HUMAN ACTION

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PART THREE
ACTION WITHIN THE FRAMEWORK OF SOCIETY
XII. The sphere of economic calculation

1. The Character of Monetary Entries

Economic calculation can comprehend everything that is exchanged against money.

The prices of goods and services are either historical data describing past events or anticipations of probable future events. Information about a past price conveys the knowledge that one or several acts of interpersonal exchange were effected according to this ratio. It does not convey directly any knowledge about future prices. We may often assume that the market conditions which determined the formation of prices in the recent past will not change at all or at least not change considerably in the immediate future so that prices too will remain unchanged or change only slightly. Such expectations are reasonable if the prices concerned were the result of the interaction of many people ready to buy or to sell provided the exchange ratios seemed propitious to them and if the market situation was not influenced by conditions which are considered as accidental, extraordinary, and not likely to return. However, the main task of economic calculation is not to deal with the problems of unchanging or only slightly changing market situations and prices, but to deal with change. The acting individual either anticipates changes which will occur without his own interference and wants to adjust his actions to this anticipated state of affairs; or he wants to embark upon a project which will change conditions even if no other factors produce a change. The prices of the past are for him merely starting points in his endeavors to anticipate future prices.

Historians and statisticians content themselves with prices of the past. Practical man looks at the prices of the future, be it only the immediate future of the next hour, day, or month. For him the prices of the past are merely a help in anticipating future prices. Not only in his preliminary calculation of the expected outcome of planned action, but no less in his attempts to establish the result of his past transactions, he is primarily concerned with future prices.

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In balance sheets and in profit-and-loss statements the result of past action becomes visible as the difference between the money equivalent of funds owned (total assets minus total liabilities) at the beginning and at the end of the period reported, and as the difference between the money equivalent of costs incurred and gross proceeds earned. In such statements it is necessary to enter the estimated money equivalent of all assets and liabilities other than cash. These items should be appraised according to the prices at which they could probably be sold in the future or, as is especially the case with equipment for production processes, in reference to the prices to be expected in the sale of merchandise manufactured with their aid. However, old business customs and the provisions of commercial law and of the tax laws have brought about a deviation from sound principles of accounting which aim merely at the best attainable degree of correctness. These customs and laws are not so much concerned with correctness in balance sheets and profit-and-loss statements as with the pursuit of other aims. Commercial legislation aims at a method of accounting which could indirectly protect creditors against loss. It tends more or less to an appraisal of assets below their estimated market value in order to make the net profit and the total funds owned appear smaller than they really are. Thus a safety margin is created which reduces the danger that, to the prejudice of creditors, too much might be withdrawn from the firm as alleged profit and that an already insolvent firm might go on until it had exhausted the means available for the satisfaction of its creditors. Contrariwise tax laws often tend toward a method of computation which makes earnings appear higher than an unbiased method would. The idea is to raise effective tax rates without making this raise visible in the nominal tax rates schedules. We must therefore distinguish between economic calculation as it is practiced by businessmen planning future transactions and those computations of business facts which serve other purposes. The determination of taxes due and economic calculation are two different things. If a law imposing a tax upon the keeping of domestic servants prescribes that one male servant should be counted as two female servants, nobody would interpret such a provision as anything other than a method for determining the amount of tax due. Likewise if an inheritance tax law prescribes that securities should be appraised at the stock market quotation on the day of the decedent's death, we are merely provided with a way of determining the amount of the tax.

