Study Guide to *Human Action* by Robert P. Murphy

Chapter VII. Action Within the World

Chapter Summary

1. The Law of Marginal Utility

Acting man must place all ends onto a single scale of values. If he is to choose between (say) acquiring a steak or attending the opera, he must decide which outcome yields the most utility, and thus these entirely different satisfactions must be compared according to a common denominator. Even so, action doesn't measure utility; rather, it is action that demonstrates the end most highly valued by the actor.

Even though all satisfactions are ultimately placed on a single scale of values, it is still useful to classify various means in groups that yield identical results, i.e., to classify means as units of particular goods. Note that even though successive units of a means (by definition) yield identical results, the utility of these results is not identical. Indeed, the utility of successive units of a given good decreases, because the actor will apply the additional units to ends deemed less and less urgent.

The law of decreasing marginal utility is not a physiological or psychological one, but is rooted in the very fact of action. An actor will always devote a given stock of means to attaining the highest state of satisfaction, and that is why additional units of a good will be devoted to less and less important ends (and hence will have lower marginal utility).

Marginal utility is always defined according to the subjective framework of the actor in question. The relevant "margin" is determined by the choice, not physical or otherwise "objective" constraints. There are no arithmetical operations possible with the utility ascribed to various units. It is possible that the marginal unit of water is far less valuable than the marginal unit of diamonds, even though the utility of the entire stock of water is far more valuable. Yet this latter fact is irrelevant to action, since no one is ever in the position of choosing between all the water and all the diamonds.

2. The Law of Returns

Even though all satisfactions are ultimately ranked on an ordinal scale—which is not subject to cardinal manipulation—it is still crucial for an actor to understand the quantitative causal relations of the world. When it comes to a consumer good, each unit yields the same quantity of effect; this is how the units are defined, after all. (Of course successive doses of this same quantity of effect have lower and lower utility.)

Things are more complicated when it comes to producer goods. Here a given unit of a producer good must always act in combination with at least one other producer good in order to yield a definite quantity of a consumer good. (If the higher-order good could yield the first-order good by itself with no reliance on other scarce inputs, then it would itself be a first-order good.)

With full understanding of the technological processes involved, one can compute the additional yield of output attributable to successive units of input of a particular producer good, holding the quantity of all other inputs fixed. At some finite point, an "optimum" level will be reached, in the sense that the quantity of output per unit of input (of the producer good that is being varied) is maximized. Economists often describe this as the point at which "diminishing returns" set in, meaning that further increases in the input result in proportionally smaller increases in output. The notion of diminishing returns explains why farmers must bring additional land under cultivation, rather than continually pumping more fertilizer and seeds into a given plot of land.

3. Human Labor as a Means

The employment of the powers of the human body as a means is labor. As a general rule, labor carries disutility. That is, even though actors deploy the entire available stock of other means in order to achieve the highest satisfaction, they will not devote the physiological maximum amount of labor to achieve attainable ends. On the contrary, they will refrain from possible labor in order to enjoy leisure. The economist can handle this empirical fact by acknowledging that (in this world) human actors value leisure as a consumer good. As an actor works additional hours, the disutility of labor increases because the marginal utility of the good leisure is continually rising (as the supply of leisure shrinks). At some point (usually well before the physiological maximum) the marginal utility of the physical fruits of an addition unit of labor is lower than the marginal disutility of an additional unit of labor; at this point the actor ceases to labor.

Everything that is true of a generic factor of production is hence true of labor. However, labor still receives special consideration from the economist because labor is the ultimate "nonspecific" factor; labor is required in every production process. Moreover, in our world labor is the scarcest of inputs. In a market economy with flexible wage rates, all willing laborers are channeled to those ends deemed most urgent; there is no analog to land that remains uncultivated.

Immediately Gratifying Labor and Mediately Gratifying Labor

Although many writers have misunderstood this fact, it is true that some workers derive pleasure from (usually small) applications of labor. Even so, it is still true that the vast majority of labor expended in our world involves disutility, and that no social reform can elude the fact that humans will, as a rule, choose to engage in labor past the point at which it is immediately gratifying (because they value the output more than the forfeited leisure).

The Creative Genius

Mises believes that the "output" of the creative genius cannot usefully be treated in the same framework that praxeology uses for the work of other laborers. Mises believes that a creative genius "labors" neither for immediate nor mediate gratification.

4. Production

Production is not creative; it rather transforms the given material objects of the universe into forms that are more pleasing to actors. The true creation occurs in the mind of the actor, who surveys the available means and conceives of a way to improve his condition.

