

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

## Chapter XXIII. The Data of the Market

### Chapter Summary

#### 1. The Theory and the Data

The theorems of praxeology are exact; they are completely true, so long as the conditions they presuppose are present. Praxeology deals with human action as such, and does not concern itself with particulars. The fluctuating data are bodily and psychological features of acting men and women, their desires and value judgments, and the theories, doctrines, and ideologies these actors develop to purposively adjust themselves to their environment. To master the totality of reality, the mind must rely not only on praxeology, but also the understanding of history, which itself relies on the other branches of human knowledge.

#### 2. The Role of Power

Contrary to its detractors, economics does not assume that man is "free" in some metaphysical sense. Indeed it is the fact of scarcity—the fact that man is subject to external constraints on his satisfactions—that provides the impetus for action. Broadly conceived, the data of the market include the role that ideologies and coercion have on people's behavior in the marketplace. The theorems of praxeology are all still true in this environment.

#### 3. The Historical Role of War and Conquest

The theorems of catallactics apply whenever there is private ownership of the means of production, and division of labor. The existence of robbers and murderers does not refute catallactics, but merely provides data that influences prices as set on the market. Historically, those conquerors who did not embrace "bourgeois" society faded into insignificance. Plunderers require peaceful entrepreneurs to survive, but the entrepreneurs do not require plunderers.

#### 4. Real Man as a Datum

Economics deals with real men and real actions. Economics does not analyze the behavior of "economic man" or a statistically average man.

#### 5. The Period of Adjustment

The market adjusts to changes in the data, but each change sets in motion a process of adjustment that may take more or less time. The task for entrepreneurs is not merely to anticipate the direction but also the rate of the market's adjustment to new realities. The classical economists systematically studied previously unrealized long-run consequences of government interventions. Economics does not ignore the short run; a long-run analysis necessarily includes the immediate effects of a change.

## 6. The Limits of Property Rights and the Problems of External Costs and External Economies

Cases of external costs, or "negative externalities" in modern parlance, do not reflect flaws in private property, but rather loopholes in the legal system. Historically, governments granted polluters and others exemptions from legal action out of a desire to promote industrialization.

### *The External Economies of Intellectual Creation*

An extreme example of external economies is so-called "intellectual property." It is quite possible that without copyright and patent laws, authors and inventors might produce less of their materials. It is beyond the scope of catallactics to recommend where the property rights should be drawn in such matters, however.

### *Privileges and Quasi-privileges*

Legal restrictions on the market economy are not uniformly enforced and respected. If some citizens are exempt from a restriction, this is a privilege. If some citizens simply flout the laws, this is a quasi privilege. Such cases may lead to monopoly gains or differential rents.

### Why It Matters

In this short chapter, Mises explains how abstract, a priori true economic theory can be deployed to explain real actions in the real world. In so doing, he defends proper economic theory (i.e., catallactics) from typical objections. Mises also gives a brief response to the issue of externalities, one of the prime justifications for government intervention given by modern economists.

### Technical Notes

- (1) Mises claims that economics "deals with the real actions of real men. Its theorems refer neither to ideal nor to perfect men, neither to the phantom of a fabulous economic man (*homo oeconomicus*) nor to the statistical notion of an average man (*homme moyen*)" (p. 646). What Mises says is true of economics as conceived by Mises, i.e., deductive conclusions drawn from the fact of action. Many other economists did and continue to make such unrealistic models of market behavior, thus justifying some of the criticisms of "economics."
- (2) In similar fashion, Mises denies that economics ignores the short run and studies only the long-run consequences (p. 649). Yet mainstream economists often do construct models and perform "comparative statics" analyses where only the long-run equilibrium outcomes are compared when an element is tweaked.
- (3) Mises argues that government efforts to subsidize activities that yield external economies (i.e., positive externalities) will impair consumer satisfactions, because the tax monies involved will reduce consumers' ability to purchase items on the market that were profitable before the new taxes were imposed (pp. 654–655). However, a mainstream economist would argue that this "profitability" was spurious precisely

because of the positive externality, and that the diversion of more factors of production into the subsidized line increases consumer satisfaction.

## Study Questions

### 1. The Theory and the Data

- Under which conditions are catallactic insights valid?

Comment: "There is no such thing as a mere recording of unadulterated facts apart from any reference to theories."

### 2. The Role of Power

- What determines market phenomena, according to the Historical School?
- Who has the real power in market processes?

### 3. The Historical Role of War and Conquest

Comment: "The teachings of catallactics do not refer to a definite epoch of history, but to all actions characterized by the two conditions private ownership of the means of production and division of labor."

- Give an overview of the four points Mises makes in this section.

### 4. Real Man as a Datum

Comment: "There is no yardstick that a scientific investigation can apply to human action other than that of the ultimate goals the acting individual wants to realize in embarking upon a definite action."

### 5. The Period of Adjustment

- What can we say about the period of adjustment? How can we measure it?
- What does Mises think of Keynes's famous phrase "in the long run we shall all be dead"?

### 6. The Limits of Property Rights and the Problems of External Costs and External Economies

- What is the problem associated with so-called public land?
- What is the difference between the American and the European experiences with forestry?
- Is Mises for or against government grants of patents and copyrights?