PROFIT AND PRODUCTION

ART CARDEN

ABSTRACT: Profits and losses provide powerful incentives. This essay explores the roles of profits and entrepreneurs in a market economy. In a market with secure private property rights, profits are a reliable guide that directs productive activity. Profits reward entrepreneurs for successfully adjusting the structure of production to better suit the wants of consumers. This has implications for Michel de Montaigne's thesis that one's profit is another's loss: while this seems like an attractive (and intuitive) proposition, profits arise when an entrepreneur is able to satisfy consumer wants. This essay applies Ludwig von Mises's thesis that the source of human action is the desire to remove "felt uneasiness." For example, in a situation in which an entrepreneur alleviates discomfort, it is the opportunity to alleviate the discomfort that is the source of the profit and not the discomfort itself.

I. INTRODUCTION

Economics is the study of how we allocate scarce resources among alternative uses. It is fundamentally a science of human action; it concerns itself with how we acquire resources, how we turn those resources into goods, and the signals that guide our decisions to produce and consume. A *market economy* is a system whereby resources are produced and allocated through a system in which people, guided by the profit motive and the price mechanism, continually re-appraise output,

Art Carden (cardena@rhodes.edu) is an assistant professor of economics at Rhodes College. He would like to thank Walter Block and Mark McMahon and two anonymous referees for helpful comments.

factors of production, and production processes in light of constantly shifting information. How does this system operate? What is the role of profit in our decisions to produce and exchange? What is the role of the entrepreneur?[1]

People respond to incentives. The possibility of profit is a powerful incentive. The possibility of loss provides a similarly powerful incentive. A *profit* or a *loss* is simply the difference between the total revenue earned by producing and selling a good or service and the opportunity cost of producing and selling that good or service. We have two kinds of profits and losses. The first is *accounting profit* or *accounting loss*, and this will be determined by the difference between total revenue and the accounting costs of production. Accounting costs include the outlays made for capital, labor, land, and materials. When total revenue is greater than these outlays, we say that we have earned an accounting profit. When total revenue is less than these outlays, we say that we have earned an accounting loss.

Economic profit and *economic loss* are similar to their accounting counterparts but with a crucial difference. In seeking to determine whether someone is earning an economic profit, we look at the *opportunity cost* of engaging in the production process. Suppose that someone opens a business which earns $1 million in revenue and spends $900,000 on capital, labor, and materials. We might say that the person earns an accounting profit of $100,000. If that person could earn $125,000 by joining the labor force and working for another firm, then he has earned an economic *loss* of $25,000 because the opportunity cost of earning the $100,000 by opening his own business is the $125,000 that he could have earned by working for someone else.

A market economy is a continuous process of exchange through which people compare and contrast opportunities in order to determine which courses of action make them better off. People make one another better off by specializing in production and trading. They make themselves better off by offering goods and services which in turn make others better off. Profits and losses are the signals they receive which tell

[1]The definition relating scarce resources to alternative uses is the canonical definition of "economics" offered by Lionel Robbins and echoed by Thomas Sowell (2004, p. 1). Ludwig von Mises (1996) proposes that economics is a subset of a more general body of theory that he calls *praxeology*, or the science of human action. The references to Mises (1996) are to the fourth edition of *Human Action*, originally published in English in 1949. The fourth edition was published by Fox and Wilkes. In the tenth edition of their textbook, Heyne, Boettke, and Prychitko (2002) refer to the market as "a system of competing bids and offers."

them whether they are successful at offering goods and services which consumers value, or at least which consumers value more highly than they value the inputs to production if they were arranged in a different way or used to produce a different product. Those making decisions about what to produce, how to produce it, and the prices at which to offer it are capitalists (Sowell 2004), entrepreneurs (Mises 1996), or capitalist-entrepreneurs (Rothbard 2004). While entrepreneurs and capitalists make decisions about what to produce, they are ultimately beholden not to their own personal desires or preferences but to those of the consumers. As Thomas Sowell points out,

> What is called "capitalism" might more accurately be called consumerism. It is the consumers who call the tune, and those capitalists who want to remain capitalists have to learn to dance to it. (Sowell 2004, p. 137)

Production does not occur in a vacuum, nor are products necessarily foisted on an unsuspecting public. Entrepreneurs—and to some extent, everyone is an entrepreneur—seek to make themselves better off by using their limited time and resources to provide goods and services that consumers wish to buy in the market. If they are successful, they are rewarded with profits. If they are unsuccessful, they are "rewarded" with losses.

