard to all goods and services at the same time and to the same extent. This is, of course, the fable of money's neutrality.

The notion of a neutral money is no less contradictory than that of a money of stable purchasing power. Money without a driving force of its own would not, as people assume, be a perfect money; it would not be money at all.

The purchasing power of money is determined by demand and supply, as is the case with the prices of all vendible goods and services. 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 value in exchange (purchasing power) of a medium of exchange is the resultant of the cumulative effect of both partial demands.

Money is not a standard for the measurement of prices; it is a medium whose exchange ratio varies in the same way, although as a rule not with the same speed and to the same extent, in which the mutual exchange ratios of the vendible commodities and services vary.

With action and unceasing change, with the economic system which cannot be rigid, neither neutrality of money nor stability of its purchasing power are compatible.

All plans to render money neutral and stable are contradictory. Money is an element of action and consequently of change. Changes in the money relation, i.e., in the relation of the demand for and the supply of money, affect the exchange ratio between money on the one hand the vendible commodities on the other hand. These changes do not affect at the same time and to the same extent the prices of the various commodities and services. They consequently affect the wealth of various members of society in a different way.

Changes in the supply of money must bring about changes in other data too. The market system before and after the inflow or outflow of a quantity of money is not merely changed in that cash holdings of the individuals and prices have increased or decreased. There have been effected also changes in the reciprocal exchange ratios between the various commodities and services.

It is generally believed by those unfamiliar with economic theory that credit expansion and an increase in the quantity of money in circulation are efficacious means for lowering the rate of interest permanently below the height it would attain on a nonmanipulated capital and loan market. This theory is utterly illusory. But it guides the monetary and credit policy of almost every contemporary government.

The endeavors to expand the quantity of money in circulation either in order to increase the government's capacity to spend or in order to bring about a temporary lowering of the rate of interest disintegrate all currency matters and derange economic calculation.

It is not on account of an alleged scarcity of money that prices of agricultural products are too low to secure to submarginal farmers the amount they would like to earn. The cause of these farmers' distress is that other farmers are producing at lower costs.

An increase in the quantity of goods produced, other things being unchanged, must bring about an improvement in peoples' conditions. Its consequence is a fall in the money prices of the goods the production of which has been increased. But such a fall in money prices does not in the least impair the benefits derived from the additional wealth produced. One must not say that a fall in prices caused by an increase in production of goods is proof of some disequilibrium which cannot be eliminated otherwise than by increasing the quantity of money.

The services which money renders can be neither improved nor repaired by changing the supply of money. There may appear an excess or a deficiency of money in an individual's cash holding. But such a condition can be remedied by increasing or decreasing consumption or investment. (Of course, one must not fall prey to the popular confusion between the demand for money for cash holding and the appetite for more wealth.) The quantity of money available in the whole economy is always sufficient to secure for everybody all that money does and can do.

MONOPOLY

Each factory turns out products different from those of other plants. Each hotel has a monopoly on the sale of its services on the site of its premises. The professional services rendered by a physician or a lawyer are never perfectly equal to those rendered by any other physician or lawyer. Except for certain raw materials, foodstuffs, and other staple goods, monopoly is everywhere on the market.

However, the mere phenomenon of monopoly is without any significance and relevance for the operation of the market and the determination of prices. It does not give the monopolist any advantage in selling his products. Under copyright law every rhymester enjoys a monopoly in the sale of his poetry. But this does not influence the market. It may happen that no price whatever can be realized for his stuff and that his books can only be sold at their waste paper value.

One must not confuse the notions of monopoly and of monopoly prices. Mere monopoly as such is of no importance if it does not result in monopoly prices.

The publisher of a copyright book is a monopolist. But he may not be able to sell a single copy no matter how low the price he asks. 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.

Monopoly prices are the outgrowth of government interference with business. They were not created by the interplay of the factors operating on a free market. They are not products of capitalism, but precisely of the endeavors to counteract the forces determining the height of market prices. It is a distortion of fact to speak of monopoly capitalism. It would be more appropriate to speak of monopoly interventionism or monopoly statism.

The important place that cartels occupy in our time is an outcome of the interventionist policies adopted by the governments of all countries. The 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. It is not one of the evils inherent in capitalism as the demagogues trumpet. It is, on the contrary, the fruit of policies hostile to capitalism and intent upon sabotaging and destroying its operation.

It is a grotesque distortion of the true state of affairs to speak of *monopoly capitalism* instead of *monopoly interventionism* and of *private cartels* instead of *government-made cartels*.

MORALITY

Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen [by the economist] as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns.

The social division of labor and cooperation rests upon conciliatory settlements of disputes. Not war, as Heraclitus said, but peace is the source of all social relations. He who wants to preserve life and health as well and as long as possible, must realize that respect for other people's lives and health better serves his aim than the opposite mode of conduct.

PRAXEOLOGY

It is no longer possible to define neatly the boundaries between the kind of action which is the proper field of economic science in the narrower sense, and other action.

Acting man is always concerned with both "material" and "ideal" things. He chooses between alternatives. No matter whether they are to be classified as material or ideal.

The general theory of choice is much more than merely a theory of the "economic side" of human endeavors and of man's striving for commodities and an improvement in his material well-being. It is the science of every kind of human action. Choosing determines all human decisions.

Out of the political economy of the classical school emerges the general theory of human action, praxeology.[1] The economic or catallactic[2] problems are imbedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology.

Praxeology—and consequently economics too—is a deductive system. It draws its strength from the starting point of its deductions, from the category of action. No economic theorem can be considered sound that is not solidly fastened upon this foundation by an irrefutable chain of reasoning. A statement proclaimed without such a connection is arbitrary and floats in midair. It is impossible to deal with a special segment of economics if one does not encase it in a complete system of action.