The duly kept accounts in a system of correct bookkeeping are accurate as to dollars and cents. They display an impressive precision, and the numerical exactitude of their items seems to remove all doubts. In fact, the most important figures they contain are speculative anticipations of future market constellations. It is a mistake to compare the items of any commercial account to the items used in purely technological reckoning, e.g., in the design for the construction of a machine. The engineer--as far as he attends to the technological side of his job--

applies only numerical relations established by the methods of the experimental natural sciences; the businessman cannot avoid numerical terms which are the outcome of his understanding of future human conduct. The main thing in balance sheets and in profit-and-loss statements is the evaluation of assets and liabilities not embodied in cash. All such balances and statements are virtually interim balances and interim statements. They describe as well as possible the state of affairs at an arbitrarily chosen instant while life and action go on and do not stop. It is possible to wind up individual business units, but the whole system of social production never ceases. Nor are the assets and liabilities consisting in cash exempt from the indeterminacy inherent in all business accounting items. They depend on the future constellation of the market no less than any item of inventory or equipment. The numerical exactitude of business accounts and calculations must not prevent us from realizing the uncertainty and speculative character of their items and of all computations based on them.

Yet, these facts do not detract from the efficiency of economic calculation. Economic calculation is as efficient as it can be. No reform could add to its efficiency. It renders to acting man all the services which he can obtain from numerical computation. It is, of course, not a means of knowing future conditions with certainty, and it does not deprive action of its speculative character. But this can be considered a deficiency only by those who do not come to recognize the facts that life is not rigid, that all things are perpetually fluctuating, and that men have no certain knowledge about the future.

It is not the task of economic calculation to expand man's information about future conditions. Its task is to adjust his actions as well as possible to his present opinion concerning want-satisfaction in the future. For this purpose acting man needs a method of computation, and computation requires a common denominator to which all items entered are to be referable. The common denominator of economic calculation is money.

2. The Limits of Economic Calculation

Economic calculation cannot comprehend things which are not sold and bought against money.

There are things which are not for sale and for whose acquisition sacrifices other than money and money's worth must be expended. He who wants to train himself for great achievements must employ many means, some of which may require expenditure of money. But the essential things to be devoted to such an endeavor are not purchasable. Honor, virtue, glory, and likewise vigor, health, and life itself play a role in action both as means and as ends, but they do not enter into economic calculation.

There are things which cannot at all be evaluated in money, and there are other things which can be appraised in money only with regard to a fraction of the value assigned to them. The appraisal of an old building must disregard its artistic and historical eminence as far as these qualities are not a source of proceeds in money or goods vendible. What touches a man's heart only and does not induce other people to make sacrifices for its attainment remains outside the pale of economic calculation.

However, all this does not in the least impair the usefulness of economic calculation. Those things which do not enter into the items of accountancy and calculation are either ends or goods of the first order. No calculation is required to acknowledge them fully and to make due allowance for them. All that acting man needs in order to make his choice is to contrast them with the total amount of costs their acquisition or preservation requires. Let us assume that a town council has to decide between two water supply projects. One of them implies the demolition of a historical landmark, while the other at the cost of an increase in money expenditure spares this landmark. The fact that the feelings which recommend the conservation of the monument cannot be estimated in a sum of money does not in any way impede the councilmen's decision. The values that are not reflected in any monetary exchange ratio are, on the contrary, by this very fact lifted into a particular position which makes the decision rather easier. No complaint is less justified than the lamentation that the computation methods of the market do not comprehend things not vendible. Moral and aesthetic values do not suffer any damage on account of this fact.

Money, money prices, market transactions, and economic calculation based upon them are the main targets of criticism. Loquacious sermonizers disparage Western civilization as a mean system of mongering and peddling. Complacency, self-righteousness, and hypocrisy exult in scorning the "dollar-philosophy" of our age. Neurotic reformers, mentally unbalanced literati, and ambitious demagogues take pleasure in indicting "rationality" and in preaching the gospel of the "irrational." In the eyes of these babblers money and calculation are the source of the most serious evils. However, the fact that men have developed a method of ascertaining as far as possible the expediency of their actions and of removing uneasiness in the most practical and economic way does not prevent anybody from arranging his conduct according to the principle he considers to be right. The "materialism" of the stock exchange and of business accountancy does not hinder anybody from living up to the standards of Thomas a Kempis or from dying for a noble cause. The fact that the masses prefer detective stories to poetry and that it therefore pays better to write the former than the latter, is not caused by the use of money and monetary accounting. It is not the fault of money that there are gangsters, thieves, murderers, prostitutes, corruptible officials and judges. It is not true that honesty

does not "pay." It pays for those who prefer fidelity to what they consider to be right to the advantages which they could derive from a different attitude.