Recent and classic contributions have illuminated how profits and losses provide the signals necessary to provide rational guidance to production and economic calculation; however, the role of profit in a market economy is often misunderstood. In what follows, we consider several aspects of the role of profits, losses, and entrepreneurs in a market economy. We begin by considering briefly the production process.

II. ENTREPRENEURS AND PRODUCTION

The state toward which an economy tends has been called "equilibrium" or an "evenly rotating economy." This is a situation in which quantity demanded equals quantity supplied in all markets, information is complete, the interest rate (adjusted for risk) is equal across all markets, and factors of production are paid their discounted marginal value product, or DMVP, which is the value of the product that an additional unit of a given factor of production can produce, discounted over time at the appropriate interest rate. In equilibrium, all opportunities for economic profit have been fully and completely exploited, and no one can improve his prospects by altering the structure of production because all factors of production have been allocated to their highest-valued uses

(Rothbard 2004). In equilibrium, entrepreneurs and the owners of capital earn interest, which because of competitive forces will be "uniform throughout the economy," and workers will earn wages, which will be determined by the value that can be produced by different types of labor. Economic profit will have been competed away.[2]

In reality, the true discounted marginal value product of any factor of production cannot be known either objectively or certainly. It must be estimated (Rothbard 2004). This is where entrepreneurs come into play. At any point in time, there may be a discrepancy between what factors of production are capable of producing and what those factors actually produce. Entrepreneurs, acting on the expectation that there is such a discrepancy, then go into the market and hire or purchase factors of production which they then re-employ in alternative production processes. This activity may take several forms. One of the most obvious examples occurs when someone buys stock on the expectation of future returns that exceed those of all other possible investments (after making adjustments for individuals' preferences for risk). An entrepreneur might rent a building, purchase capital, and hire labor on the expectation that he might be able to earn a profit by operating a restaurant. Another entrepreneur may expect that a particular firm is overvalued and may sell futures in that firm's stock whereby he promises to deliver a certain number of shares (which he does not own) at a price agreed upon today. If the entrepreneur is correct and the price of the stock falls, he will be able to earn a profit by purchasing shares at the new lower price which he can use to fulfill his contract. If he is incorrect, he will earn a loss because he will have to pay a higher price for the shares he needs to fulfill his contract.[3]

---

[2]"Equilibrium" is the term most commonly used in economic analysis; "evenly rotating economy" is the term proposed by Mises (1996) and adopted by Rothbard (2004). Rothbard (2004) is an online version of the scholars' edition of Rothbard's treatise *Man, Economy, and State,* originally published in 1962. The discussion in this paragraph relies on Rothbard (2004, pp. 509–16). The "structure of production" is the configuration of inputs that are used to produce society's output. See Block (1990) for a discussion of the differences between marginal value product and discounted marginal value product.

[3]For an example, suppose that shares of stock in the Bluth Company are currently selling for $50 each. Suppose than an entrepreneur is convinced that the stock is overvalued and that the price will go down. He may write a contract in which he agrees to deliver 1,000 shares of Bluth Company stock in six months at the current price of $50 per share. In six months, he is then legally obligated to deliver 1,000 shares of stock, which he will have to purchase on the open market. If shares of Bluth Company stock are trading at $40 per share in six months, the entrepreneur will earn

Entrepreneurs are the residual claimant to any income left over after factors of production—labor and capital—have been paid (Heyne, Boettke, and Prychitko 2002). They are "those on whom the incidence of losses on the capital employed falls" (Mises 2006). Entrepreneurs act based the expectation that the current structure of production is misaligned with consumer preferences. Markets work in two directions here. On the demand side, consumers who are unsatisfied can always increase their bids for different kinds of output. On the supply side, entrepreneurs can hire, purchase, and rearrange factors of production on the expectation that he can enjoy profits from doing so. Entrepreneurial profits and losses will ultimately determine the course of production.