The empirical sciences start from singular events and proceed from the unique and individual to the more universal. Their treatment is subject to specialization. They can deal with segments without paying attention to the whole field. The economist must never be a specialist. In dealing with any problem he must always fix his glance upon the whole system.

In speaking of the laws of nature we have in mind the fact that there prevails an inexorable interconnectedness of physical and biological phenomena and that acting man must submit to this regularity if he wants to succeed. In speaking of the laws of human action we refer to the fact that such an inexorable interconnectedness of phenomena is present also in the field of human action as such and that acting man must recognize this regularity too if he wants to succeed.

In physics we are faced with changes occurring in various sense phenomena. We discover a regularity in the sequence of these changes and these observations lead us to the construction of a science of physics.

In praxeology the first fact we know is that men are purposively intent upon bringing about some

[1]The term *praxeology* was first used in 1890 by Espinas in "Les Origines de la technologie," *Revue Philosophique*, XVth year, XXX, 114–15.

[2]The term *Catallactics or the Science of Exchanges* was first used by Whately. Cf. his book *Introductory Lectures on Political Economy* (London, 1831), p. 6.

changes. It is this knowledge that integrates the subject matter of praxeology and differentiates it from the subject matter of the natural sciences. We know the forces behind the changes, and this aprioristic knowledge leads us to a cognition of the praxeological process. The physicist does not know what electricity "is." He knows only phenomena attributed to something called electricity. But the economist knows what actuates the market process. It is only thanks to this knowledge that he is in a position to distinguish market phenomena from other phenomena and to describe the market process.

Praxeology is a theoretical and systematic, not a historical, science. Its statements and propositions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification or falsification on the ground of experience and facts.

The teachings of praxeology and economics are valid for every human action without regard to its underlying motives, causes, and goals. The ultimate judgments of value and the ultimate ends of human action are given for any kind of scientific inquiry; they are not open to any further analysis. Praxeology deals with the ways and means chosen for the attainment of such ultimate ends. Its object is means, not ends. The only standard which it applies is whether or not the means chosen are fit for the attainment of the ends aimed at.

Only the insane venture to disregard physical and biological laws. But it is quite common to disdain praxeological laws. Rulers do not like to admit that their power is restricted by any laws other than those of physics and biology. They never ascribe their failures and frustrations to the violation of economic law.

PRICES

The ultimate source of the determination of prices is the value judgments of the consumers. Each individual, in buying or not buying and in selling or not selling, contributes his share to the formation of market prices. But the larger the market is, the smaller is the weight of each individual's contribution. Thus the structure of market prices appears to the individual as a datum to which he must adjust his own conduct. What is called a price is always a relationship within an integrated system which is the composite effect of human relations.

Money prices are exchange ratios. The divisibility of money, unlimited for all practical purposes, makes it possible to determine the exchange ratios with nicety.

Prices are determined between extremely narrow margins; the valuations on the one hand of the marginal buyer and those of the marginal offerer who abstains from selling, and the valuations on the other hand of the marginal seller and those of the marginal potential buyer who abstains from buying.

The valuations which result in determination of definite prices are different. Each party attaches a higher value to the good he receives than to that he gives away. The exchange ratio, the price, is not the product of an equality of valuation, but, on the contrary, the product of a discrepancy in valuation.

The characteristic feature of the market price is that it tends to equalize supply and demand. Any deviation of a market price from the height at which supply and demand are equal is—in the unhampered market—self-liquidating.

At times governments have resorted to maximum prices, at other times to minimum prices for various commodities. At times they have decreed maximum wage rates, at other times minimum wage rates. It is only with regard to interest that they have never had recourse to minimum rates; when they have interfered, they have always decreed maximum interest rates. They have always looked askance upon saving, investing, and moneylending.

But if the government fixes prices at a height different from what the market would have fixed if left alone, this equilibrium of demand and supply is disturbed. Then there are—with maximum prices—potential buyers who cannot buy although they are ready to pay the price fixed by the authority, or even a higher price [i.e., demand exceeds supply]. Then there are—with minimum prices—potential sellers who cannot sell although they are ready to sell at the price fixed by the authority, or even at a lower price [i.e., supply exceeds demand]. The price can no longer segregate those potential buyers and sellers who can buy and sell from those who cannot. If the authority does not want chance or violence to determine the allocation of the supply available, and conditions to become chaotic, it must itself regulate the amount which each individual is permitted to buy. It must resort to rationing.

Before the government interfered, the goods concerned were, in the eyes of the government, too dear. As a result of the maximum price their supply dwindles or disappears altogether. The government interfered because it considered these commodities especially vital, necessary, indispensable. But its action curtailed the supply available. It is therefore, from the point of view of the government, absurd and nonsensical. A government can no more determine prices than a goose can lay hen's eggs.

If the government is unwilling to acquiesce in this undesired and undesirable outcome and goes further and further, if it fixes the prices of all goods and services and obliges all people to continue producing and working at these prices and wage rates, it eliminates the market altogether. Then the planned economy, socialism of the German *Zwangswirtschaft* pattern, is substituted for the market economy.

Prices are by definition determined by peoples' buying and selling or abstention from buying and selling. They must not be confused with fiats issued by governments or other agencies enforcing their orders by an apparatus of coercion and compulsion.

Prices are a market phenomenon. They are generated by the market process and are the pith of the market economy. There is no such thing as prices outside the market. Prices cannot be constructed synthetically, as it were.

The very idea of cost prices is unrealizable. The reason why the price of Burgundy is higher than that of Chianti is not the higher price of the vineyards of Burgundy as against those of Tuscany. The causation is the other way around. Because people are ready to pay higher prices for Burgundy than for Chianti, winegrowers are ready to pay higher prices for the vineyards of Burgundy than for those of Tuscany.

