

Action, Coordination, and Exchange

Voluntary Response to Stimuli in Profit-Seeking Endeavors

Abstract: It is vitally important to view action as purposeful behavior as this view leads to the exposure of fundamental elements of social cooperation governing all of human existence. The role of the individual in society, the importance of private property, peaceful and secure coexistence, and the search for maximum capacity all extend from the moment of action. Our current political organization impedes the path toward perfect execution of our innate capacity, ability, and potentiality as well as lessens the impact of the actuality and intensity of achievement and progress. The key to civilization is found in the golden rule combined with the modern coordination of market catallactics. Human history has been defined by the search of self-sufficiency with good graces, nobility, and dignity and the sufferable escape from immutable corruption, fickle hubris, hateful tyranny, and base majority rule.

Justin Ptak

Institute for Business Cycle Research

244 Oak St.

Providence, RI 02909

401.559.6258

“Things won are done; joy's soul lies in the doing.”

- William Shakespeare¹

"The actuality of thought is life."

- Aristotle²

“For the things we have to learn before we can do them, we learn by doing them.”

- Aristotle³

Action

Action may be best understood as purposeful behavior. Action is opposed to the purely reflexive, or the merely involuntary responses to certain stimuli. Action always involves the possibility for meaningful interpretation. That is, the recognition of action governed by a certain purpose in view. Thus, naturally, the purpose of the act is indeed the end.

Furthermore, the desire to achieve the end is the motive for instituting the action. It can be said that action exists by virtue of our existence and our nature as human beings. Life for mankind is a life determined by activity, not merely the possession of a rational element:

A means is what serves to the attainment of any end, goal, or aim. Means are not in the given universe; in this universe there exist only things. A thing becomes a means when human reason plans to employ it for the attainment of some end and human action really employs it for this purpose. Thinking man sees the serviceableness of things, i.e., their ability to minister to his ends, and acting man makes them means. It is of primary importance to realize that parts of the external world become means only through the operation of the human mind and its offshoot, human action.⁴

¹Shakespeare, William, *Troilus and Cressida*, Act 1, Scene 2

² Aristotle, *Metaphysics*, Book 12, Ch. 7.

³ Aristotle, *Nicomachean Ethics*, Book 2, Ch. 1.

⁴ Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998, Ch. 4, Sec. 1, pg. 92.

The Greek language differentiates between two varieties of happiness. *Makarios* and *eudaimon*. *Makarios* meaning blessed or supremely happy and *eudaimon* meaning happy as attained through one's own efforts. In the *Nicomachean Ethics*, Aristotle, states that:

“the good of man is an activity of soul in conformity with excellence or virtue, and if there are several virtues, in conformity with the best and most complete... and in a complete life. For one swallow does not make spring, nor does one sunny day: similarly, one day or a short time does not make a man blessed (*makarios*) and happy (*eudaimon*).”⁵

Life is pursuit. A process that occurs in time with a definite end in mind.

Happiness is a subjective valuation and varies by degree.

Greek also offers two variants of knowledge. *Episteme* meaning disinterested, objective knowledge and *techne* as in applied science, knowledge of a skill, art, or craft which enables production. The difference can be seen in the work of the carpenter versus that of the geometrician. Both are the pursuit of right angles. And yet with varying purpose.

It is important to prevent minor points from assuming a greater importance than the major tasks. One must distinguish between the primary thing and the fundamental principle. Fundamental principles are elucidated by induction, by sense perception, others by some sort of habituation. It has been said that nothing which exists by nature can be changed by habit.

Man at his best, is in search of self-sufficiency with good graces, nobility, and dignity, not fickle, nor changeable, nor hateful, nor base. Societies, collectives, communities, and groups have no independent existence apart from the actions of individual members. The idea of the aggregate is always determined by independent

⁵ Aristotle, *Nicomachean Ethics*, Bk. 1, Ch. 7.

constituent parts. It is the individual who determines end and action. It is the individual who acts. It is always the lone individual will behind every human response. Obviously, many may act together under an agreed upon collective idea and means of action.

An individual must expect that certain modes of behavior will enable the attainment of an end. Certain ideas about how to achieve. Action requires an image of a desired end and “technological ideas” or plans on how to arrive at this desired end. It is this idea of an end and the approved means to achieve that stated end that characterizes human action in every variety.

