Ludwig von Mises – a Primer

SUMMARY

- Economics is a science that can discover things and even make predictions – not on the basis of observation and testing, but through a process of *deduction*. Just as geometry or mathematics can be derived from a few simple and obvious axioms, so the science of human action can be deduced from the very concept of action and choice itself.
- Economic concepts such as cost and benefit are not *objective* but *subjective*, depending on the mind of the person involved. No amount of statistics can overcome the essential point that different people have different values, and that the response of one set of individuals to market events today may not be the same as others to events tomorrow. Values cannot be subjected to mathematical analysis.
- Profit is not just personal gain and it is not a measure of the happiness that we get from some successful action. Rather, profit encapsulates *other people's* valuation of what our initiative has contributed to *their* lives and welfare. It arises solely through the willing support of satisfied customers. In the market society, wealth is not a privilege, but comes only through benefiting consumers.
- The market system is much more efficient at allocating resources than political elections, where people get the opportunity to vote only every few years and have to choose

between packages of disparate policies. Every penny spent by consumers, in countless daily transactions, acts like a vote in a continual ballot, determining how much of each and every good should be produced and drawing production to where it is most urgently required.

- Free markets have no natural tendency to monopoly or monopoly prices; on the contrary, they have a powerful tendency towards diversity and differentiation, which bid quality up and prices down. Few cartels and monopolies would ever have come into being had it not been for government and the efforts of those with political power to stifle competition. Monopoly would be at its zenith under socialism, where all production is in state hands.
- Under socialism, production goods are held in common ownership. They are never traded, never bought and sold, but continue as joint property, so market prices are never established for them. Without prices and profits there is no efficient way of allocating resources. Decision-making becomes political and bureaucratic, leading to wasteful investment.
- Policies that are intended to 'improve' the market economy may in fact strangle it. Intervention may lead to unwelcome side effects that are then wrongly used to justify further interference, which in turn creates new problems, and so on. Eventually, although the economy still looks capitalist, it ends up being completely controlled by the authorities.
- The belief that state institutions can improve on the market by taking what it does and somehow doing it better is a dangerous conceit. In the absence of the profit motive, there is no obvious way of measuring the success of public agencies

in delivering their objectives. Incentives for entrepreneurship are weak, and managers are likely to become risk-averse and bureaucratic.

- How we value time is an essential element in every action we take. Interest arises because people generally value present consumption more than future consumption. Postponing consumption to create capital goods is the route to increased wealth.
- Money is an economic good, but its purpose is neither production nor consumption. Its purpose is *exchange*. By printing money governments can create an artificial boom, but this must inevitably be followed by a bust. A painful adjustment process takes place as malinvestments are liquidated. A stable monetary system would have to be based on a commodity standard such as gold.