
PRINCIPLES OF ECONOMICS



LECTURE 1

Human Action

Monday Sept 25. 2023

If you've found mainstream economics tedious and uninformative, you are not alone

- Most intelligent people struggle to make sense of their economics university courses
- The problem is not that economics is too difficult and sophisticated to understand, the problem is university economics

University textbooks today are steeped in Keynesians' high time preference and ignorance

- It is impossible to teach anything useful with these textbooks as a base
- These textbooks teach you some irrelevant models and thought exercises with little relevance to the real world, and predictable conclusions
- Austrian economics is a much more useful approach, which provides students with value

The Austrian tradition does not have an easily-accessible comprehensive textbook

- Rothbard's *Man, Economy, and State*, and Mises' *Human Action*, are not easily readable by the modern reader
- More geared toward arguing with economists than explaining to readers
- What we need is a simple explanation of economics from the Austrian perspective, aimed at the learner, not the academic

This is the book I wanted to teach

- This is the book I would have liked to learn at age 18
- A clear, concise, and readable treatment of the main economic ideas in the Austrian tradition, culminating in an understanding of the civilizational importance of the extended monetary market order.

This book forms an introduction to the principles of economics, and the economic way of thinking—a powerful tool of mental planning useful for everyone to understand.

- It uses the plain written word to explain what many economists throughout history have found to be the most powerful methods of understanding economic phenomena.
- This online course is the equivalent of two university courses

- I Fundamentals**
- II Economy**
- III The Market Order**
- IV Monetary Economics**
- V Civilization**

I Fundamentals

Human action

Value

Time

II Economy

Labor

Property

Capital

Technology

Energy and Power

III The Market Order

Trade

Money

Markets

Capitalism

IV Monetary Economics

Time Preference

Credit and Banking

Monetary Expansion

V Civilization

Violence

Defense

Civilization

Chapter 1: Human Action

Mises' Human Action offered an explicit redefinition of the field of economics as the study of **human action and choice under scarcity**.

Mises: analyze human action, rather than analyzing material objects and their properties, or aggregate and abstract units

Most intellectuals analyzed humanity as a whole or analyzed collectivist concepts like nation, race, or church, and sought to find laws to explain the behavior of such entities and their consequences, as if history had ironclad laws to be discovered, akin to the natural sciences.

- Austrians focus on individual human choice and action

What is “Action”?

- Purposeful behavior
- “Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego’s meaningful response to stimuli and to the conditions of its environment, is a person’s conscious adjustment to the state of the universe that determines his life.”

Rothbard: ““purposeful behavior toward the attainment of ends in some future period which will involve the fulfillment of wants otherwise remaining unsatisfied.”

- Humans act purposefully because we are endowed with reason and are able to direct it to the meeting of our ends.
- Animals yield to their instincts, but human reason supersedes it
- Action is rational, in the sense of being the product of reason, not in the sense of being correct

Economic Analysis

If economics studies human action, we can define economic terminology in relation to human needs and how humans treat them

An economic theory consists of:

- 1 An understanding of the meaning of action
- 2 a situation described in terms of action categories
- 3 a logical deduction of the consequences

The goal is understanding

- Logical deduction, thought experiments, and common sense familiarity with reality are employed to understand the implications of economic processes.
- Quantitative analysis is meaningless and mute without logical deduction and conclusions to motivate it and understand its results

Quantitative Analysis

- 1 No constants
- 2 No replicable experimentation
- 3 Conflating factors that can be measured with the
- 4 causal factors
- 5 Conflating accounting identities for causality

After a century of aping physics, economics has failed to produce one quantitative law or formula that can be independently tested and replicated.

1. Economics has no constants

Without a constant, there can be no measurement, and therefore there can be no quantitative relationships established

Since value is subjective, it cannot be measured

Appendix 1 compares quantitative approaches in natural science to economics

- $PV = nRT$
- **P** is pressure in bars
V is volume in liters
n is the number of moles (where each mole is $6.02214076 \times 10^{23}$ atoms)
T is temperature in kelvin
R is the Regnault constant of 0.083145 L.bar/mol.K.