In life, change is an inevitable constant. In a particular time and place, it is the situation that the individual decides to change. One can only work with the numerous elements that he finds in his environment, by rearranging them in order to bring about the satisfaction of his ends. The external environment consists of those things one believes can be altered and those which he thinks he cannot alter to arrive at his end.

It is incontrovertible that all human life takes place in time. A man’s time is always scarce. Whichever end is chosen others will remain unsatisfied. The act of choice can be seen as economizing the means to achieve the most desired ends. Therefore, the ranking alternative ends in accordance with the valuation.

Carl Menger stated:

“A process of change involves a beginning and a becoming, and these are only conceivable as processes in time. Hence it is certain that we can never fully understand the causal interconnections of the various occurrences in a process, or the process itself, unless we view it in time and apply the measure of time to it.”⁶

Life is beset by changing valuations and changing ideas. All actions are of necessity speculations based on his judgment of the course of human events. Uncertainty is one of

⁶ Menger, Carl, *Principles of Economics*, New York, New York University Press, 1976, pg. 67.

the only constants in a life of cycles and change. There will never be enough time for everything. But, time enough for almost anything imaginable.

Ludwig von Mises concluded that action can be seen as an exchange:

Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one. We call such willfully induced alteration an exchange. A less desirable condition is bartered for a more desirable one. What gratifies less is abandoned in order to attain something that pleases more. That which is abandoned is called the price paid for the attainment of the end sought. The value of the price paid is called costs. Costs are equal to the value attached to the satisfaction which one must forego in order to attain the end aimed at...The difference between the value of the price paid (the costs incurred) and that of the goal attained is called gain or profit or net yield. Profit in this primary sense is purely subjective., it is an increase in the acting man's happiness...But it can happen that the action produces a state of affairs less desirable than the previous state it was intended to alter. Then the difference between the valuation of the result and the costs incurred is called loss."⁷

This exchange process must involve a certain level of coordination in order to achieve the end in sight.

Coordination

"The market economy is the social system of the division of labor under private ownership of the means of production. Everybody acts on his own behalf; but everybody's actions aim at the satisfaction of other people's needs as well as at the satisfaction of his own. Everybody, in acting, serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. Everybody is both a means and an end in himself, an ultimate end for himself and a means to other people in their endeavors to attain their own ends."⁸

The role of the individual in society is to act in his own self-interest. It is in so doing that he is beneficial to himself and his surroundings. To be a producer and then a consumer is the only viable formation for acting man. Resources are scarce and goods of higher order suitable to man must involve a process of production.

⁷ Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998, Ch. 4, Sec. 4, pg. 97.

⁸ Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998, Ch. 15, Sec. 1, pg. 258.

Value is subjective⁹ and imparted by the consumer. To serve the needs of the economy a system organized by the division of labor and specialization emerges. Adam Smith wrote in *Wealth of Nations* that

"the extent of this division [of labor] must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment,"

Using the example of nail-making, Smith continues:

"Such a workman at the rate of a thousand nails a day, and three hundred working days in the year, will make three hundred thousand nails in the year. But in [a small market in an isolated community] it would be impossible to dispose of one thousand, that is, of one day's work in the year."¹⁰

Therefore, evermore sophisticated markets are essential to the division of labor, and to higher productivity. In Plato's *Republic*, Socrates pointed to the source of organization in society:

A State...arises...out of the needs of mankind; no one is self-sufficing, but all of us have many wants...As we have many wants, and many persons are needed to supply them, one takes a helper for one purpose and another for another; and when these partners and helpers are gathered together in one habitation the body of inhabitants is termed a State...And they exchange with one another, and one gives, and another receives, under the idea of exchange will be for their good.¹¹

⁹ In 1871, Carl Menger's *Principles of Economics* advanced the notion of subjective value replacing the ill-conceived labor theory of value. Menger writes, "Value is the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs." See Carl Menger, *Principles of Economics* (New York and London: New York University Press, 1976), 115.

¹⁰ Smith, Adam, *Wealth of Nations*, Chapter 3, page 1.

¹¹ Plato, *Republic*, 369, in *Dialogues*, ed. B. Jowett, 3rd ed. (London: Oxford University Press, 1892), vol. 3., p 49.