Early economists classified the labor of farmers and carpenters as "productive," while those of doctors and singers as "unproductive," because of the intangible and fleeting character of the services of the latter. Modern economists laugh at such irrelevant distinctions, yet they themselves often consider advertising as "wasteful."

Why It Matters

Mises spends most of his time in section 1 guarding against the numerous fallacies and misconceptions regarding marginal utility. Mainstream economists often treated utility as a cardinal substance that could be manipulated mathematically; the utility of a stock of goods was seen as the integral of the utility of each infinitesimal unit. Other writers tried to explain decreasing marginal utility as an empirical regularity, and they pointed to the Weber-Fechner law, which demonstrated, e.g., that people need larger and larger increments of intensity in order to distinguish between brighter and brighter lights. Yet as Mises points out, the law of decreasing marginal utility is applicable to any actor, whether or not he (or it) has a body with sensory organs that operate like the typical human's.

Mises accomplishes a great deal in the space devoted to labor. He first defines labor, and explains why it deserves special treatment from the modern economist. Having said that, he explodes numerous fallacies regarding labor and how it is allegedly different from other factors of production.

Technical Notes

(1) Not only is the utility of the marginal unit subjective, but the definition of the unit itself depends on the actor and the circumstances. For example, a chemist might determine that one carton of milk contains 1.01 gallons while another contains 0.99 gallons, yet the consumer could quite properly consider them interchangeable "units of milk," each yielding the same objective services.

(2) Mises says that the "optimum" amount of input is the one that maximizes the output per unit of input (p. 127). Of course in this context "optimum" is a technological description; an actor might attain the highest utility by operating above or below this technologically "optimum" level. Also, note that the optimum level—which Mises says maximizes output per unit of input—is not the level that maximizes the marginal physical yield of the input good. (Generally speaking, the marginal physical yield will reach its maximum before Mises's "optimum" level is reached, and for some range above this amount of input the average physical yield will still rise. When the falling marginal yield "crosses" the average yield, Mises's "optimum" level is reached and then both will begin to fall as the declining marginal yield "pulls down" the average yield.)

(3) Many Austrians disagree with Mises (pp. 138–140) that the creative genius cannot be handled within the framework of praxeology. It may be true that the genius does not labor for his fellow men or even for his "output," but, even so, he acts (in composing a play, a symphony, etc.) in order to remove felt uneasiness. The fact that a creative genius may never reveal his potential if placed in adverse circumstances proves that

his creation is a choice and not a mere datum of the environment to which acting men must adapt.

Study Questions

1. The Law of Marginal Utility

- Action can only be expressed by ordinal numbers. But how are quantitative facts involved?
- What implies choice from a praxeological point of view?
- Given the following value scale:

1.	*a*	(first unit)
2.	*a*	(second unit)
3.	*b*	(first unit)
4.	*a*	(third unit)
5.	*b*	(second unit)
6.	*b*	(third unit)
7.	*a*	(fourth unit)
8.	*a*	(fifth unit)
9.	*b*	(fourth unit)

    - If the actor possesses the 9 items shown, will he prefer to lose 2 units of *a* or 1 unit of *b*?
    - If the actor already possesses 3 units of *a* and 3 units of *b*, will he prefer 1 additional unit of *a* or 1 additional unit of *b*?
    - If the actor must choose between all 5 units of *a* versus all 4 units of *b*, can we say which he will select?

- What is the definition of utility?
- What distinguishes subjective use-value from objective use-value?
- How was it possible to solve the value paradox? Who solved the problem?
- Are prices derived from subjective use-value?

- Is "total utility" relevant for praxeology?
- What can marginal utility explain that total utility can't?
- Does praxeology have a need for the notion of a "class of wants"?
- Why can't we compare valuations of different people?
- What are the flaws in Bernoulli's approach to the law of diminishing marginal utility?

2. The Law of Returns

- Why isn't a recipe considered as an economic good?
- What is the definition of the law of returns? Can we say that it is a priori true?
- Which problems can't be solved with the help of the law of returns?

3. Human Labor as a Means

- Why is labor not an end in itself? Is labor an economic good?
- What is the relation between work and leisure? Why is work linked to disutility?
- Is leisure an economic good? Can we apply the principle of marginal utility?
- How can we explain the tendency toward the reduction of working hours?
- What does "nonspecific character" mean in connection with human labor?
- Why can a shortage of specialists only emerge in the short run, according to Mises?
- In what conditions could there be an abundance of labor?
- Is labor more scarce than material factors of production? What does it mean for a market society?
- Are geniuses substitutable?

4. Production

Comment: "Man is creative only in thinking and in the realm of imagination."

- How is it erroneous to make a distinction between the employment of labor and that of material factors of production?
- Why is production an intellectual phenomenon that is guided by human reason?