IV. PROFITS, LOSSES, AND THE ENTREPRENEUR

Entrepreneurs alter the structure of production on the expectation that it is misaligned with consumer preferences. Profits and losses are the signals that tell entrepreneurs whether they have correctly realigned the structure of production or not. Profits encourage production and innovation, and losses are "equally important for the efficiency of the economy, because they tell manufacturers what to stop producing" (Sowell 2004, p. 9). Entrepreneurs earn profits by correctly anticipating market conditions and by adjusting economic activity to what they expect to be the state of the market at some point in the future.[4] As Mises (1996, pp. 665–66) argues,

> The ultimate source of profits is always the foresight of future conditions. Those who succeeded better than others in anticipating future events and in adjusting their activities to the future state of the market, reap profits because they are in a position to better satisfy the most urgent needs of the public.

The urgency of those needs will be reflected in relatively high prices for certain types of output and relatively high profits accruing to those who produce the desired output. Needs and wants that are less urgent will be reflected in relatively low prices for certain outputs and relatively low profits (or losses) accruing to the producers of those outputs.

a profit of $10 per share, or $10,000. If shares are trading at $60 per share, the entrepreneur will earn a loss of $10 per share, or $10,000.

[4]Mises (1996). Phelps (2006) points out that, rather than a member of an elite ruling class, the entrepreneur is "a newcomer, a parvenu who is an outsider."

The entrepreneur bases his activities on the expectation that some inputs are priced incorrectly in that the prices currently paid for inputs do not reflect their scarcities and individual consumer preferences. The role of the capitalist-entrepreneur, who actually does the funding, is, according to Rothbard (2004), to advance money to capital owners and workers on the belief that they will be able to produce an output which can be sold at a price and in a quantity sufficient to cover the opportunity costs of factors of production. In other words, they hire factors of production, produce, and sell on the expectation that total revenue will be higher than total cost. If the entrepreneur is correct, he earns a profit. If the entrepreneur is incorrect, he incurs a loss.

In his essay "That the Profit of One Man is the Loss of Another," Michel de Montaigne argues that one person's profit is generated by another person's loss. Indeed, Ludwig von Mises has argued that the source of human action—the employment of means to attain consciously-chosen ends—is the desire to remove "felt uneasiness." In essence, a person acts because he or she is unsatisfied with the current state of the world and wishes to replace it with a state of the world that suits him or her better. However, this "uneasiness" itself is not the source of profit; rather, it is the opportunity to remove uneasiness which is the source of profit (Mises 1996). Successful entrepreneurs alleviate uneasiness. They do not cause it. Profit suggests that the structure of production was misaligned with consumer preferences, and the profitable entrepreneur is one who is able to realign resources in such a way as to satisfy consumers more. Profits emerge when an entrepreneur discovers that the market has undervalued certain inputs and failed to produce certain outputs (Rothbard 2004).[5] The entrepreneur earned profits because he

> detected that the factors' prices did not adequately reflect their potential DMVPs; by bidding for, and hiring, these factors, he was able to allocate them from production of lower DMVP to production of higher DMVP. He has served the consumers better by anticipating where the factors are more valuable. (Rothbard 2004, p. 511)

It is by this "success in anticipating the future state of the market" that the entrepreneur earns profits (Mises 2006). In a market with limited information, entrepreneurs are necessary to reallocate resources away from less-valued and toward higher-valued uses. Profits and losses

[5]Discussion of "felt uneasiness" can be found in Mises (1957, 1996).

encourage "producing what the consumers want and stopping the production of what they don't want" (Sowell 2004, p. 9). If entrepreneurs do not produce what people want at the lowest possible cost, they are always in danger of being replaced (Sowell 2004; Mises 2006).

V. PRICES, PROFITS, AND KNOWLEDGE: INNOVATION AND PROGRESS

One of the most important aspects of a profit-and-loss economy is that it aggregates useful information about preferences, technology, and expectations into a single signal: the price. The price of a good at any point in time reflects both what consumers are willing to give up to acquire an additional unit of that good as well as what producers are willing to accept in order to induce them to produce and sell that good as opposed to any of an infinite array of others. The market's system of bids and offers means that prices are in a constant state of flux, and entrepreneurs' estimations of the differences between what market prices are and what market prices could be will issue in profit or loss. Profit will be the entrepreneur's reward for correcting a market error while a loss will be an entrepreneur's punishment for compounding a market error (Rothbard 2004). The "hope for profits" and the "threat of losses" will combine to ensure that entrepreneurs and producers produce what people want at the lowest possible cost (Sowell 2004, p. 80).