Socrates goes on to say that specialization is beneficial because” we are not all alike; there are many diversities of natures among us which are adapted to different occupations.”¹² Ludwig von Mises explained:

“Historically division of labor originates in two facts of nature: the inequality of human abilities and the variety of the external conditions of human life on the earth. These two facts are really one: the diversity of Nature, which does not repeat itself but creates the universe in infinite, inexhaustible variety...

Had the strength and abilities of all individuals and the external conditions of production been everywhere equal the idea of division of labor could never have arisen...No social life could have arisen among men of equal natural capacity in a world which was geographically uniform...”¹³

Consumer sovereignty is paramount under the market process. Consumers through their purchase or abstention from purchasing ultimately determine what should be produced. It is true that consumers are king. buyers ultimately determine which goods and services remain in production. While businesses can produce and attempt to sell whatever goods they choose, if the goods fail to satisfy the wants and needs, consumers will decide not to buy. If the consumers do not buy, the businesses do not sell, and the goods will not be produced. The Schumpeterian concept of “creative destruction” begins as the business must reinvent itself to attempt to meet demand.

The Entrepreneur is in the position of meeting the demand of the consumer. The entrepreneur who successfully provides that which the consumer demands will be in a position to profit. Business provides goods and services that preserve and renders life more amenable. Corporations and non-profit associations are and can be trusted to act in the public interest; accountable and dedicated to the consumer, driven by the profit

¹² *Republic*, 369, Jowett, vol. 3, pg. 49.

¹³ Quoted in Murray N. Rothbard, “Freedom, Inequality, Primitivism and the Division of Labor,” *Modern Age* 15, no. 3, (Summer 1971).

incentive under shareholder supervision, they are acutely aware of any abuse of power and exhaustingly concerned with efficiency, honesty, transparency, reputation, and quality.

Self-interest in the affairs of man leads to the possibility for self-maximization. Man is able to provide the greatest social benefit under a system that allows him to seek out his own contribution to society. Profit is only possible if he is engaged in meeting the demand of a consumer on the market for goods and services.

A voluntary system of exchange is the only possible means for eliminating coercion in market affairs. Persuasion is always preferable to the use of force:

"The creation of the world -- said Plato -- is the victory of persuasion over force... Civilization is the maintenance of social order, by its own inherent persuasiveness as embodying the nobler alternative. The recourse to force, however unavoidable, is a disclosure of the failure of civilization, either in the general society or in a remnant of individuals... Now the intercourse between individuals and between social groups takes one of these two forms: force or persuasion. Commerce is the great example of intercourse by way of persuasion. War, slavery, and governmental compulsion exemplify the reign of force."¹⁴

As Prof. Mark Skousen points out, in his essay, *Persuasion vs. Force*, the word "persuasion" embodies not only the freedom of choice, but the responsibility for choice as well.

Economic calculation¹⁵, indispensable to organized society, is only possible under a market price system.

¹⁴ Whitehead, Alfred North, "From Force to Persuasion" in *Adventures of Ideas*.

¹⁵ In his magnum opus, *Human Action*, Mises calls monetary calculation the guiding star of action under the social system of division of labor. The compass of the man embarking upon production. He notes that calculation is conducted in order to differentiate between the remunerative lines of production and the unprofitable:

"Monetary calculation is the method of calculating employed by people acting within the frame of society based on private control of the means of production. It is a device of acting individuals; it is a mode of

“The problem of economic calculation is a problem which arises in an economy which is perpetually subject to change, an economy which every day is confronted with new problems which have to be solved. Now in order to solve such problems it is above all necessary that capital should be withdrawn from particular lines of production, from particular undertakings and concerns and should be applied in other lines of production, in other undertakings and concerns. This is not a matter for the managers of joint stock companies, it is essentially a matter for the capitalists -- the capitalists who buy and sell stocks and shares, who make loans and recover them, who make deposits in the banks and draw them out of the banks again, who speculate in all kinds of commodities. It is these operations of speculative capitalists which create those conditions of the money market, the stock exchanges and the wholesale markets which have to be taken for granted by the manager of the joint stock company, who, according to the socialist writers we are considering, is to be conceived as nothing but the reliable and conscientious servant of the company. It is the speculative capitalists who create the data to which he has to adjust his business and which therefore gives direction to his trading operations.”¹⁶

A stock market is the central institutional form for the price system in shares/factors of production. A market for capital assets is fundamental. The main task performed by a market system is not the pricing of consumer goods, but the allocation of financial capital among the various branches of industry. “Every single step of entrepreneurial activities is subject to scrutiny by monetary calculation. The premeditation of planned action becomes commercial precalculation of expected costs and expected profits.”¹⁷ The system of economic calculation can only function in a setting of the division of labor and private ownership of the means of production where goods and services are bought and sold utilizing a common medium of exchange.

