

CONTENTS

INTRODUCTION TO THE SECOND EDITION OF <i>MAN, ECONOMY, AND STATE WITH POWER AND MARKET</i> by Joseph T. Salerno	xix
PREFACE TO REVISED EDITION.	li
CHAPTER 1—FUNDAMENTALS OF HUMAN ACTION	1
1. The Concept of Action.	1
2. First Implications of the Concept	2
3. Further Implications: The Means	8
4. Further Implications: Time	13
5. Further Implications.	17
A. Ends and Values	17
B. The Law of Marginal Utility.	21
6. Factors of Production: The Law of Returns	33
7. Factors of Production: Convertibility and Valuation	38
8. Factors of Production: Labor versus Leisure	42
9. The Formation of Capital	47
10. Action as an Exchange	70
Appendix A: Praxeology and Economics	72
Appendix B: On Means and Ends.	76
CHAPTER 2—DIRECT EXCHANGE	79
1. Types of Interpersonal Action: Violence	79
2. Types of Interpersonal Action: Voluntary Exchange and the Contractual Society	84

3. Exchange and the Division of Labor	95
4. Terms of Exchange	103
5. Determination of Price: Equilibrium Price	106
6. Elasticity of Demand	126
7. Speculation and Supply and Demand Schedules	130
8. Stock and the Total Demand to Hold	137
9. Continuing Markets and Changes in Price	142
10. Specialization and Production of Stock	153
11. Types of Exchangeable Goods	162
12. Property: The Appropriation of Raw Land	169
13. Enforcement Against Invasion of Property	176
 CHAPTER 3—THE PATTERN OF INDIRECT EXCHANGE	 187
1. The Limitations of Direct Exchange	187
2. The Emergence of Indirect Exchange	189
3. Some Implications of the Emergence of Money	193
4. The Monetary Unit	196
5. Money Income and Money Expenditures	198
6. Producers' Expenditures	206
7. Maximizing Income and Allocating Resources	213
 CHAPTER 4—PRICES AND CONSUMPTION	 233
1. Money Prices	233
2. Determination of Money Prices	238
3. Determination of Supply and Demand Schedules	249
4. The Gains of Exchange	257
5. The Marginal Utility of Money	261
A. The Consumer	261
B. The Money Regression	268
C. Utility and Costs	276
D. Planning and the Range of Choice	279
6. Interrelations among the Prices of Consumers' Goods	280
7. The Prices of Durable Goods and Their Services	288
8. Welfare Comparisons and the Ultimate Satisfactions of the Consumer	298

9. Some Fallacies Relating to Utility	302
Appendix A: The Diminishing Marginal Utility of Money.	311
Appendix B: On Value	316
CHAPTER 5—PRODUCTION: THE STRUCTURE.	319
1. Some Fundamental Principles of Action	319
2. The Evenly Rotating Economy	320
3. The Structure of Production:	
A World of Specific Factors	329
4. Joint Ownership of the Product by the	
Owners of the Factors	333
5. Cost	340
6. Ownership of the Product by Capitalists:	
Amalgamated Stages	345
7. Present and Future Goods: The Pure Rate of Interest	348
8. Money Costs, Prices, and Alfred Marshall	353
9. Pricing and the Theory of Bargaining	362
CHAPTER 6—PRODUCTION: THE RATE OF INTEREST	
 AND ITS DETERMINATION	367
1. Many Stages: The Pure Rate of Interest	367
2. The Determination of the Pure Rate of Interest:	
The Time Market	375
3. Time Preference and Individual Value Scales	379
4. The Time Market and the Production Structure	390
5. Time Preference, Capitalists, and Individual	
Money Stock	410
6. The Post-Income Demanders	416
7. The Myth of the Importance of the Producers’	
Loan Market	420
8. The Joint-Stock Company	426
9. Joint-Stock Companies and the Producers’	
Loan Market	435
10. Forces Affecting Time Preferences	443
11. The Time Structure of Interest Rates	445
Appendix: Schumpeter and the Zero Rate of Interest	450