The market process reveals crucial information about consumer preferences and production possibilities. If the entrepreneur was correct, he will earn a profit and production will be more closely aligned with consumer wants. If the entrepreneur is incorrect, he will incur a loss and production will be pushed further from consumer wants. Consistent losses will push entrepreneurs out of entrepreneurship and back into the regular labor force; in a sense, losses limit the extent to which entrepreneurs can cause damage (Rothbard 2004). Profits and losses are the automatic mechanism by which the market self-corrects (Rothbard 2004).

A society in which entrepreneurs are allowed to flourish will be a society characterized by a progressing division of labor and increasing human satisfaction. It will be a society characterized by what Phelps (2006, p. A14) refers to as *dynamism*, or "the economy's talent at commercially successful innovating." An anti-entrepreneurial view suggests that questions of production and allocation are fundamentally technological: the relevant questions concern solutions to a large-scale optimization problem. The entrepreneurial or dynamic view holds that the

entrepreneurial process itself reveals the information necessary to evaluate market outcomes. Paraphrasing Mises (2004), if resources are used by entrepreneurs with good ideas, these entrepreneurs earn profits.

One of the most important functions of prices and profits is that they aggregate information that cannot be held in a single mind (Hayek 1945). Regional differences in cultural norms, geographic conditions, and preferences may mean that salesmen must adapt their techniques to different settings. Sowell (2004, p. 91) points out that an automobile executive in Detroit (or, for that matter, Tokyo) does not need to know every aspect of local market conditions everywhere his cars are sold to guide production. The company only needs to know whether certain types of vehicles are selling profitably to dealers or not. In the case of agricultural production, for example, "microclimates," or differences across individual farms, may yield widely disparate outputs both in quantity and in quality (Sowell 2004, pp. 126–31).[6] Specific local conditions and specific knowledge will be reflected in the price of a good. In the absence of prices and profits, there would be no way for anyone to aggregate this knowledge and make rational production decisions.

Profits and losses are also a valuable source of discipline in a market economy. Sowell (2004, pp. 69–71) recounts how major changes in retailing over the last century have rewarded successful entrepreneurs and disciplined the unsuccessful: as Americans urbanized, some came to understand that it would be more efficient to operate urban department stores rather than mail-order companies. J.C. Penney built a retail giant by applying this insight. Executive Robert Wood was fired by Montgomery Ward for suggesting urban department stores rather than mail-order business. He was, however, hired by Sears, who then applied his insights to gain additional market share. Montgomery Ward paid dearly for their error. A dynamic economy in which Penney and Wood were able to experiment, without having to convince an all-powerful central authority of the necessity or desirability of urban department stores, was one in which both were able to flourish for providing customers with what they wanted, where they wanted, when they wanted it.

Contrast this with an alternative scenario where Penney and Wood would have had to convince a central ministry in charge of retail that their insights were "good ideas." The process of evaluation would have likely consisted of studies, hearings, more studies, extensive public debate,

[6]These issues are discussed in greater detail by Sowell (2004, pp. 91, 126–31).

more hearings, and finally, a decision made not by entrepreneurs who were residual claimants to the profits (or losses) generated by the ideas but by members of the bureaucracy whose lives and careers would have been little affected no matter what they decided. In a market economy, Penney and Wood only had to find someone who was willing to take a chance. Their gambles paid off handsomely.[7]

This dynamism is also evident in the fluidity of the Fortune 500 (which measures the largest companies in the United States) and the Forbes 400 (which measures the 400 richest people in the United States). Sowell (2004, p. 64) points out that half of the companies in the Fortune 500 in 1980 had fallen out by 1990, and between 2001 and 2002, there was a 7.6 percent turnover as 38 companies fell off the list. The United States is also remarkably short of dynasties. Where names like Vanderbilt, Rockefeller, and du Pont were once synonymous with wealth, the Forbes 400 today is headed by, for the most part, innovators of relatively recent vintage. The top 15 of the Forbes 400 includes three people from Microsoft (Bill Gates, Paul Allen, and Steven Ballmer), Michael Dell, Google founders Sergey Brin and Larry Page, and five Waltons. The Walton family is hardly a generations-old dynasty: their patriarch Sam Walton had humble beginnings as a clerk at J.C. Penney's (Sowell 2004). These are, in many cases, the innovators who have, with several small ideas, become fantastically wealthy by producing products that increase human convenience (Phelps 2006). This is a far cry from the economic sclerosis predicted over the last several generations.[8]

What, then, are we to make of Montaigne's thesis that one man's profit is another man's loss? Montaigne is correct insofar as he describes profit that arises by coerced transfer. However, he errs insofar as he suggests that profits earned by entrepreneurs competing in the market are somehow extracted from consumers. The good fortune of the doctor does not arise from the illness of his patient; rather, it arises from the opportunity to cure the patient's illness. The source of an entrepreneur's profit is the opportunity to reduce felt uneasiness for, in the absence of the profit-seeking doctor, the patient's illness persists (Mises 1996).