Mises goes on to explain:

computation designed for ascertaining private wealth and income and private profits and losses of individuals acting on their own behalf within a free enterprise society. All its results refer to the actions of individuals only” (ch. 13, sec. 1, pg. 230).

¹⁶ Mises, Ludwig von, *Socialism*, Part 2, Ch. 6.

¹⁷ Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998, Ch. 13, Sec. 1, pg. 230.

“Monetary calculation reaches its full perfection in capital accounting. It establishes the money prices of the available means and confronts this total with the changes brought about by action and by the operation of other factors. This confrontation shows what changes occurred in the state of the acting men's affairs and the magnitude of those changes; it makes success and failure, profit and loss ascertainable. The system of free enterprise has been dubbed capitalism in order to deprecate and to smear it. However, this term can be considered very pertinent. It refers to the most characteristic feature of the system, its main eminence, viz., the role the notion of capital plays in its conduct.

There are people to whom monetary calculation is repulsive. They do not want to be roused from their daydreams by the voice of critical reason. Reality sickens them, they long for a realm of unlimited opportunity. They are disgusted by the meanness of a social order in which everything is nicely reckoned in dollars and pennies. They call their grumbling the noble department worthy of the friends of the spirit, of beauty, and virtue as opposed to the ignoble baseness and villainy of Babbitry. However, the cult of beauty and virtue, wisdom and the search for truth are not hindered by the rationality of the calculating and computing mind. It is only romantic reverie that cannot thrive in a milieu of sober criticism. The cool-headed reckoner is the stern chastiser of the ecstatic visionary.

Our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting.”¹⁸

Monetary calculation is the main vehicle of planning and acting in a social environment of free enterprise directed and controlled by the market and its prices. Mises goes on to state that Goethe was right in calling bookkeeping by double entry “one of the finest inventions of the human mind.”

Exchange

In voluntary exchange, an offer is made, if it is suitable to the second party, an agreement is reached. Execution according to the terms must follow.

For civilization, the acknowledgement of private property is of the utmost importance. Property is a naturally occurring relationship between human beings and

¹⁸ Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998, Ch. 13, Sec. 1, pg. 231.

material things. Property and enforceable property rights make possible economic calculation, a wider and more productive division of labor, and thus increasing levels of prosperity.

In a market system under the division of labor coordinated by the market process, a representation of your good or service is advertised to prospective clients. An impression is made and a go – no go decision is made by the prospect. The exchange must be a reciprocal relationship, the terms agreeable to both parties.

If successful, the possibility of recurrence emerges. This is dependent on need, desire, fulfillment potential, quality, cost.

Accountability is layered through the system through the voluntary nature of exchange, the price system, and consumer response. Dan Zadra once wrote: "Some favorite expressions of small children: 'It's not my fault. . . They made me do it. . . I forgot.' Some favorite expressions of adults: 'It's not my job. . . No one told me. . . It couldn't be helped.' True freedom begins and ends with personal accountability." Moreover, as Sir Josiah Stamp once said: "It is easy to dodge our responsibilities, but we cannot dodge the consequences of dodging our responsibilities." Joseph Fort Newton poignantly reminds us that "a duty dodged is like a debt unpaid; it is only deferred, and we must come back and settle the account at last."

Reputation¹⁹ is an important aspect of smoothly functioning markets. Donald A. Adams once wrote: "To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity." Socrates advised that one should:

¹⁹ Syrus, Publilius wrote among his maxims in approximately 100 B.C. that "a good reputation is more valuable than money."

“Regard your good name as the richest jewel you can possibly be possessed of - for credit is like fire; when once you have kindled it you may easily preserve it, but if you once extinguish it, you will find it an arduous task to rekindle it again. The way to gain a good reputation is to endeavor to be what you desire to be.”

