

CHAPTER 1 — FUNDAMENTALS OF HUMAN ACTION

CHAPTER SUMMARY

Praxeology is the scientific study of human action, which is *purposeful behavior*. A human *acts* whenever he uses *means* to achieve an *end* that he or she subjectively values. Human action is thus teleological or intentional; a person acts for a *reason*. Therefore not all human behavior is action in the praxeological sense: purely reflexive or unconscious bodily movements (such as coughing when exposed to tear gas) are not examples of action. Praxeology starts from the undeniable axiom that human beings exist and act, and then logically deduces implications of this fact. These deduced propositions are true *a priori*; there is no need to test them in the way that a physicist might test a proposed “law” of Nature. So long as a praxeological statement has been derived correctly, it must necessarily contain as much truth as the original axioms.

All action involves an *exchange*, or a *choice*: the actor attempts to achieve a more satisfactory state of affairs than what would have occurred had the actor chosen differently. The benefit of an action is its *psychic revenue*, while its *cost* is the value the actor places on the next-best alternative. Each actor can arrange various possible ends on a *scale of value*. This is a purely ordinal ranking, that can only show which end is first-best, second-best, and so forth. There is no sense in saying that one end is eight percent better than another, because there is no cardinal unit of happiness.

Every action involves not only a value judgment concerning different ends, but also a *belief* on the part of the actor that he possesses adequate means to achieve his desired end. (A person may prefer sunshine to rain, but this preference alone will not lead to any action if the person does not believe he has the power to change the weather.)

Only individuals can act, because only individuals have valuations and can make choices. It is thus metaphorical to say that “the people elected the president” or “Germany attacked France.” Of course, individuals may act in a particular way because of political ideas or because military generals gave certain orders; nonetheless it is always *individuals* who act.

All action takes place in *time*. We can define the time *before* a given action, the *duration* of the action, and the time *after* a given action. All action is future-oriented, in the sense that action seeks to create a more desirable future from the actor’s viewpoint. All individuals possess *time preference*, which means that they prefer a given satisfaction sooner rather than later.

Individuals make decisions *on the margin*. No one ever chooses between “diamonds” and “water.” Rather, an individual must choose between a definite amount of diamonds and a definite amount of water.

Study Guide to Rothbard's Man, Economy, and State
by Robert P. Murphy

All action involves *uncertainty* of the future. (If the future were completely known and hence determined, there would be no scope for action.) *Entrepreneurship* involves coping with this uncertainty by forecasting future conditions, and hence is implicit in every action.

CHAPTER OUTLINE

1. *The Concept of Action*

The distinctive feature of the study of man is *action*, which is *purposeful behavior*. (A falling rock is not “acting” because it doesn’t “wish” to get closer to the ground.) But the social scientist (including the economist) must impute subjective intentions to the objects of his study (i.e. acting human beings). Action must exist; if beings did not behave purposefully, they would not be human.

Praxeology is the scientific study of action. It begins with the obvious truth that action exists, because human beings exist. (If things did not behave purposefully, so that the observer could ascribe motives to the things, then they would not be classified as human.) Praxeology consists of all the propositions that can be logically derived from the action axiom. Economics is the best developed subdivision of praxeology. (NOTE: Some economic propositions require supplementary assumptions besides the action axiom.)

2. *First Implications of the Concept*

Only individuals can act. When people say things such as, “The group went to the park,” or “Germany attacked France,” this is really just a shorthand for saying that certain *individuals* performed these actions. This is purely a methodological point; it does not (as many critics falsely assert) mean that economists deny the existence of social collectives, or that economists think individuals always behave “atomistically.” Of course, a person may act differently when he is in a mob. But nonetheless even “mob behavior” is still the sum total of the behavior of each individual comprising the “mob.” A chemist can say that all matter is composed of atoms without thereby denying the existence of molecules.

A person will act only if he desires a particular state of affairs *and* only if he believes he has the capacity to bring this about. For example, a man may desire sunshine on a cloudy day, but this desire alone will not lead to any action, because the man has no idea how to change the weather.

A man uses *means* to (attempt to) achieve his ends. When a man uses a certain means for one end, then he cannot use it for some other possible end; we thus say that the means is *scarce*. In contrast, if a particular item or condition is so abundant that man is not faced with a choice in its disposal, then it is not a means but a *general condition* of the environment. (For example, air is certainly necessary for action, but we would not normally classify it as a means to an end.)

All action takes place *in time*. For any given action, we can conceive of the time before the action, the time absorbed by the action, and the time following the action. Time is scarce. The future itself is uncertain, and hence acting man must engage in

entrepreneurship by *speculating* about future conditions and the results of various possible actions.