Other critics of economic calculation fail to realize that it is a method available only to people acting in the economic system of the division of labor in a social order based upon private ownership of the means of production. It can only serve the considerations of individuals or groups of individuals operating in the institutional setting of this social order. It is consequently a calculation of private profits and not of "social welfare." This means that the prices of the market are the ultimate fact for economic calculation. It cannot be applied for considerations whose standard is not the demand of the consumers as manifested on the market but the hypothetical valuations of a dictatorial body managing all national or earthly affairs. He who seeks to judge actions from the point of view of a pretended "social value," i.e., from the point of view of the "whole society," and to criticize them by comparison with the events in an imaginary socialist system in which his own will is supreme, has no use for economic calculation. Economic calculation in terms of money prices is the calculation of entrepreneurs producing for the consumers of a market society. It is of no avail for other tasks.

He who wants to employ economic calculation must not look at affairs in the manner of a despotic mind. Prices can be used for calculation by the entrepreneurs, capitalists, landowners, and wage earners of a capitalist society. For matters beyond the pursuits of these categories it is inadequate. It is nonsensical to evaluate in money objects which are not negotiated on the market and to employ in calculations arbitrary items which do not refer to reality. The law determines the amount which ought to be paid as indemnification for having caused a man's death. But the statute enacted for the determination of the amends due does not mean that there is a price for human life. Where there is slavery, there are market prices of slaves. Where there is no slavery man, human life, and health are *res extra commercium*. In a society of free men the preservation of life and health are ends, not means. They do not enter into any process of accounting means.

It is possible to determine in terms of money prices the sum of the income or the wealth of a number of people. But it is nonsensical to reckon national income or national wealth. As soon as we embark upon considerations foreign to the reasoning of a man operating within the pale of a market society, we are no longer helped by monetary calculation methods. The attempts to determine in money the wealth of a nation or of the whole of mankind are as childish as the mystic efforts to solve the riddles of the universe by worrying about the dimensions of the pyramid of Cheops. If a business calculation values a supply of potatoes at $100, the idea is that it will be possible to sell it or to replace it

against this sum. If a whole entrepreneurial unit is estimated $1,000,000, it means that one expects to sell it for this amount. But what is the meaning of the items in a statement of a nation's total wealth? What is the meaning of the computation's final result? What must be entered into it and what is to be left outside? Is it correct or not to enclose the "value" of the country's climate and the people's innate abilities and acquired skill? The businessman can convert his property into money, but a nation cannot.

The money equivalents as used in acting and in economic calculation are money prices, i.e., exchange ratios between money and other goods and services. The prices are not measured in money; they consist in money. Prices are either prices of the past or expected prices of the future. A price is necessarily a historical fact either of the past or of the future. There is nothing in prices which permits one to liken them to the measurement of physical and chemical phenomena.

3. The Changeability of Prices

Exchange ratios are subject to perpetual change because the conditions which produce them are perpetually changing. The value that an individual attaches both to money and to various goods and services is the outcome of a moment's choice. Every later instant may generate something new and bring about other considerations and valuations. Not that prices are fluctuating, but that they do not alter more quickly could fairly be deemed a problem requiring explanation.

Daily experience teaches people that the exchange ratios of the market are mutable. One would assume that their ideas about prices would take full account of this fact. Nevertheless all popular notions of production and consumption, marketing and prices are more or less contaminated by a vague and contradictory notion of price rigidity. The layman is prone to consider the preservation of yesterday's price structure both as normal and fair, and to condemn changes in the exchange ratios as a violation of the rules of nature and of justice.