---

[7]Sowell (2004, p. 70) states this as follows: "In a market economy, Penney did not have to convince anybody of anything. All he had to do was deliver the merchandise to the consumers at a lower price."

[8]For additional discussion, see Sowell (2004). The Forbes 400 can be found online at http://www.forbes.com/lists/2006/54/biz_06rich400_The-400-Richest-Americans_Rank.html. It is also notable that many of the members of the Forbes 400 are also innovators in service-oriented businesses.

VI. Implications and Objections

It has been objected that the market economy does not fully exploit technological possibilities. It has been argued, for example, that a country which can put a man on the moon should be able to provide food for all mouths, a roof for all bodies, and labor for all hands.[9] It is important to note, however, that individuals and societies face tradeoffs in the allocation of scarce resources. What is technologically feasible may not be economically prudent: if what is produced is not what consumers want, resources are wasted. Ours is a world of infinite production possibilities. Profits, losses, and prices are the signals that guide inputs toward their highest-valued ends, and whether a particular production plan is technologically feasible is a consideration that is secondary to whether its execution is economically profitable.[10]

What about those who suffer losses as the result of being out-competed? While "external events affecting demand and supply" will often reduce some business owners' incomes, this is due largely to those business owners' inability or unwillingness to adjust their production plans to the wants of consumers (Mises 1996). As Mises (1996, p. 665) argues,

> The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of consumers.

While we cannot, on economic grounds, judge the so-called "losers" from changes in supply and demand conditions, one might argue that they are, by virtue of the fact that consumers no longer wish to buy their wares, no longer part of the relevant market (Rothbard 1956). This may be the case; however, they are always and will remain part of the relevant

---

[9]This characterization is adapted from Frederic Bastiat's *That Which is Seen, and That Which is Not Seen*, available online at www.bastiat.org.

[10]For a discussion of this objection to the profit and loss system, Hazlitt ([1946] 1996, p. 88), who asks us to consider how Robinson Crusoe would allocate his scarce resources—time and energy—to the satisfaction of immediate and important wants like food, clothing, and shelter.

political system.[11] Interference with the profit-and-loss system—interference with market equilibration—means that "the adjustment of supply to demand would not be improved but impaired" (Mises 1996, p. 665). The institutional problem associated with those who would seek to thwart adjustment of the structure of production has been, in some cases, practically insurmountable as the possibility of political intervention puts some producers in a position to defy consumer preferences (Mises 2006). According to Mises, the alleged "tyranny of the market" is, in fact, the sovereignty of the consumer.[12] Classical liberalism has led, for example, to the development of a dynamic market in the United States (where most innovation takes place) and interventionism has led to the development of a slow-moving market in most of Europe (Phelps 2006).

Some profits are often categorized as "exorbitant" or "windfall" profits. It has been proposed that these be eliminated either through taxation or regulation. The implications, however, would be unattractive as restrictions on profits would result in lower incentives to invest and take risks, which would lead to fewer opportunities for others, which would lead to lower productivity and production, which would lead to lower wages and higher prices, which would in turn constitute lower standards of living for all (Mises 1996). Taxing profits is to render injury upon those who are most capable of serving consumers (Mises 2006).

---

[11]According to Hazlitt ([1946] 1996, p. 182),

> Just as there is no technical improvement that would not hurt someone, so there is no change in public taste or morals, even for the better, that would not hurt someone. An increase in sobriety would put thousands of bartenders out of business. A decline in gambling would force croupiers and racing touts to seek more productive occupations. A growth in male chastity would ruin the oldest profession in the world.

[12]Originally writing in 1951, Mises (2006) argued that

> Wall Street, against which the self-styled idealists are battling, is merely a symbol. But the walls of the Soviet prisons within which all dissenters disappear forever are a hard fact.