Prices of the market are the ultimate fact for economic calculation. Attempts to eliminate monetary terms from economic calculation are delusive. No method of economic calculation is possible other than one based on money prices as determined by the market.

The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual.

PROFIT AND LOSS

Profits are the driving force of the market economy. The greater the profits, the better the needs of the consumers are supplied. For profits can only be reaped by removing discrepancies between the demands of the consumers and the previous state of production activities. He who serves the public best, makes the highest profits. In fighting profits governments deliberately sabotage the operation of the market economy.

The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expanded. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers.

There are in the market economy no conflicts between the interests of the buyers and sellers. There are disadvantages caused by inadequate foresight. It would be a universal boon if every man and all members of the market society would always foresee future conditions correctly and in time and act accordingly. However, man is not omniscient. It is wrong to look at these problems from the point of view of resentment and envy.

If profits were to be curtailed for the benefit of those whom a change in the data has injured, the adjustment of supply to demand would not be improved but impaired. If one were to prevent doctors from occasionally earning high fees, one would not increase but rather decrease the number of those choosing the medical profession.

Profit and loss are favorable to some members of society and unfavorable to others. Hence, people concluded, *the gain of one man is the damage of another; no man profits but by the loss of others*. This dogma is at the bottom of all modern doctrines teaching that there prevails, within the frame of the market economy, an irreconcilable conflict among the interests of any nation and those of all other nations. It is entirely wrong with regard to any kind of entrepreneurial profit or loss.

What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The doctor's gain is not an outcome of the epidemics, but the aid he gives to those afflicted.

An excess of the total amount of profits over that of losses is a proof of the fact that there is economic progress and improvement in the standard of living of all strata of the population. The greater this excess is, the greater is the increment in general prosperity. Entrepreneurial profits and losses are essential phenomena of the market economy. There cannot be a market economy without them.

It is absurd to speak of a "rate of profit" or a "normal rate of profit." Profit is not related to or dependent on the amount of capital employed by the entrepreneur. Capital does not "beget" profit. Profit and loss are entirely determined by the success or failure of the entrepreneur to adjust production to the demand of the consumers. Entrepreneurial profits are not a lasting phenomenon but only temporary. There prevails an inherent tendency for profits and losses to disappear.

The entrepreneurial function, the striving of entrepreneurs after profits, is the driving power in the market economy. Profit and loss are the devices by means of which the consumers exercise their supremacy on the market. The behavior of the consumers makes profits and losses appear and thereby shifts ownership of the means of production from the hands of the less efficient into those of the more efficient.

Production for profit is necessarily production for use, as profits can only be earned by providing the consumers with those things they most urgently want to use.

PUBLIC OPINION

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history.

New ideas and innovations are always an achievement of uncommon men. But these great men cannot succeed in adjusting social conditions to their plans if they do not convince public opinion.

Capitalism gave the world what it needed, a higher standard of living for a steadily increasing number of people. But the liberals, the pioneers and supporters of capitalism, overlooked one essential point. A social system, however beneficial, cannot work if it is not supported by public opinion. They did not anticipate the success of the anticapitalistic propaganda.

REASON

Man has only one tool to fight error: reason. Man uses reason in order to choose between the incompatible satisfactions of conflicting desires.

Reason is an ultimate given and cannot be analyzed or questioned by itself. The very existence of human reason is a non-rational fact. The only statement that can be predicated with regard to reason is that it is the mark that distinguishes man from animals and has brought about everything that is specifically human.

To those pretending that man would be happier if he were to renounce the use of reason and try to let himself be guided by intuition and instincts only, no other answer can be given than an analysis of the achievements of human society. In describing the genesis and working of social cooperation, economics provides all the information required for an ultimate decision between reason and unreason. If man considers freeing himself from the supremacy of reason, he must know what he will have to forsake.

Reasoning and scientific inquiry can never bring full ease of mind. He who seeks this must apply to faith and try to quiet his conscience by embracing a creed or a metaphysical doctrine.

RELIGION

Praxeology and economics are not qualified to deal with the transcendent and metaphysical aspects of any doctrine. But, on the other hand, no appeal to any religious or metaphysical dogmas or creeds can invalidate the theorems and theories concerning social cooperation as developed by logically correct praxeological reasoning.

It would, however, be a serious mistake to conclude that the sciences of human action, and the policy derived from their teachings, are antitheistic and hostile to religion. They are radically opposed to all systems of theocracy. But they are entirely neutral with regard to religious beliefs which do not pretend to interfere with the conduct of social, political and economic affairs.

Liberalism puts no obstacles in the way of a man eager to adjust his personal conduct and his private affairs according to the mode in which he individually or his church or denomination interprets the teachings of the Gospels. But it is radically opposed to all endeavors to silence the rational discussion of problems of social welfare by an appeal to religious intuition and revelation.

In the liberal opinion the aim of the moral law is to impel individuals to adjust their conduct to the preservation of peaceful, social cooperation and to the improvement of interhuman relations. Liberals welcome the support which religious teachings may give to those moral precepts of which they themselves approve, but they are opposed to all those norms which are bound to bring about social disintegration from whatever source they may stem.

SCIENCE

The end of science is to know reality. Science always is and must be rational. It is the endeavor to attain a mental grasp of the phenomena of the universe by a systematic arrangement of the whole body of available knowledge.

Natural science does not render the future predictable. It makes it possible to foretell the results to be obtained by definite actions. But it leaves unpredictable two spheres; that of insufficiently known natural phenomena and that of human acts of choice. Our ignorance with regard to these two spheres taints all human actions with uncertainty.