Acting man must *rank* the possible ends in order of desirability. Because means are scarce, acting man must allocate them to fulfill his most highly ranked ends; i.e. acting man must *economize* the means. Even though a man will always dispose of his means in an attempt to achieve his most highly ranked ends, because of uncertainty the man may err.

3. *Further Implications: The Means*

The means to satisfy wants are called *goods*. Those goods that directly satisfy wants are *consumers' goods* or *goods of the first order*. Those goods that are useful only indirectly in satisfying wants are *producers' goods* or *factors of production* or *goods of higher order*. (These terms are interchangeable, depending on the context.) If a ham sandwich is the consumers' good, then the loaf of bread, labor of the housewife (in making the sandwich), and the unsliced ham would all be *first-order producers' goods*. Goods which are involved in the production of *these* goods (perhaps the labor of the store clerk in selling the loaf of bread) would be *second-order producers' goods*, and so forth.

The two *original* factors of production are *labor* and *land*. (*Land* is a technical term that includes not only land in the popular sense, but all natural resources, such as deposits of copper.) In addition to these factors we also have *capital goods*, which are factors of production that are themselves *produced* by human beings (with labor, land, and possibly other capital goods). Notice that all capital goods can ultimately be traced back to the input of the original factors, land and labor.

The value of producers' goods derives from the value that acting man places on the final, consumers' goods that they produce. In our example above, the loaf of bread is valuable because it contributes to the production of the ham sandwich.

4. *Further Implications: Time*

The time elapsing from the beginning of an action until the end is achieved is the *period of production*. The period of production is the *working time* plus the *maturing time*. Note that the period of production for a given consumer good does *not* include the time used in the construction of all capital goods used in the process. Although the economist must distinguish between original and produced factors, acting man does not care about the past; he takes the supplies of labor, land, and presently available (i.e. previously produced) capital goods as a given when he forms his plans.

All people prefer a *given end* to be achieved sooner rather than later. This is the universal fact of *time preference*. Apparent counterexamples to this law are due to confusion over the nature of a good. For example, if a person in the winter prefers "future ice" to "present ice," this does not violate the law of time preference, because ice-in-the-summer is a different good from ice-in-the-winter.

5. *Further Implications*

A. ENDS AND VALUES

All action aims at exchanging a less satisfactory state of affairs for a more satisfactory state. We can say that individuals rank outcomes in terms of happiness, utility, satisfaction, contentment, etc. Regardless of the name, these terms are purely formal, and do not imply hedonism or crude Benthamite utilitarianism.

Value rankings are always *ordinal*, never *cardinal*. There is no unit of happiness or utility, and hence we can only say that a man preferred A to B; we can never say he preferred A “three times as much.”

B. THE LAW OF MARGINAL UTILITY

Each unit of a good is valued separately. People never choose between “guns” or “butter” but rather between a *unit* of guns and a *unit* of butter. The total *supply* or *stock* of a good is defined by units that are equally serviceable, or interchangeable, from the actor’s point of view.

As an actor acquires more and more units of a good, he devotes them to successively less and less urgent ends (i.e. ends that are lower on his scale of values). Therefore the *marginal utility* of a good declines as its supply increases. This is the law of *diminishing marginal utility*.

6. *Factors of Production: The Law of Returns*

Units of producers’ goods are also evaluated on the margin. The value assigned to a unit of a producers’ good is the value of the consumers’ goods that would be lost if the marginal unit of the producers’ good in question were no longer available. (This is the *marginal product* of the factor of production.)

The factors of production necessary to produce a certain consumer good are called *complementary factors of production*. The *law of returns* states that with the quantity of complementary factors held constant, there always exists some optimum amount of the varying factor.

7. *Factors of Production: Convertibility and Valuation*

Factors of production differ in their degree of *specificity*, i.e. the variety of consumers’ goods that they can produce. Labor is completely *non-specific*, because it is used in the production of every consumers’ good. The less specific a factor is, the more *convertible* it is when conditions change and plans must be altered.

8. *Factors of Production: Labor versus Leisure*

Throughout the book we assume that human beings find labor onerous; i.e. we assume that individuals value *leisure* as a consumer good.

9. *The Formation of Capital*

Capital goods can be produced only through the act of *saving*, i.e. consuming less in the present than one's means allow. We can imagine Robinson Crusoe on his desert island, able to pick berries with his bare hands. If Crusoe *invests* some of his labor, not on immediate consumption (i.e. picking berries), but rather on the creation of capital goods such as a stick, then he can increase his future consumption of berries. This would be a "roundabout" method of picking berries; in general these methods are more physically productive than shorter, more direct methods. An actor will opt for longer, more roundabout methods so long as the enhanced output more than offsets the increased waiting time, which in itself is a disadvantage because of time preference.