CHAPTER 7—PRODUCTION: GENERAL PRICING OF THE FACTORS	453
1. Imputation of the Discounted Marginal Value Product	453
2. Determination of the Discounted Marginal Value Product.	465
A. Discounting	465
B. The Marginal Physical Product.	466
(1) The Law of Returns	468
(2) Marginal Physical Product and Average Physical Product	468
C. Marginal Value Product	475
3. The Source of Factor Incomes	478
4. Land and Capital Goods	479
5. Capitalization and Rent	488
6. The Depletion of Natural Resources	496
Appendix A: Marginal Physical and Marginal Value Product.	500
Appendix B: Professor Rolph and the Discounted Marginal Productivity Theory.	504
 CHAPTER 8—PRODUCTION: ENTREPRENEURSHIP AND CHANGE.	 509
1. Entrepreneurial Profit and Loss	509
2. The Effect of Net Investment	517
3. Capital Values and Aggregate Profits in a Changing Economy	527
4. Capital Accumulation and the Length of the Structure of Production.	537
5. The Adoption of a New Technique.	544
The Entrepreneur and Innovation	546
6. The Beneficiaries of Saving-Investment	547
7. The Progressing Economy and the Pure Rate of Interest	549
8. The Entrepreneurial Component in the Market Interest Rate	550
9. Risk, Uncertainty, and Insurance.	552

CHAPTER 9—PRODUCTION: PARTICULAR FACTOR

PRICES AND PRODUCTIVE INCOMES	557
1. Introduction	557
2. Land, Labor, and Rent.	557
A. Rent	557
B. The Nature of Labor	564
C. Supply of Land	566
D. Supply of Labor	572
E. Productivity and Marginal Productivity	578
F. A Note on Overt and Total Wage Rates	580
G. The “Problem” of Unemployment	581
3. Entrepreneurship and Income	588
A. Costs to the Firm	588
B. Business Income	601
C. Personal Consumer Service	605
D. Market Calculation and Implicit Earnings	606
E. Vertical Integration and the Size of the Firm	609
4. The Economics of Location and Spatial Relations.	617
5. A Note on the Fallacy of “Distribution”	622
6. A Summary of the Market	624

CHAPTER 10—MONOPOLY AND COMPETITION 629

1. The Concept of Consumers’ Sovereignty	629
A. Consumers’ Sovereignty versus Individual Sovereignty	629
B. Professor Hutt and Consumers’ Sovereignty	631
2. Cartels and Their Consequences.	636
A. Cartels and “Monopoly Price”	636
B. Cartels, Mergers, and Corporations	643
C. Economics, Technology, and the Size of the Firm	645
D. The Instability of the Cartel	651
E. Free Competition and Cartels	653
F. The Problem of One Big Cartel.	659

3. The Illusion of Monopoly Price	661
A. Definitions of Monopoly	661
B. The Neoclassical Theory of Monopoly Price	672
C. Consequences of Monopoly-Price Theory	675
(1) The Competitive Environment	675
(2) Monopoly Profit versus Monopoly Gain to a Factor	677
(3) A World of Monopoly Prices?	680
(4) "Cutthroat" Competition	681
D. The Illusion of Monopoly Price on the Unhampered Market	687
E. Some Problems in the Theory of the Illusion of Monopoly Price	698
(1) Location Monopoly	698
(2) Natural Monopoly	702
4. Labor Unions	704
A. Restrictionist Pricing of Labor	704
B. Some Arguments for Unions: A Critique	716
(1) Indeterminacy	716
(2) Monopsony and Oligopsony	717
(3) Greater Efficiency and the "Ricardo Effect" . . .	718
5. The Theory of Monopolistic or Imperfect Competition	720
A. Monopolistic Competitive Price	720
B. The Paradox of Excess Capacity	726
C. Chamberlin and Selling Cost	736
6. Multiform Prices and Monopoly	739
7. Patents and Copyrights	745
 CHAPTER 11—MONEY AND ITS PURCHASING POWER	 755
1. Introduction	755
2. The Money Relation: The Demand for and the Supply of Money	756
3. Changes in the Money Relation	762
4. Utility of the Stock of Money	764