It would be a mistake to explain these popular beliefs as a precipitate of old opinions conceived in earlier ages of more stable conditions of production and marketing. It is questionable whether or not prices were less changeable in those older days. On the contrary, it could rather be asserted that the merger of local markets into larger national markets, the final emergence of a world embracing world market, and the evolution of commerce aiming at continuously supplying the consumers have made price changes less frequent and less sharp. In precapitalistic times their was more stability in technological methods of production, but there was much more irregularity in supplying the various local markets and in adjusting supply to their changing demands. But even if it were true that prices were somewhat more stable in a remote past, it would be of little

avail for our age. The popular notions about money and money prices are not derived from ideas formed in the past. It would be wrong to interpret them as atavistic remnants. Under modern conditions every individual is daily faced with so many problems of buying and selling that we are right in assuming that his thinking about these matters is not simply a thoughtless reception of traditional ideas.

It is easy to understand why those whose short-run interests are hurt by a change in prices resent such changes, emphasize that the previous prices were not only fairer but also more normal, and maintain that price stability is in conformity with the laws of nature and of morality. But every change in prices furthers the short-run interests of other people. Those favored will certainly not be prompted by the urge to stress the fairness and normalcy of price rigidity.

Neither atavistic reminiscences nor the state of selfish group interests can explain the popularity of the idea of price stability. Its roots are to be seen in the fact that notions concerning social relations have been constructed according to the pattern of the natural sciences. The economists and sociologists who aimed at shaping the social sciences according to the pattern of physics or physiology only indulged in a way of thinking which popular fallacies had adopted long before.

Even the classical economists were slow to free themselves from this error. With them value was something objective, i.e., a phenomenon of the external world and a quality inherent in things and therefore measurable. They utterly failed to comprehend the purely human and voluntaristic character of value judgments. As far as we can see today, it was Samuel Bailey who first disclosed what is going on in preferring one thing to another[1]. But his book was overlooked as were the writings of other precursors of the subjective theory of value.

It is not only a task of economic science to discard the errors concerning measurability in the field of action. It is no less a task of economic policy. For the failures of present-day economic policies are to some extent due to the lamentable confusion brought about by the idea that there is something fixed and therefore measurable in interhuman relations.

4. Stabilization

An outgrowth of all these errors is the idea of stabilization.

[1] Cf. Samuel Bailey, *A Critical Dissertation on the Nature, Measures and Causes of Values*. London, 1825. No.7 in Series of Reprints of Scarce Tracts in Economics and Political Science, London School of Economics (London, 1931).

Shortcomings in the governments' handling of monetary matters and the disastrous consequences of policies aimed at lowering the rate of interest and at encouraging business activities through credit expansion gave birth to the ideas which finally generated the slogan "stabilization." One can explain its emergence and its popular appeal, one can understand it as the fruit of the last hundred and fifty years' history of currency and banking, one can, as it were, plead extenuating circumstances for the error involved. But no such sympathetic appreciation can render its fallacies any more tenable.

Stability, the establishment of which the program of stabilization aims at, is an empty and contradictory notion. The urge toward action, i.e., improvement of the conditions of life, is inborn in man. Man himself changes from moment to moment and his valuations, volitions, and acts change with him. In the realm of action there is nothing perpetual but change. There is no fixed point in this ceaseless fluctuation other than the eternal aprioristic categories of action. It is vain to sever valuation and action from man's unsteadiness and the changeability of his conduct and to argue as if there were in the universe eternal values independent of human value judgments and suitable to serve as a yardstick for the appraisal of real action[2].

All methods suggested for a measurement of the changes in the monetary unit's purchasing power are more or less unwittingly founded on the illusory image of an eternal and immutable being who determines by the application of an immutable standard the quantity of satisfaction which a unit of money conveys to him. It is a poor justification of this ill-thought idea that what is wanted is merely to measure changes in the purchasing power of money. The crux of the stability notion lies precisely in *this* concept of purchasing power. The layman, laboring under the ideas of physics, once considered money as a yardstick of prices. He believed that fluctuations of exchange ratios occur only in the relations between the various commodities and services and not also in the relation between money and the "totality" of goods and services. Later, people reversed the argument. It was no longer money to which constancy of value was attributed, but the "totality" of things vendible and purchasable. People began to devise methods for working up complexes of commodity units to be contrasted to the monetary unit. Eagerness to find indexes for the measurement of purchasing power silenced all scruples. Both the doubtfulness and the incomparability of the price records employed and the arbitrary character of the procedures used for the computation of averages were disregarded.

