

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

Chapter XIII. Monetary Calculation as a Tool of Action

Chapter Summary

1. Monetary Calculation as a Method of Thinking

Monetary calculation is the guiding principle of action in any society with a division of labor. It transforms the very thought process of anyone considering action that involves the property of others. Potential actions are evaluated on the basis of expected costs and revenues, while past actions are evaluated with the accounting of profit and loss.

Monetary calculation is not simply an outgrowth of action, however. Besides purposeful behavior, monetary calculation requires the institution of private property in the means of production, as well as a universally accepted medium of exchange (i.e., money).

Capitalism was originally a smear term for the system of free enterprise, meant to imply that this system only serves the narrow interests of the capitalists. However, the term is a good one, for the very notion of capital—of summing the market prices of the resources available for a project—is inextricably linked to monetary calculation, which itself can only occur in a capitalist society.

2. Economic Calculation and the Science of Human Action

Praxeology and economics would never have been developed were it not for the historical evolution of economic calculation. Only with money prices and the related concepts of capital, profit, and loss could the early writers have noticed patterns in commercial activity.

Why It Matters

In this very short chapter, Mises stresses the tremendous significance of economic calculation. It is not simply a habit of businesspeople, but rather a distinct mode of thinking. It is necessary for modern civilization, and the reason for the usefulness of quantitative science. However, Mises underscores the fact that calculation can only work where there is money and where goods of all orders are owned privately.

Technical Notes

- (1) Mises claims that monetary calculation is the "guiding star of action" (p. 230). However, action alone does not allow for calculation. In a socialist society or one with only barter, there would still be action—people would still adopt means to achieve ends—but there would be no true economic calculation.
- (2) Mises writes that the "measurements of physics and chemistry make sense for practical action only because there is economic calculation" (p. 231). What he means is that the knowledge of the natural sciences alone is not enough to steer the use of scarce resources. Technology may dictate several ways of using resources to yield a desired outcome, but only with money prices can the actor determine which method is "best."
- (3) One could, in principle, develop all of the theorems of praxeology without experiencing firsthand a society based on the division of labor and money prices. After all, praxeological results are true a priori. However, in practice, no intellectual would have even thought along these lines had he not grown up in a capitalist society.

Study Questions

1. Monetary Calculation as a Method of Thinking

Comment: "Monetary calculation is the guiding star of action under the social system of division of labor."

Comment: "Monetary calculation is entirely inapplicable and useless for any consideration which does not look at things from the point of view of individuals."

2. Economic Calculation and the Science of Human Action

- What is Gresham's Law?
- What is the quantity theory?