

the  
**Freeman**

Ideas on Liberty

SEPTEMBER 1981

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*The Wisdom of  
Ludwig von Mises  
Born September 29, 1881  
Died October 10, 1973*



# Human Action

Ludwig von Mises

Although Mises wrote numerous books, *Human Action* is his *magnum opus*, the distillation of all his thought and learning. While it is a broadly philosophical work and deals incisively with many branches of knowledge, all this is brought to bear on its object, economics: human action in the sense that individuals have goals and act to attain them.

The book first appeared in English in 1949 and is published by Contemporary Books, Inc., 180 North Michigan Ave., Chicago, Illinois 60601.

It is also available and may be ordered from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

**907 pages, fully indexed \$35.00**

## the Freeman

This September 1981 issue of *The Freeman* is devoted entirely to celebration of the centennial of the birth of Ludwig von Mises on September 29, 1881. Most of the issue consists of excerpts from *Human Action* selected and arranged by one of Mises' former students, George Koether.

Additional copies of this special issue are available at 3 for \$1.00; 25 cents each for 10 or more. Order from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

# the Freeman

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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.

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Bureaucracy	Intervention	Selfishness
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# the Freeman

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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.



# *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

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## ACCOUNTING

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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.

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## ADVERTISING

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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 candle-makers hold the field against the

electric bulb, the horsedriviers 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.

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## BANKING

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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.

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## BOOM AND BUST

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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 absten-

tion 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.

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## BUREAUCRACY

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*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 de-

partment'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.

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

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## CAPITAL

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From the notion of capital goods one must clearly distinguish the concept of capital. The concept of capital is

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.

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## CAPITALISM

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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.

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## CHARITY

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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.

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## COMPETITION

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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.

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## DEBT

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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 contrib-

utes 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.

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## DEVALUATION

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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.

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## ECONOMICS

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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.

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## EDUCATION

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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 indoctrina-

tion. 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.

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## ENTREPRENEURSHIP

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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 man-

agerial 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.

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.

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## EQUALITY

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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

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## EXCHANGE RATES

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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.

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## GOLD STANDARD

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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.

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## GOVERNMENT

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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.

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## HISTORY

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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.

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## HUMAN ACTION

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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.

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## IDEOLOGY

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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.

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## INDIVIDUALISM

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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 or-

ders 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.

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## INFLATION

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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 defla-

tion 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.

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

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## INTEREST

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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

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.

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## INTERVENTION

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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 capital-

ism, 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.

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## INVESTMENT—DOMESTIC

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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 en-

tirely, 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.

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## INVESTMENT—FOREIGN

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Under the conditions of the latter nineteenth century it did not matter whether or not a nation was prepared and equipped with the re-

quired 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.

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## LABOR UNIONS

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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 super-

fluous. 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.

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## LAISSEZ FAIRE

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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 govern-

ment 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?

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## LAND REFORM

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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.

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## MACHINES

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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."

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## THE MARKET

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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.

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## MATHEMATICS AND ECONOMICS

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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 be-

tween 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 substi-

tute 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.

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## MONEY

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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

































