Irving Fisher, the eminent economist, who was the champion of the American stabilization movement, contrasts with the dollar a basket containing all the

[2] For the propensity of the mind to view rigidity and unchangeability as the essential thing and change and motion as the accidental, cf. Bergson, *La Pensee et le mouvant*, pp. 85 ff.

goods the housewife buys on the market for the current provision of her household. In the proportion in which the amount of money required for the purchase of the content of this basket changes, the purchasing power of the dollar has changed. The goal assigned to the policy of stabilization is the preservation of the immutability of this money expenditure[3]. This would be all right if the housewife and her imaginary basket were constant elements, if the basket were always to contain the same goods and the same quantity of each and if the role which this assortment of goods plays in the family's life were not to change. But we are living in a world in which none of these conditions is realized.

First of all there is the fact that the quality of the commodities produced and consumed changes continuously. It is a mistake to identify wheat with wheat, not to speak of shoes, hats, and other manufactures. The great price differences in the synchronous sales of commodities which mundane speech and statistics arrange in the same class clearly evidence this truism. An idiomatic expression asserts that two peas are alike; but buyers and sellers distinguish various qualities and grades of peas. A comparison of prices paid at different places or at different dates for commodities which technology or statistics calls by the same name, is useless if it is not certain that their qualities--but for the place difference--are perfectly the same. Quality means in this connection: all those properties to which the buyers and would-be-buyers pay heed. The mere fact that the quality of all goods and services of the first order is subject to change explodes one of the fundamental assumptions of all index number methods. It is irrelevant that a limited amount of goods of the higher orders--especially metals and chemicals which can be uniquely determined by a formula--are liable to a precise description of their characteristic features. A measurement of purchasing power would have to rely upon the prices of the goods and services of the first order and, what is more, of *all* of them. To employ the prices of the producers' goods is not helpful because it could not avoid counting the various stages of the production of one and the same consumers' good several times and thus falsifying the result. A restriction to a group of selected goods would be quite arbitrary and therefore vicious.

But even apart from all these insurmountable obstacles the task would remain insoluble. For not only do the technological features of commodities change and new kinds of goods appear while many old ones disappear. Valuations change too, and they cause changes in demand and production. The assumptions of the measurement doctrine would require men whose wants and valuations are rigid. Only if people were to value the same things always in the same way, could we

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[3] Cf. Irving Fisher, *The Monetary Illusion* (New York, 1928), pp. 19-20.

consider price changes as expressive of changes in the power of money to buy things.

As it is impossible to establish the total amount of money spent at a given fraction of time for consumers' goods, statisticians must rely upon the prices paid for individual commodities. This raises two further problems for which there is no apodictic solution. It becomes necessary to attach to the various commodities coefficients of importance. It would be manifestly wrong to let the prices of various commodities enter into the computation without taking into account the different roles they play in the total system of the individuals' households. But the establishment of such proper weighting is again arbitrary. Secondly, it becomes necessary to compute averages out of the data collected and adjusted. But there exist different methods for the computation of averages. There are the arithmetic, the geometric, the harmonic averages, there is the quasi-average known as the median. Each of them leads to different results. None of them can be recognized as the unique way to attain a logically unassailable answer. The decision in favor of one of these methods of computation is arbitrary.

If all human conditions were unchangeable, if all people were always to repeat the same actions because their uneasiness and their ideas about its removal were constant, or if we were in a position to assume that changes in these factors occurring with some individuals or groups are always outweighed by opposite changes with other individuals or groups and therefore do not effect total demand and total supply, we would live in a world of stability. But the idea that in such a world money's purchasing power could change is contradictory. As will be shown later, changes in the purchasing power of money must necessarily affect the prices of different commodities and services at different times and to different extents; they must consequently bring about changes in demand and supply, in production and consumption[4]. The idea implied in the inappropriate term *level of prices,* as if --other things being equal--all prices could rise or drop evenly, is untenable. Other things cannot remain equal if the purchasing power of money changes.