VII. Conclusions

Profits and losses provide valuable signals in response to which entrepreneurs alter their production decisions. Those who are able to detect misalignments between consumer preferences and the structure of production are rewarded with profits while those who create new misalignments between consumer preferences and the structure of production will be rewarded with losses. While it may seem that producers decide what will be produced, the price at which it will be sold, and the quantity in which it will be offered, it is in reality the consumers who hold the "power" in a market economy because it is within their ken to trade and thus to dispense profits and losses. Mises (2006) argues that

> [i]n the capitalist system of society's economic organization the entrepreneurs determine the course of production. In the performance of this function they are unconditionally and totally subject to the sovereignty of the buying public, the consumers.

Guided by the signals profits and losses provide, entrepreneurs continually readjust their production plans in the face of changing information. Profits and losses reward those who are successful and punish those who are not. Production has certain technological aspects; however, the main economic problems are not technological but are rather entrepreneurial and institutional: while a certain degree of engineering knowledge is fundamental to the technological side of the production process, knowledge of individual wants and individual desires is integral to the production of goods and services that will satisfy consumers in different regions, of different income strata, and in different contexts. One can be at the forefront of the artistic community in New York or San Francisco; however, an entrepreneur whose knowledge of what will "play in Peoria," so to speak, may be in a better position to earn a high income. He will likely be the one who is in a better position to serve consumers and, therefore, enrich himself.

It has been argued that one man's profit is another man's loss. While one's "felt uneasiness" is the source of profit-generating opportunities, it is rather the opportunity to *remove* felt uneasiness, and not the uneasiness itself, which is the source of profit. While some might be swept up in a "gale of creative destruction" (Schumpeter 1942) when the forces of supply and demand turn against them, it is not the fault of the successful competitor that their capacity to earn income has diminished. Rather, it is the consumer's preference combined with their own unwillingness or inability to adjust their production plans to new information. Even though we may grant that Montaigne may be correct in that a firm's profits may consist in part of business "stolen" from a competitor, the source

of a firm's losses are not their competitors' profits but rather their inability to satisfy consumers as well as their profitable competitors (Mises 1996).

In summary, the economic mechanism of profit and loss is an important but often misunderstood element of the political, economic, and social fabric. The ability to earn profits ensures that resources will be allocated to their highest-valued ends, and interference with the system of profit and loss in fact impairs our ability to better match our productive efforts with individual desires. High profits (as well as high losses and high turnover in the business world) are part and parcel of a dynamic, well-functioning economy. Profits reward those who serve consumers. Losses punish those who do not.

REFERENCES

Block, Walter. 1990. "The Discounted Marginal Value Product-Marginal Value Product Controversy: A Note." *Review of Austrian Economics* 4:199–207.

Hayek, F.A. 1945. "The Use of Knowledge in Society." *American Economic Review* 35(4): 519–30.

Hazlitt, Henry. 1946 [1996]. *Economics in One Lesson*. San Francisco: Laissez-Faire Books.

Heyne, Paul, Peter J. Boettke, and David N. Prychitko. 2002. *The Economic Way of Thinking*. Upper Saddle River, N.J.: Prentice Hall.

Mises, Ludwig von. 2006. "Profit and Loss." Mises.org Daily Article, October 7, 2006. Excerpted from *Planning for Freedom*. South Holland, Ill.: Libertarian Press, 1952. Accessed October 9, 2006.

——. 1996. *Human Action*. 4th ed. San Francisco: Fox and Wilkes.

——. 1957. *Theory and History.* New Haven, Conn.: Yale University Press.

Montaigne, Michel de. "The Profit of One Man is the Damage of Another." *Essays*. Chapter XXI. http://www.uoregon.edu/%7Erbear/montaigne/1xxi.htm

Phelps, Edmund S. 2006. "Dynamic Capitalism." *Wall Street Journal*, 10 October. P. A14.

Rothbard, Murray N. 2004. *Man, Economy, and State with Power and Market*. Auburn, Ala.: Ludwig von Mises Institute.

——. [1997] 1956. "Toward A Reconstruction of Utility and Welfare Economics." In *On Freedom and Free Enterprise: The Economics of Free Enterprise*. Mary Sennholz, ed. Reprinted in Murray N. Rothbard, *The Logic of Action One.* London: Edward Elgar. Pp. 211–54.

Schumpeter, Joseph A. 1942. *Capitalism, Socialism, and Democracy*. New York: Harper and Row.

Sowell, Thomas. 2004. *Basic Economics: A Citizen's Guide to the Economy*. Revised and Expanded Edition. New York: Basic Books.