

# **HUMAN ACTION**

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## **PART THREE**

### **ACTION WITHIN THE FRAMEWORK OF SOCIETY**

#### **XIII. Monetary calculation as a tool of action**

##### **1. Monetary Calculation as a Method of Thinking**

Monetary calculation is the guiding star of action under the social system of division of labor. It is the compass of the man embarking upon production. He calculates in order to distinguish the remunerative lines of production from the unprofitable ones, those of which the sovereign consumers are likely to approve from those of which they are likely to disapprove. 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 proceeds. The retrospective establishment of the outcome of past action becomes accounting of profit and loss.

The system of economic calculation in monetary terms is conditioned by certain social institutions. It can operate only in an institutional setting of the division of labor and private ownership of the means of production in which goods and services of all orders are bought and sold against a generally used medium of exchange, i.e., money.

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 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<sup>1</sup>. All its results refer to the actions of individuals only. When statisticians summarize these results, the outcome shows the sum of the autonomous actions of a plurality of self-directing individuals, but not the effect of the action of a collective body, of a whole, or of a totality. Monetary calculation is entirely inapplicable and useless for any consideration which does not look at things from the point of view of individuals. It involves calculating the individuals' profits, not imaginary "social" values and "social" welfare.

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<sup>1</sup> In partnerships and corporations it is always individuals who act, although not only one individual.

Monetary calculation is the main vehicle of planning and acting in the social setting of a society of free enterprise directed and controlled by the market and its prices. It developed in this frame and was gradually perfected with the improvement of the market mechanism and with the expansion of the scope of things which are negotiated on markets against money. It was economic calculation that assigned to measurement, number, and reckoning the role they play in our quantitative and computing civilization. The measurements of physics and chemistry make sense for practical action only because there is economic calculation. It is monetary calculation that made arithmetic a tool in the struggle for a better life. It provides a mode of using the achievements of laboratory experiments for the most efficacious removal of uneasiness.

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 deportment 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. Goethe was right in calling bookkeeping by double entry "one of the finest inventions of the human mind."<sup>2</sup>

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<sup>2</sup> Cf. Goethe, *Wilhelm Meister's Apprenticeship*, Bk. I, chap. x.

## **2. Economic Calculation and the Science of Human Action**

The evolution of capitalist economic calculation was the necessary condition for the establishment of a systematic and logically coherent science of human action. Praxeology and economics have a definite place in the evolution of human history and in the process of scientific research. They could only emerge when acting man had succeeded in creating methods of thinking that made it possible to calculate his actions. The science of human action was at the beginning merely a discipline dealing with those actions which can be tested by monetary calculation. It dealt exclusively with what we may call the orbit of economics in the narrower sense, that is, with those actions which within a market society are transacted by the intermediary of money. The first steps on the way to its elaboration were odd investigations concerning currency, moneylending, and the prices of various goods. The knowledge conveyed by Gresham's Law, the first crude formulations of the quantity theory of money--such as those of Bodin and Davanzati--and the Law of Gregory King mark the first dawn of the cognition that regularity of phenomena and inevitable necessity prevail in the field of action. The first comprehensive system of economic theory, that brilliant achievement of the classical economists, was essentially a theory of calculated action. It drew implicitly the borderline between what is to be considered economic and what extra-economic along the line which separates action calculated in monetary terms from other action. Starting from this basis, the economists were bound to widen step by step the field of their studies until they finally developed a system dealing with all human choices, a general theory of action.