In the field of praxeology and economics no sense can be given to the notion of measurement. In the hypothetical state of rigid conditions there are no changes to be measured. In the actual world of change there are no fixed points, dimensions, or relations which could serve as a standard. The monetary unit's purchasing power never changes evenly with regard to all things vendible and purchasable. The notions of stability and stabilization are empty if they do not refer to a state of rigidity and its preservation. However, this state of rigidity cannot even be thought out consistently to its ultimate logical consequences; still

[4] See below, pp. 411-413.

less can it be realized[5]. Where there is action, there is change. Action is a lever of change.

The pretentious solemnity which statisticians and statistical bureaus display in computing indexes of purchasing power and cost of living is out of place. These index numbers are at best rather crude and inaccurate illustrations of changes which have occurred. In periods of slow alterations in the relation between the supply of and the demand for money they do not convey any information at all. In periods of inflation and consequently of sharp price changes they provide a rough image of events which every individual experiences in his daily life. A judicious housewife knows much more about price changes as far as they affect her own household than the statistical averages can tell. She has little use for computations disregarding changes both in quality and in the amount of goods which she is able or permitted to buy at the prices entering into the computation. If she "measures" the changes for her personal appreciation by taking the prices of only two or three commodities as a yardstick, she is no less "scientific" and no more arbitrary than the sophisticated mathematicians in choosing their methods for the manipulation of the data of the market.

In practical life nobody lets himself be fooled by index numbers. Nobody agrees with the fiction that they are to be considered as measurements. Where quantities are measured, all further doubts and disagreements concerning their dimensions cease. These questions are settled. Nobody ventures to argue with the meteorologists about their measurements of temperature, humidity, atmospheric pressure, and other meteorological data. But on the other hand nobody acquiesces in an index number if he does not expect a personal advantage from its acknowledgment by public opinion. The establishment of index numbers does not settle disputes; it merely shifts them into a field in which the clash of antagonistic opinions and interests is irreconcilable.

Human action originates change. As far as there is human action there is no stability, but ceaseless alteration. The historical process is a sequence of changes. It is beyond the power of man to stop it and to bring about an age of stability in which all history comes to a standstill. It is man's nature to strive after improvement, to beget new ideas, and to rearrange the conditions of his life according to these ideas.

The prices of the market are historical facts expressive of a state of affairs that prevailed at a definite instant of the irreversible historical process. In the praxeological orbit the concept of measurement does not make any sense. In the imaginary--and, of course, unrealizable--state of rigidity and stability there are no changes to be measured. In the actual world of permanent change there are

[5] See below, pp. 247-250.

no fixed points, objects, qualities or relations with regard to which changes could be measured.

5. The Root of the Stabilization Idea

Economic calculation does not require monetary stability in the sense in which this term is used by the champions of the stabilization movement. The fact that rigidity in the monetary unit's purchasing power is unthinkable and unrealizable does not impair the methods of economic calculation. What economic calculation requires is a monetary system whose functioning is not sabotaged by government interference. The endeavors to expand the quantity of money in circulation either in order to increase the government's capacity to spend or in order to bring about a temporary lowering of the rate of interest disintegrate all currency matters and derange economic calculation. The first aim of monetary policy must be to prevent governments from embarking upon inflation and from creating conditions which encourage credit expansion on the part of banks. But this program is very different from the confused and self-contradictory program of stabilizing purchasing power.