This relationship is possible because all units are measured using constants defined by the seven base units of the International System of Units (SI):

second, meter, kilogram, ampere, kelvin, mole, candela

- These reliable physical units for measurement makes it possible to engage in systematic, reproducible, and quantifiable scientific experimentation.
- These constants and measurements make it possible to conduct systematic experimentation with gasses at different volumes, temperatures, and degrees of pressure.
- The reliability of these units is reflected in the number of workers and technicians who use the same tools and equipment with commonly agreed-upon standards.

There are no equivalent constants in economics

- Economic value can only be measured ordinally, in a way that compares the value of one good to another, and not cardinally, by assigning a mathematical value to each good.
- Value is experienced psychologically, it is not physically defined
- So quantitative analysis of economics breaks down.

2. No replicable experimentation

- In natural science, you study physical objects, and you can perform experiments on them to establish relationships
- In economics, we study the action of humans in the real world. Laboratories cannot approximate that

3. Focusing on what can be measured, not what matters

- The driving force is individual action and subjective valuation, but that can't be measured
- Economic aggregates can be measured, so we focus on that

4. Mistaking accounting identities for causality

- Macroeconomics assumes relationships based on accounting identities must mean causality

After a century of aping physics, economics has failed to produce one quantitative law or formula that can be independently tested and replicated.

- The poster-child for quantitative economics' failure is the mythical trade-off between unemployment and inflation

According to modern economic pseudoscience, based largely on the work of English child rapist John Maynard Keynes, there is a trade-off between unemployment and inflation