NOTABLE CONTRIBUTIONS

- The Misesian scheme of *praxeology* is a unique feature of the Austrian school. Whereas other schools of thought (to the extent that they even concern themselves with methodology at all) embrace some form of positivism or institutionalism, the Austrians are unique in stressing the *a priori*, deductive nature of economic law.
- The *structure of production* concept is also a particularly Austrian feature. By classifying goods as first-, second-, third-order, and so on, the Austrians never lose sight of the fact that *production takes time*. The ordering of goods in this fashion goes back to Menger, but it was Böhm-Bawerk who fully elaborated the role of savings and capital accumulation. Mainstream economists, such as J.B. Clark and Frank Knight, downplayed the role of production time in modern economies. They would argue that if a production process is fully "synchronized," such that inputs in the highest stages correspond to output emerging from the other end, then there is no apparent time lag between investment and consumption. (Of course, this is only true in a stationary state.)
- The use of "Robinson Crusoe" scenarios, although popular in earlier economic treatises, has come under fire for being "unrealistic." The Austrians continue to stress the importance of the study of isolated man to discover *a priori* truths that are useful in the study of man in society.
- There is a subtle difference between the philosophical position of Rothbard and Mises. In *Human Action*, Mises says that man acts to remove "felt uneasiness." Rothbard, in contrast, merely says that man acts to achieve a more satisfactory state of affairs. I.e. Rothbard's position is not as "pessimistic."

TECHNICAL MATTERS

- One must distinguish between marginal product and the *value of* marginal product. Rothbard writes correctly that “the value assigned to a unit of a factor of production is equal to the *value of its marginal product*, or its *marginal productivity*” (p. 34). In formal economics you may often see, e.g., the marginal product of labor defined as the derivative of the production function with respect to labor, i.e. how much more physical product will accrue if the firm hires one more unit of labor. But this definition is a *physical* one, not one based on *value*. The value of the labor is the *value* placed on this increment in physical output.
- Strictly speaking, it is imprecise to define capital goods as “produced factors of production.” In Austrian theory, the purpose for classifying goods as capital versus original is that, in the ERE, only the original factors earn *net* rents. Capital goods, in contrast, earn only a *gross* return; their rental payments exactly correspond to the payments for the factors used in their construction (due account being made for interest). Consequently, the better definition of a capital good would be a *reproducible* factor of production, in contrast with an original factor, which is *non-reproducible*. (See Rothbard’s introduction to Frank Fetter’s *Capital, Interest, and Rent*.)
- Although Rothbard’s discussion of the ham sandwich (pp. 8-9) is a useful introduction to the concept of stages of production, even here the classification of goods ultimately relies on the subjective plans of individuals. There is not an objective “fact of the matter” about the order (first-, second-, third-, etc.) in which a certain good should be placed. The classification depends upon the means-end framework as conceived by the relevant individual.

STUDY QUESTIONS

- (1) If an infant cries immediately after birth, is this action in the praxeological sense? What if the infant, several months later, has learned that crying will often lead to attention from parents? (pp. 1-2)
- (2) When doctors in the 1800s used leeches in an attempt to help patients, was this an example of human action? (p. 7)
- (3) Suppose a man is strumming his guitar while sitting on the sidewalk in a large city, and that his only purpose is to listen to the enjoyable music. How should the guitar be classified? What if passersby begin giving the man loose change, so that he now views the guitar as a means to earning money? (pp. 8-9)
- (4) Suppose that a boy, on June 4, is offered the choice of seeing a fireworks show that day, or in exactly one month. If the boy chooses the show in the future, has he violated the law of time preference? (pp. 15-16)
- (5) Suppose someone says, “I like steak more than burgers, and I like burgers more than hot dogs, but my preference for steak over burgers is definitely stronger than my preference for burgers over hot dogs.” What do you think Rothbard would say about this statement? (pp. 18-19)
- (6) Imagine that a chemist measures two bottles of water, and finds that the first contains 8.002 ounces of water, while the second bottle contains 8.001 ounces of water. The chemist concludes that the bottles of water are definitely different objects. How should the economist treat them? (p. 23)
- (7) What are the two ways that capital increases productivity? (p. 48)
- (8) What are the definitions of *consumption*, *saving*, and *investment*? (pp. 48, 53)
- (9) If capital goods increase the productivity of labor, why don't people create as many capital goods as possible? (pp. 48-49)
- (10) Suppose that a farmer normally sets aside ten percent of his harvest as seed corn. His son says, “That's silly! We should sell all of our harvest and make as much money as possible.” What would this policy lead to? (p. 55)