Shakespeare thought along the same lines when he wrote:

“Good name in man and woman, dear my lord,
Is the immediate jewel of their souls:
Who steals my purse steals trash; 'tis something, nothing;
'Twas mine, 'tis his, and has been slave to thousands;
But he that filches from me my good name
Robs me of that which not enriches him
And makes me poor indeed.”²⁰

Honesty is a supporting factor for achieving the business goal of customer satisfaction and reducing potential difficulties. Tellingly, Mark Twain suggested to “always do right - this will gratify some and astonish the rest.” While William Jennings Bryan added another to remember, that “no one can earn a million dollars honestly.” Sinisterly, Plato once wrote that “honesty is for the most part less profitable than dishonesty.”²¹ However, Thomas Jefferson, the wiser of the bunch, once wrote that “honesty is the first chapter of the book of wisdom.” While Shakespeare added: “No legacy is so rich as honesty.”²²

In mature markets, a network is established of successful transactions creating a web of goods and services available as the need arises. Demand is served and the public is provided for.

Peaceful and secure coexistence is established as market stability is an universal advantage to all involved in exchange. The answer to the fundamental question of what fuels economic growth is the following:

²⁰ Shakespeare, William, *Othello*, Act III, scene iii.

²¹ Plato, *Republic*, Book 2.

²² Shakespeare, William, *All's Well That Ends Well*, Act III, Scene v.

“The source of economic growth is mutually beneficial, voluntary exchange. Within the exchange economy, consumers spend part of their income on goods and services to satisfy their most immediate wants. This drives current production. Consumers save part of their income according to their less immediate wants. This drives entrepreneurial investment in future production and leads to the development of sophisticated capital markets. Private contracts, competition in markets, and private institutions that allow for capital investment and accumulation are all you need to attain optimal economic growth.”²³

Exchange markets demand mutually beneficial and secure transactions for smooth operation.

The search for maximum capacity and the unique sense of profit provides the avenue for social organization. Individual contribution and productivity raises income on neutral ground providing the most benefit to the consumer. Entrepreneurs, play an indispensable role, seizing profit opportunities and serving consumer demand. Competition concerning these opportunities results in profit and loss statements that generate prices for labor and capital. This competition directs resources to the satisfaction of the most urgent consumer wants.

No ambiguity can be afforded when discussing the rule of law. Private property must be respected. Legal institutions will safeguard the lives and property of those within its boundaries. Violence, fraud, coercion are among the top enemies of the peaceful coordination of human activity.

Conclusion

²³ Answer D, Question 13. <http://www.mises.org/quiz.asp>

Our current political organization impedes the path toward perfect execution of our innate capacity, ability, and potentiality. Moreover, it lessens the impact of the actuality and intensity of achievement and progress. As Llewellyn stated: “Any steps away from government provision of resources are steps toward accountability and social benefit as measured by the only means of determining such things, through the free and voluntary interactions of real people using their resources as they see fit.”²⁴ Order in society can emerge through voluntary, mutually beneficial exchange. People can engage in private transactions for that which they value, including laws and security. All choice concerns alternative future states, each individual alone understands which goods best suite their particular situation, including protection and dispute resolution.

The key to civilization is found in the golden rule voluntary and reciprocal relationships and the coordination of market catallactics. Human history at its most enlightened has been defined by the search for self-sufficiency with good graces, nobility, and dignity. Its most virtuous, in the sufferable escape from immutable corruption, fickle hubris, hateful tyranny, and base majority rule.

²⁴ Rockwell, Llewellyn, “Where to Cut? Anywhere, Everywhere,” <http://www.lewrockwell.com>, October 9th, 2003.

References

Aristotle, *Metaphysics*

Aristotle, *Nicomachean Ethics*,

Menger, Carl, *Principles of Economics*, New York, New York University Press, 1976

Mises, Ludwig von, *Human Action*, Auburn, Ludwig von Mises Institute, 1998.

Mises, Ludwig von, *Socialism*,

Plato, *Republic*.

Rockwell, Llewellyn, "Where to Cut? Anywhere, Everywhere,"

<http://www.lewrockwell.com>, 10/09/03.

Shakespeare, William, *Othello*

----- *All's Well That Ends Well*.

Skousen, Mark, "Persuasion vs. Force", September, 1991, *Liberty*.

Syrus, Publilius

Whitehead, Alfred North, "From Force to Persuasion", *Adventures in Ideas*.