The sciences of human action differ radically from the natural sciences. Authors eager to construct an epistemological system of the sciences of human action according to the pattern of the natural sciences err lamentably.

The real thing which is the subject matter of praxeology, human action, stems from the same source as human reasoning. Action and reason are congeneric and homogeneous; they may even be called two different aspects of the same thing. That reason has the power to make clear through pure ratiocination the essential features of action is a consequence of the fact that action is an offshoot of reason. The theorems attained by correct praxeological reasoning are perfectly certain and incontestable, like the correct mathematical theorems.

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.

It is quite obvious that our economic theory is not perfect. There is no such thing as perfection in human knowledge, nor for that matter in any other human achievement. Omniscience is denied to man. The most elaborate theory that seems to satisfy completely our thirst for knowledge may one day be amended or supplanted by a new theory. Science does not give us absolute and final certainty. It only gives us assurance within limits of our mental abilities and the prevailing state of scientific thought. A scientific system is but one station in an endlessly progressing search for knowledge.

But to acknowledge these facts does not mean that present-day economics is backward. It merely means that economics is a living thing—and to live implies both imperfection and change.

Science's contribution to life and action does not consist in establishing value judgments, but in clarification of the conditions under which man must act and in elucidation of the effects of various modes of action.

SELFISHNESS

What a man does is always aimed at an improvement of his own state of satisfaction. In this sense—and in no other—we are free to use the term selfishness and to emphasize that action is necessarily always selfish. Even an action directly aiming at the improvement of other people's conditions is selfish. The actor considers it as more satisfactory to himself to make other people eat than to eat himself. His uneasiness is caused by the awareness that other people are in want.

Whereas in a capitalist society selfishness incites everyone to the utmost diligence, in a socialist society it makes for inertia and laxity. The socialists may still babble about the miraculous change in human nature that the advent of socialism will effect, and about the substitution of lofty altruism for mean egotism. But they must no longer indulge in fables about the marvelous effects the selfishness of each individual will bring. Under such a socialist mode of production all personal incentives which selfishness provides under capitalism are removed, and a premium is put upon laziness and negligence.

The notions of selfishness and unselfishness as employed in such reasoning are self-contradictory and vain.

The politician is always selfish no matter whether he supports a popular program in order to get an office or whether he firmly clings to his own—unpopular—convictions and thus deprives himself of the benefits he could reap by betraying them.

SEX

We interpret animal behavior on the assumption that the animal yields to the impulse which prevails at the moment.

But it is different with man. Man is a being capable of subduing his instincts. A man does not ravish every female that stirs his senses; he does not devour every piece of food that entices him; he does not knock down every fellow he would like to kill. He arranges his wishes and desires into a scale, he chooses; in short, he acts.

Acting man rationalizes the satisfaction of his sexual appetites. Their satisfaction is the outcome of a weighing of pros and cons. Man does not blindly submit to a sexual stimulation like a bull; he refrains from copulation if he deems the costs—the anticipated disadvantages—too high. In this sense we may apply the term *moral restraint.*

Rationalization of sexual intercourse involves the rationalization of proliferation. Methods of rationalizing the increase of progeny were adopted which were independent of abstention from copulation. People resorted to the egregious and repulsive practices of exposing or killing infants and of abortion. Finally they learned to perform the sexual act in such a way that no pregnancy results.

Social cooperation is impossible if people give rein to the natural impulse of proliferation. In restricting procreation man adjusts himself to the natural conditions of his existence. The rationalization of the sexual passions is an indispensable condition of civilization and societal bonds. Its abandonment would in the long run not increase but decrease the numbers of those surviving, and would render life for everyone as poor and miserable as it was many thousands of years ago for our ancestors.

It is not the practice of birth control that is new, but merely the fact that it is more frequently resorted to. Especially new is the fact that the practice is no longer limited to the upper strata of the population, but is common to the whole population. For it is one of the most important social effects of capitalism that it deproletarianizes all strata of society. It raises the standard of living of the masses of manual workers to such a height that they too turn into "bourgeois" and think and act like well-to-do burghers. Eager to preserve their standard of living for themselves and their children, they embark upon birth control. With the spread and progress of capitalism, birth control becomes a universal practice. 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.

SOCIALISM

Private ownership of the means of production (market economy or capitalism) and public ownership of the means of production (socialism or communism or "planning") can never be confounded with one another; they cannot be mixed or combined; no gradual transition leads from one of them to the other; they are mutually incompatible. With regard to the same factors of production there can only exist private control or public control.

In the first case there is a market, there are market prices for all factors of production, and economic calculation is possible. In the second case all these things are absent. It is vain to comfort oneself with the hope that the organs of the collective economy will be "omnipresent" and "omniscient." We do not deal in praxeology with the acts of the omnipresent and omniscient Deity, but with the actions of men endowed with a human mind only. Such a mind cannot plan without economic calculation.

A socialist system with a market and market prices is as self-contradictory as is the notion of a triangular square. The essential mark of socialism is that *one will* alone acts. It is immaterial whose will it is. The director may be an anointed king or a dictator, ruling by virtue of his *charisma,* he may be a Führer or a board of Führers appointed by the vote of the people. The main thing is that the employment of all factors of production is directed by one agency only. One will alone chooses, decides, directs, acts, gives orders. All the rest simply obey orders and instructions. Organization and a planned order are substituted for the "anarchy" of production.