- But reality stubbornly refuses to abide by this fiction

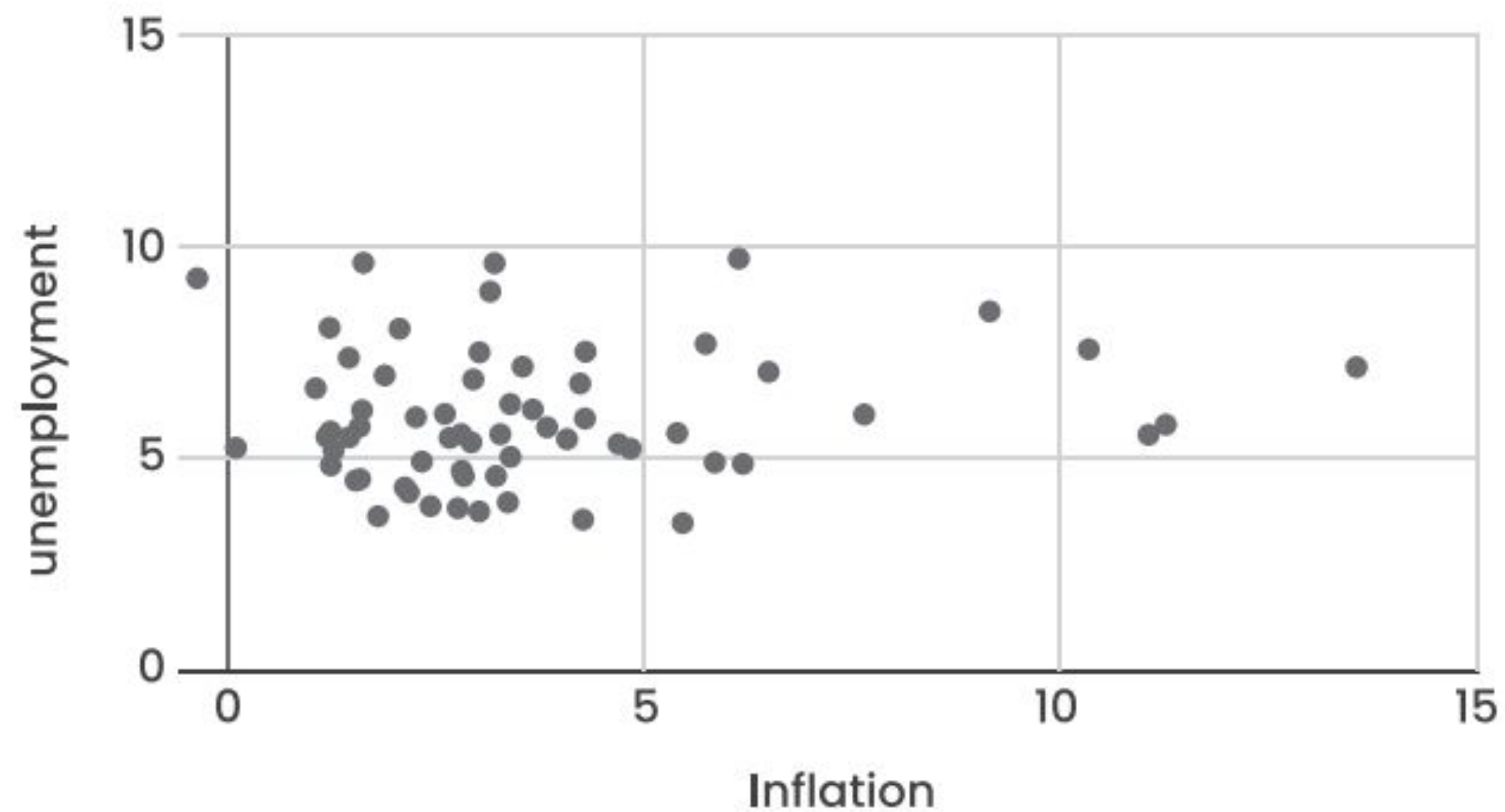


Figure 1. Unemployment and inflation¹¹

No studies or experiments are possible, but Keynesians nonetheless assume they can establish this as an economic law.

- And when reality fails to conform, they simply redefine terminology to try to keep their theory alive. This is the quintessential pseudoscientific method.

A contrast of approaches

- How does the approach of mainstream quantitative economics differ from that of Austrian praxeological economics?
- Take minimum wage as an example

Mainstream quantitative economist has a quantitative model:

- 20% of all workers, supporting 35% of all the population, currently earn less than \$10 per hour.
- \$10 minimum wage would lead to a rise in wages equal to \$10 billion per year
- This results in \$8 billion increase in spending
- Creates 40,000 new jobs, 12% increase in industrial output, \$16 billion increase in GDP

Austrian economist analyzes things through human action

- Two people need to agree to create a job: Worker and employer
- Employer will only employ the worker if return from employment exceeds wage
- If worker has a lower productivity than the mandated minimum wage, the employer will not hire the worker
- Minimum wage law makes it illegal for employers to hire anyone whose marginal productivity is less than \$10 per hour

Minimum wage law criminalizes employment for the youngest, poorest, and least experienced, making it very difficult for them to gain experience and break out of poverty

- Businesses would raise prices or lower quality
- Businesses could increase automation

Empirical observation concurs far more with human action analysis than with quantitative approaches

- See: *Forty Centuries of Wage and Price Controls*

Collectivists look at the world of economic transactions as an inhuman process they can alter to suit their needs.

- They mandate that the observable epiphenomena associated with markets fall within acceptable ranges. They assume humans will just adjust their actions to ensure these laws are upheld.
- In reality, humans adjust their actions to optimize for their own well-being, not to satisfy bureaucrats.
- The merchant would rather not sell at all than sell at a loss. You will either see the free-market price or you will see no market price at all.
- In the latter economy, real prices are expressed in underground markets.

Almost all modern economics textbook approach economics from the pseudoscientific quantitative approach

This course and book will be different