For the sake of economic calculation all that is needed is to avoid great and abrupt fluctuations in the supply of money. Gold and, up to the middle of the nineteenth century, silver served very well all the purposes of economic calculation. Changes in the relation between the supply of and the demand for the precious metals and the resulting alterations in purchasing power went on so slowly that the entrepreneur's economic calculation could disregard them without going too far afield. Precision is unattainable in economic calculation quite apart from the shortcomings emanating from not paying due consideration to monetary changes[6]. The planning businessman cannot help employing data concerning the unknown future; he deals with future prices and future costs of production. Accounting and bookkeeping in their endeavors to establish the result of past action are in the same position as far as they rely upon the estimation of fixed equipment, inventories, and receivables. In spite of all these uncertainties economic calculation can achieve its tasks. For these uncertainties do not stem from deficiencies of the system of calculation. They are inherent in the essence of acting that always deals with the uncertain future.

The idea of rendering purchasing power stable did not originate from endeavors to make economic calculation more correct. Its source is the wish to create a sphere withdrawn from the ceaseless flux of human affairs, a realm which the

[6] No practical calculation can ever be precise. The formula underlying the process of calculation may be exact; the calculation itself depends on the approximate establishment of quantities and is therefore necessarily inaccurate. Economics is, as has been shown above (p. 39), an exact science of real things. But as soon as price data are introduced into the chain of thought, exactitude is abandoned and economic history is submitted for economic theory.

historical process does not effect. Endowments which were designed to provide in perpetuity for an ecclesiastic body, for a charitable institution, or for a family were long established in land or in disbursement of agricultural products in kind. Later annuities to be settled in money were added. Endowers and beneficiaries expected that an annuity determined in terms of a definite amount of precious metals would not be affected by changes in economic conditions. But these hopes were illusory. Later generations learned that the plans of their ancestors were not realized. Stimulated by this experience they began to investigate how the aims sought could be attained. Thus they embarked upon attempts to measure changes in purchasing power and to eliminate such changes.

The problem assumed much greater importance when governments initiated their policies of long-term irredeemable and perpetual loans. The state, this new deity of the dawning age of statolatry, this eternal and superhuman institution beyond the reach of earthly frailties, offered to the citizen an opportunity to put his wealth in safety and to enjoy a stable income secure against all vicissitudes. It opened a way to free the individual from the necessity of risking and acquiring his wealth and his income anew each day in the capitalist market. He who invested his funds in bonds issued by the government and its subdivisions was no longer subject to the inescapable laws of the market and to the sovereignty of the consumers. He was no longer under the necessity of investing his funds in such a way that they would best serve the wants and needs of the consumers. He was secure, he was safeguarded against the dangers of the competitive market in which losses are the penalty of inefficiency; the eternal state had taken him under its wing and guaranteed him the undisturbed enjoyment of his funds. Henceforth his income no longer stemmed from the process of supplying the wants of the consumers in the best possible way, but from the taxes levied by the state's apparatus of compulsion and coercion. He was no longer a servant of his fellow citizens, subject to their sovereignty; he was a partner of the government which ruled the people and exacted tribute from them. What the government paid as interest was less than the market offered. But this difference was far outweighed by the unquestionable solvency of the debtor, the state whose revenue did not depend on satisfying the public, but on insisting on the payment of taxes.

In spite of the unpleasant experiences with public debts in earlier days, people were ready to trust freely the modernized state of the nineteenth century. It was generally assumed that this new state would scrupulously meet its voluntarily contracted obligations. Capitalists and entrepreneurs were fully aware of the fact that in the market society there is no means of preserving acquired wealth other than by acquiring it anew each day in tough competition with everybody, with the already existing firms as well as with newcomers "operating on a shoe string." The entrepreneur, grown old and weary and no longer prepared to risk

his hard-earned wealth by new attempts to meet the wants of consumers, and the heir of other people's profits, lazy and fully conscious of his own inefficiency, preferred investment in bonds of the public debt because they wanted to be free from the law of the market.

Now, the irredeemable perpetual public debt presupposes the stability of purchasing power. Although the state and its compulsion may be eternal, the interest paid on the public debt could be eternal only if based on a standard of unchanging value. In this form the investor who for security's sake shuns the market, entrepreneurship, and investment in free enterprise and prefers government bonds is faced again with the problem of the changeability of all human affairs. He discovers that in the frame of a market society there is no room left for wealth not dependent upon the market. His endeavors to find an inexhaustible source of income fail.