When the socialists declare that "order" and "organization" are to be substituted for the "anarchy" of production, conscious action for the alleged planlessness of capitalism, true cooperation for competition, production for use for production for profit, what they have in mind is the substitution of the exclusive and monopolistic power of only *one* agency for the infinite multitude of the plans of individual consumers and those attending to the wishes of the consumers, the entrepreneurs and capitalists. The essence of socialism is the entire elimination of the market and of catallactic competition. The socialist system is a system without a market or market prices for the factors of production, and without competition; it means the unrestricted centralization and unification of the conduct of all affairs in the hands of one authority.

In the market society there are money prices. Economic calculation is calculation in terms of money prices. The various quantities of goods and services enter into this calculation with the amount of money for which they are bought and sold on the market or for which they could prospectively be bought and sold. It is a fictitious assumption that an isolated self-sufficient individual or the general manager of a socialist system could calculate. There is no way which could lead one from the money computation of a market economy to any kind of computation in a nonmarket system. Eliminate economic calculation and you have no means of making a rational choice between various alternatives.

Private ownership of the means of production is the fundamental institution of the market economy. It is the institution which characterizes the market economy as such. Where it is absent, there is no question of a market economy.

In an economic system in which there is no private ownership of the means of production, no market, and no prices for goods, the concepts of capital and income are mere academic postulates devoid of any practical application. In a socialist economy there are capital goods but no capital.

The notion of capital makes sense only in the market economy. It serves the deliberations and calculations of individuals or groups of individuals operating on their own account in such an economy. It is a device of capitalists, entrepreneurs, and farmers eager to make profits and to avoid losses. Profit tells the entrepreneur that the consumers approve of his ventures; loss, that they disapprove.

The problem of socialist economic calculation is precisely this: that in the absence of market prices for the factors of production, a computation of profit or loss is not feasible. The paradox of "planning" is that it cannot plan, because of the absence of economic calculation. What is called a planned economy is no economy at all. It is just a system of groping in the dark.

Socialism cannot be realized because it is beyond human power to establish it as a social system. The choice is between capitalism and chaos. A man who chooses between drinking a glass of milk and a glass of potassium cyanide does not choose between two beverages; he chooses between life and death. A society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and the disintegration of society.

SOCIETY

Society is joint action and cooperation in which each participant sees the other partner's success as a means for the attainment of his own. Social cooperation has nothing to do with personal love or a general commandment to love one another. People do not cooperate because they love or should love one another. They cooperate because this best serves their own interest.

The advantages derived from peaceful cooperation and the division of labor are universal. They immediately benefit every generation, and not only later descendants. For what the individual must sacrifice for the sake of society he is amply compensated by greater advantages. His sacrifice is only apparent and temporary; he foregoes a smaller gain in order to reap a greater one later.

SPECULATION

There are in this world no such things as stability and security and no human endeavors are powerful enough to bring them about. Every action refers to an unknown future. It is in this sense always a risky speculation.

Man is faced with the fact that there are fellow men acting on their own behalf as he himself acts. The necessity to adjust his actions to other people's actions makes him a speculator for whom success or failure depend on his greater or lesser ability to understand the future. Every action is a speculation. There is in the course of human events no stability and consequently no safety.

Capitalists, landowners and laborers are by necessity speculators. So is the consumer in providing for anticipated future needs. There's many a slip 'twixt cup and lip.

A capitalist is always also virtually an entrepreneur and speculator. He always runs the chance of losing his funds. There is no such thing as a perfectly safe investment. If it were possible to calculate the future state of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit.

The fact that the term "speculator" is today used only with an opprobrious connotation clearly shows that our contemporaries do not even suspect in what the fundamental problem of action consists.

STATISTICS

Statistics is a method for the presentation of historical facts. It is not economics and cannot produce economic theorems and theories.

There is no such thing as quantitative economics. All economic quantities we know about are data of economic history.

Reasonable businessmen are fully aware of the uncertainty of the future. They realize that economists do not dispense any reliable information about things to come and that all they provide is interpretation of statistical data referring to the past. For capitalists and entrepreneurs the economists' opinions about the future count only as questionable conjectures.

The pretentious solemnity which statisticians and statistical bureaus display in computing indexes of purchasing power and cost of living is out of place. A judicious housewife knows much more about the price changes as far as they affect her own household than the statistical averages can tell. She has little use for computations disregarding changes both in quality and in the amount of goods which she is permitted to buy at the prices entering into the computation. In practical life nobody lets himself be fooled by index numbers. Nobody agrees with the fiction that they are to be considered as measurements.

TARIFFS

The interests of every firm can be favored by all kinds of privileges granted to it by government. But if privileges are granted to the same extent also to other firms, every businessman loses—not only in his capacity as a consumer, but also in his capacity as a buyer of raw materials, half-finished products, machines and other equipment—on the one hand as much as he profits on the other. Selfish group interests may impel a man to ask for protection for his own firm. They can never motivate him to ask for universal protection for all firms if he is not sure to be protected to a greater extent than the other industries or enterprises.

If everybody is protected to the same extent, everybody not only loses as consumer as much as he gains as producer. Everybody, moreover, is harmed by the general drop in the productivity of labor which the shifting of industries from more favorable to less favorable locations brings about.

The only effect of protection is to

divert production from those places in which it could produce more per unit of capital and labor expended to places in which it produces less. It makes people poorer, not more prosperous.

TAXES

The idea of social justice implied in the ability-to-pay principle is that of perfect financial equality of all citizens. The only logical stopping place of the ability-to-pay doctrine is at the complete equalization of incomes and wealth by confiscation of all incomes and fortunes above the lowest amount in the hands of anyone.

Continuous change and the inequality of wealth and income are essential and necessary features of the market economy. In the frame of such a system no tax can be neutral. The very idea of a neutral tax is as unrealizable as that of neutral money.

Discriminating taxes levied upon corporations would, if raised above a certain limit, result in the total disappearance of corporations and big business. Capital levies, inheritance and estate taxes, and income taxes are similarly self-defeating if carried to extremes.

If taxes grow beyond a moderate limit, they cease to be taxes and turn into devices for the destruction of the market economy. The more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Every specific tax, as well as the nation's whole tax system, becomes self-defeating above a certain height of rates.

Taxes are necessary. But the system of discriminatory taxation universally accepted under the misleading name of progressive taxation of income and inheritance is not a mode of taxation. It is rather a mode of disguised expropriation of the successful capitalists and entrepreneurs. It can best be considered a means of bringing about socialism.

Henceforth, governments will have to realize that one dollar cannot be spent twice, and that the various items of government expenditure are in conflict with one another. Every penny of additional government spending will have to be collected from precisely those people who hitherto have been intent upon shifting the main burden to other groups. Those anxious to get subsidies will themselves have to foot the bill.

THEORY

The ultimate yardstick of an economic theorem's correctness or incorrectness is solely reason unaided by experience.

There is no such thing as a mere recording of unadulterated facts apart from any reference to theories. As soon as two events are recorded together or integrated into a class of events, a theory is operative. The question whether there is any connection between them can only be answered by a theory, i.e., in the case of human action by praxeology.

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 facts would be nothing more than a collection of unconnected data open to any arbitrary interpretation.

Logical thinking and real life are not two separate orbits. Logic is for man the only means to master the problems of reality. What is contradictory in theory is no less contradictory in reality.

It is a poor makeshift to dispose of a theory by referring to its historical background, to the "spirit" of its time, to the material conditions of the country of its origin, and to any personal qualities of its authors. A theory is either correct or incorrect. It may happen that the present state of our knowledge does not allow a decision with regard to its correctness or incorrectness. But a theory can never be valid for a bourgeois or an American if it is invalid for a proletarian or a Chinese.

The very fact that there are intolerant governments and political parties intent upon outlawing and exterminating dissenters, is a proof of the excellence of reason. It is not a conclusive proof of a doctrine's correctness that its adversaries use the police, the hangman, and violent mobs to fight it. But it is a proof of the fact that those taking recourse to violent oppression are in their subconsciousness convinced of the untenability of their own doctrines.

TIME

Men value fractions of time of the same length in a different way according as they are nearer or remoter from the instant of the actor's decision. Acting man does not appraise time periods merely with regard to their dimension. His choices regarding the removal of future uneasiness are directed by the categories *sooner* and *later*.

The economization of time is independent of the economization of economic goods and services. The value of time, i.e., time preference or the higher valuation of want-satisfaction in nearer periods of the future as against that in remoter periods, is an essential element in human action. It determines every choice and every action. The time element is instrumental in the formation of all prices of all commodities and services.

The social process of production never stops. At each instant numberless processes are in progress some of which are nearer to, some remoter from, the achievement of their special tasks.

Every single performance in this ceaseless pursuit of wealth production is based upon the saving and the preparatory work of earlier generations. We are the lucky heirs of our fathers and forefathers whose saving has accumulated the capital goods with the aid of which we are working today.

Capital goods—the factors of further production produced in the past—are not an independent factor. They are the joint products of the cooperation of the two original factors—nature and labor—expended in the past. They have no productive power of their own. Nor is it correct to call capital goods labor and nature stored up. They are rather labor, nature, and time stored up. The difference between production without the aid of capital goods and that assisted by the employment of capital goods consists in time.

For success in entrepreneurial activities, mere anticipation of the direction in which the market will react to a certain event is of little significance if it is not supplemented by an adequate anticipation of the length of the various adjustment periods involved. Most of the mistakes committed by entrepreneurs in the conduct of affairs and most of the blunders vitiating the prognoses of future business trends on the part of "expert" forecasters are caused by errors concerning the length of adjustment periods. There is in the course of a man's life a right moment for everything as well as a *too early* and a *too late*.

UNDERDEVELOPED NATIONS

The fact that the standard of living of the average American worker is incomparably more satisfactory than that of the average Hindu worker, that in the United States hours of work are shorter and children sent to school and not to the factories, is not an achievement of the government and the laws of the country. It is the outcome of the fact that the capital invested per head of the employees is much greater than in India and that consequently the marginal productivity of labor is much higher. This is not the merit of "social policies"; it is the result of the laissez faire methods of the past which abstained from sabotaging the evolution of capitalism. It is this laissez faire that the Asiatics must adopt if they want to improve the lot of their peoples.

It is false to blame the European powers for the poverty of the masses in their former colonial empires. In investing capital the foreign rulers did all they could do for an improvement in material well-being.

Economic backwardness in a foreign country, endowed by rich natural resources, hurts the interests of all those whose standard of living could be raised if a more appropriate mode of utilizing this natural wealth were adopted.

The conflict between the have-nots and the haves is a real conflict. But it is present only in a world in which any sovereign government is free to hurt the interests of all peoples—its own included—by depriving the consumers of the advantages a better exploitation of this country's resources would give them. It is not sovereignty as such that makes for war, but sovereignty of governments not entirely committed to the principles of the market economy.

The principle of each nation's unrestricted sovereignty is *in a world of government interference with business,* a challenge to all other nations.

UNEMPLOYMENT

The worker looks upon unemployment as an evil. He would like to avoid it provided the sacrifice is not too grievous. He chooses between employment and unemployment in the same way in which he proceeds in all other actions and choices: he weighs the pros and cons. If he chooses unemployment this unemployment is a market phenomenon whose nature is not different from other market phenomena as they appear in a changing market economy. We may call this kind of unemployment market-generated or *catallactic unemployment.*

Catallactic unemployment must not be confused with *institutional unemployment.* Institutional unemployment is not the outcome of the decisions of individual job-seekers. It is the effect of interference with the market phenomena intent upon enforcing by coercion and compulsion wage rates higher than those the unhampered market would have determined.