There are in this world no such things as stability and security and no human endeavors are powerful enough to bring them about. There is in the social system of the market society no other means of acquiring wealth and of preserving it than successful service to the consumers. The state is, of course, in a position to exact payments from its subjects and to borrow funds. However, even the most ruthless government in the long run is not able to defy the laws determining human life and action. If the government uses the sums borrowed for investment in those lines in which they best serve the wants of the consumers, and if it succeeds in these entrepreneurial activities in free and equal competition with all private entrepreneurs, it is in the same position as any other businessman; it can pay interest because it has made surpluses. But if the government invests funds unsuccessfully and no surplus results, or if it spends the money for current expenditure , the capital borrowed shrinks or disappears entirely, and no source is opened from which interest and principal could be paid. Then taxing the people is the only method available for complying with the articles of the credit contract. In asking taxes for such payments the government makes the citizens answerable for money squandered in the past. The taxes paid are not compensated by any present service rendered by the government's apparatus. The government pays interest on capital which has been consumed and no longer exists. The treasury is burdened with the unfortunate results of past policies.

A good case can be made out for short-term government debts under special conditions. Of course, the popular justification of war loans is nonsensical. All the materials needed for the conduct of a war must be provided by restriction of civilian consumption, by using up a part of the capital available and by working harder. The whole burden of warring falls upon the living generation. The coming generations are only affected to the extent to which, on account of the

war expenditure, they will inherit less from those now living than they would have if no war had been fought. Financing a war through loans does not shift the burden to the sons and grandsons[7]. It is merely a method of distributing the burden among the citizens. If the whole expenditure had to be provided by taxes, only those who have liquid funds could be approached. The rest of the people would not contribute adequately. Short-term loans can be instrumental in removing such inequalities, as they allow for a fair assessment on the owners of fixed capital.

The long-term public and semipublic credit is a foreign and disturbing element in the structure of a market society. Its establishment was a futile attempt to go beyond the limits of human action and to create an orbit of security and eternity removed from the transitoriness and instability of earthly affairs. What an arrogant presumption to borrow and to lend money for ever and ever, to make contracts for eternity, to stipulate for all times to come! In this respect it mattered little whether the loans were in a formal manner made irredeemable or not; intentionally and practically they were as a rule considered and dealt with as such. In the heyday of liberalism some Western nations really retired parts of their long-term debt by honest reimbursement. But for the most part new debts were only heaped upon old ones. The financial history of the last century shows a steady increase in the amount of public indebtedness. Nobody believes that the states will eternally drag the burden of these interest payments. It is obvious that sooner or later all these debts will be liquidated in some way or other, but certainly not by payment of interest and principal according to the terms of the contract. A host of sophisticated writers are already busy elaborating the moral palliation for the day of final settlement[8].

The fact that economic calculation in terms of money is unequal to the tasks which are assigned to it in these illusory schemes for establishment of an unrealizable realm of calm removed from the inescapable limitations of human action and providing eternal security cannot be called a deficiency. There are no such things as eternal, absolute, and unchanging values. The search for a standard of such values is vain. Economic calculation is not imperfect because it does not correspond to the confused ideas of people yearning for a stable income not dependent on the productive processes of men.

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[7] Loans, in this context, mean funds borrowed from those who have money available for lending. We do not refer here to credit expansion of which the main vehicle in present-day America is borrowing from the commercial banks.

[8] The most popular of these doctrines is crystallized in the phrase: A public debt is no burden because we owe it to ourselves. If this were true, then the wholesale obliteration of the public debt would be an innocuous operation, a mere act of bookkeeping and accountancy. The fact is that the public debt embodies claims of people who have in the past entrusted funds to the government against all those who are daily producing new wealth. It burdens the producing strata for the benefit of another part of the people. It is possible to free the producers of new wealth from this burden by collecting the taxes required for the payments exclusively from the bondholders. But this means undisguised repudiation.