Real wage rates can rise only to the extent that, other things being equal, capital becomes more plentiful. If the government or the unions succeed in enforcing wage rates which are higher than those the unhampered market would have determined, the supply of labor exceeds the demand for labor. Institutional unemployment emerges.

Firmly committed to the principles of interventionism, governments try to check this undesired result of their interference by resorting to those measures which are nowadays called full-employment policy: unemployment doles, arbitration of labor disputes, public works by means of lavish public spending, inflation and credit expansion. All these remedies are worse than the evil they are designed to remove.

Assistance granted to the unemployed does not dispose of unemployment. It makes it easier for the unemployed to remain idle. The nearer the allowance comes to the height at which the unhampered market would have fixed the wage rate, the less incentive it offers to the beneficiary to look for a new job. It is a means of making unemployment last rather than of making it disappear. The disastrous financial implications of unemployment benefits are manifest.

On the unhampered market there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers [get] as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work.

Unemployment in the unhampered market is always vountary.

VALUE

Value is not intrinsic, it is not in things. It is within us; it is the way in which man reacts to the conditions of his environment. Different people and the same people at different times value the same objective facts in a different way.

Valuation can only arrange goods in scales of preference. It can never attach to a good something that could be called a quantity or magnitude of value.

An inveterate fallacy asserted that things and services exchanged are of equal value. Value was considered as objective, as an intrinsic quality inherent in things and not merely as the expression of various people's eagerness to acquire them.

The basis of modern economics is the cognition that it is precisely the disparity in the value attached to the objects exchanged that results in their being exchanged. 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.

Economic calculation always deals with prices, never with values. To prefer and to set aside and the choices and decisions in which they result are not acts of measurement. Action does not measure utility or value; it chooses between alternatives.

WAGES

Wages are the price paid for the wage earner's achievement, i.e., for the contribution of his efforts to the processing of the good concerned or, as people say, for the value which his services add to the value of the materials. No matter whether there are time wages or piecework wages, the employer always buys the worker's performance and services, not his time.

Every employer must aim at buying the factors of production needed, inclusive of labor, at the cheapest price. An employer who paid more than agrees with the market price of the services his employees render him, would soon be removed from his entrepreneurial position. On the other hand an employer who tried to reduce wage rates below the height consonant with the marginal productivity of labor would not recruit the type of men that the most efficient utilization of his equipment requires.

The entrepreneurs are not merely faced with a shortage of "labor in general," but with a shortage of those specific types of labor they need for their plants. The competition among the entrepreneurs in bidding for the most suitable hands is no less keen than their competition in bidding for the required raw materials, tools, and machines and in their bidding for capital on the capital and loan market.

In the market economy the worker sells his services as other people sell their commodities. The employer is not the employee's lord. He is simply the buyer of services which he must purchase at their market price.

The only real and effective protection of the wage earner in the market economy is provided by the play of the factors determining the formation of prices. The market makes the worker independent of arbitrary discretion on the part of the employer and his aides. The workers are subject only to the supremacy of the consumers as their employers are too. In determining, by buying or abstention from buying, the prices of products and the employment of factors of production, consumers assign to each kind of labor its price in the market.

An employer cannot grant favors at the expense of his customers. He cannot pay wage rates higher than those determined by the market if the buyers are not ready to pay proportionately higher prices for commodities produced in plants in which wage rates are higher than in other plants.

On the unhampered labor market, wage rates always tend toward the height at which they equal the marginal productivity of each kind of labor, that is the height that equals the value added to or substracted from the value of the product by the employment or discharge of a man.

Wage rates are ultimately determined by the value which the wage earner's fellow citizens attach to his services and achievements. Labor is appraised like a commodity, not because the entrepreneurs and capitalists are hardhearted and callous, but because they are unconditionally subject to the supremacy of the consumers.

WAR

Our age is full of conflicts which generate war. However, these conflicts do not spring from the operation of the unhampered market society. It is not capitalism that produces them, but precisely the anticapitalist policies designed to check the functioning of capitalism. They are an outgrowth of the various governments' interference with business, of trade and migration barriers and discrimination against foreign labor, foreign products, and foreign capital.

In the long run war and the preservation of the market economy are incompatible. Capitalism is essentially a scheme for peaceful nations. 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.

It may be admitted that it is not "fair" that war enhances the profits of those entrepreneurs who contribute best to the equipment of the fighting forces. But it would be foolish to deny that the profit system produces the best weapons. It was not socialist Russia that aided capitalist America with lend-lease; the Russians were lamentably defeated before American-made bombs fell on Germany and before they got arms manufactured by American big business.

Aggressive nationalism is the necessary derivative of the policies of interventionism and national planning. While laissez faire eliminates the causes of international conflict, government interference with business creates conflicts for which no peaceful solution can be found.

There are within the unhampered market society no conflicts of the rightly understood interests. The interests of the citizens are not opposed to those of the nation, the interests of each nation are not opposed to those of other nations.

It is futile to place confidence in treaties, conferences, and such bureaucratic outfits as the League of Nations and the United Nations. Plenipotentiaries, office clerks and experts make a poor show in fighting ideologies. The spirit of conquest cannot be smothered by red tape. What is needed is a radical change in ideologies and economic policies.

Human Action Reappraised

For the past 31 years, *The Freeman* has featured *A Reviewer's Notebook* by John Chamberlain. So, it is altogether fitting and proper that he be asked to review now what he said in review of *Human Action* when it was first published.

IT takes a long time for chickens to come home to roost. Thirty-one years ago I was asked to review Ludwig von Mises' gigantic *Human Action*, then just published by the Yale University Press. I took on the job with some misgivings—it represented a month's work compressed into a week's time to give the book even a cursory reading. But I remember the immense satisfaction that it gave me. For the first time I saw the nature of our epoch with what I felt was absolute clarity. True, a couple of women writers, Isabel Paterson and Rose Wilder Lane, had indicated the fallibility of the New Deal approach (I remember being impressed with Mrs. Paterson's dictum that if you were going to give J. P. Morgan the RFC you couldn't deny the little man his dole.) But Mises laid it all out on the table, making the first great case against so-called entitlements that I had seen.

I began my review with a description of the epoch of the Great Grouse, the complainer who seemed to dominate Harry Truman's Washington. Virtually everybody (I wrote) wants something out of the blue: a pension without contributing to it, a subsidy without incurring a tax, ease without prior effort, Heaven without fighting sin. I spoke of the politician, ever wary of the stir of desire at the grassroots, hastening to make his constituents happy by removing the cause of the Grouse. But the grousing, I observed, went on, with people doubling their complaints.

Envy, I said, was the most catching of emotions—and if one man or group or class could have a subsidy there was no reason why everyone else wasn't entitled to his own largesse. The result was self-defeating; when everybody was getting his, nobody was better off. Indeed, everybody outside the governing bureaucracy was worse off—there had to be a skimming to support a burgeoning state apparatus that made no contribution to primary production. With less to go around for grousers, the poverty could be shared, but hope had to be deferred for the naturally energetic individual, and progress tended to stop.

A Matter of Choice

The foregoing was more or less my paraphrase of what Mises had set forth in *Human Action*. He put it in more classic economic language, telling of how state interventionism ran to crisis, provoking piecemeal socialism that led on to socialist centralization and eventually to tyranny or apathy or a combination of the two. I felt a willingness to grant Mises his terms, even the use of the word "praxeology" as the study of what happens when human beings exercise choice. Mises, with his theory that every human choice, whether strictly economic or not, had an effect on prices (if you suddenly take to the ascetic life you may leave more in the market at least momentarily for others), seemed to be placing the free market in the foreground of a much wider philosophical picture. Civil liberties seemed to flow naturally from the Misesian view—to be philosophically consistent a free enterpriser had to be willing to grant a freedom of choice to blacks who wanted to ride in Pullmans.

Human Action by Ludwig von Mises. Published by Contemporary Books, Inc., 180 North Michigan Avenue, Chicago, Illinois 60601.
907 pages ■ $35.00 cloth

I do recall looking figuratively over my shoulder at my liberal friends and caviling at Mises' uncompromising use of the term "laissez faire." The phrase, I wrote, must be scrubbed clean of past associations if it were ever to be truly useful again. To Americans who read Arthur Schlesinger, Jr., or Charles A. Beard, laissez faire meant what Jay Gould and Jim Fisk practiced when they milked the Erie Railroad; it was a verbal cloak used by Smoot-Hawley tariff snatchers when they talked to their Rotary Club. Today I would use the phrase unapologetically—we can assume that it has been rehabilitated.

I still think, however, that Mises was mistaken in his attack on the idea of natural law, with its corollary of natural rights. It seemed to me in 1950 that the whole Misesian system of economics depended on the ability of human beings to discover the natural rules to which positive, or man-made, law must correspond if man is not to do violence to himself. A natural law is not something that came on tablets from Sinai; it is merely a true statement of the way things work out. A society that denies the property right will, as a result of the natural action that Mises described in his famous *Socialism,* ultimately find itself without an ability to calculate and to trade intelligently. The natural law of socialism is that it must create a world without signposts. Mises was the first economist to understand this—and the great value of his work is that it shows, in elaborate detail, just how and why an interventionist government, by infringing natural rights, leads to an impoverished society.

Signs of Progress

How far have we come in thirty-one years toward catching up with the truths of *Human Action?* There is much more general understanding of the Misesian system. Every year four or five distinguished champions of freedom hie themselves to Hillsdale College in Michigan, the repository of Mises' extensive library, to take an invited part in a Ludwig von Mises Lecture Series. Free market economists—F. A. Hayek and Milton Friedman—have won Nobel Prizes. "Austrian" economics is no longer a pariah study, and the so-called monetarists (not quite ready to accept an official return to the gold standard) are everywhere. The supply-siders owe much to Mises' brilliant explanation of Say's Law of Markets which Harry Hazlitt, with an air of triumph, brought into *The Freeman* office for publication thirty years ago.

But if we have reached a turn in 1981 with the timid spending cuts that leave us some thirty billion dollars short of a balanced budget, we still have a long way to travel. David Stockman, the budget management man, has been condemned as a cold-hearted fellow for saying that, strictly speaking, the government owes nobody an "entitlement." Jack Kemp, to justify his proposed tax cuts politically, had to evolve the figure of the "safety net"—meaning that government must remain responsible for a citizen's minimum needs.

Abroad, the British Misesians have not been able to shake the labor unions out of their cradle-to-grave Fabianism. And the French, with the socialist Mitterrand plugging for more nationalized industries and a higher compulsory minimum wage, are about to embark on a seven-year period of retrogression.

Still, we make an undeniable

progress. Where the Soviets sent tanks into Czechoslovakia at the drop of a hat, they have hesitated about Poland. Where positive law goes flagrantly against the natural laws of economics, we get fascinating developments in the underground economy. The Italians will soon be teaching Mitterrand's Frenchmen some new tricks about moonlighting. And with moonlighting, the more computers we build, the less reliable is the statistical stuff that goes into them.

Luckily for the Misesians, Austrian economics is not econometric—and the computer, though useful, is not essential to its teaching.