5. The Demand for Money	767
A. Money in the ERE and in the Market.	767
B. Speculative Demand.	768
C. Secular Influences on the Demand for Money.	771
D. Demand for Money Unlimited?	772
E. The PPM and the Rate of Interest	773
F. Hoarding and the Keynesian System	776
(1) Social Income, Expenditures, and Unemployment	776
(2) "Liquidity Preference".	785
G. The Purchasing-Power and Terms-of-Trade Components in the Rate of Interest	792
6. The Supply of Money	798
A. The Stock of the Money Commodity	798
B. Claims to Money: The Money Warehouse.	800
C. Money-Substitutes and the Supply of Money.	805
D. A Note on Some Criticisms of 100-Percent Reserve	810
7. Gains and Losses During a Change in the Money Relation.	811
8. The Determination of Prices: The Goods Side and the Money Side.	815
9. Interlocal Exchange	818
A. Uniformity of the Geographic Purchasing Power of Money	818
B. Clearing in Interlocal Exchange	821
10. Balances of Payments.	822
11. Monetary Attributes of Goods.	826
A. Quasi Money.	826
B. Bills of Exchange	827
12. Exchange Rates of Coexisting Moneys	828
13. The Fallacy of the Equation of Exchange.	831
14. The Fallacy of Measuring and Stabilizing the PPM	843
A. Measurement	843
B. Stabilization	847
15. Business Fluctuations	851
16. Schumpeter's Theory of Business Cycles	854

17. Further Fallacies of the Keynesian System	859
A. Interest and Investment	859
B. The "Consumption Function"	860
C. The Multiplier	866
18. The Fallacy of the Acceleration Principle.	868

CHAPTER 12—THE ECONOMICS OF VIOLENT

INTERVENTION IN THE MARKET 875

1. Introduction	875
2. A Typology of Intervention	877
3. Direct Effects of Intervention on Utility	878
4. Utility <i>Ex Post</i> : Free Market and Government	885
5. Triangular Intervention: Price Control.	892
6. Triangular Intervention: Product Control	900
7. Binary Intervention: The Government Budget	907
8. Binary Intervention: Taxation	914
A. Income Taxation	914
B. Attempts at Neutral Taxation.	919
C. Shifting and Incidence: A Tax on an Industry.	927
D. Shifting and Incidence: A General Sales Tax	930
E. A Tax on Land Values.	934
F. Taxing "Excess Purchasing Power"	937
9. Binary Intervention: Government Expenditures	938
A. The "Productive Contribution" of Government Spending.	938
B. Subsidies and Transfer Payments.	942
C. Resource-Using Activities	944
D. The Fallacy of Government on a "Business Basis"	946
E. Centers of Calculational Chaos	952
F. Conflict and the Command Posts	953
G. The Fallacies of "Public" Ownership	955
H. Social Security	957
I. Socialism and Central Planning.	958

10. Growth, Affluence, and Government	962
A. The Problem of Growth	962
B. Professor Galbraith and the Sin of Affluence	973
11. Binary Intervention: Inflation and Business Cycles	989
A. Inflation and Credit Expansion	989
B. Credit Expansion and the Business Cycle	994
C. Secondary Developments of the Business Cycle	1004
D. The Limits of Credit Expansion	1008
E. The Government as Promoter of Credit Expansion	1014
F. The Ultimate Limit: The Runaway Boom	1018
G. Inflation and Compensatory Fiscal Policy	1021
12. Conclusion: The Free Market and Coercion	1024
Appendix A: Government Borrowing	1025
Appendix B: "Collective Goods" and "External Benefits": Two Arguments for Government Activity	1029

POWER AND MARKET

CHAPTER 1—DEFENSE SERVICES ON THE FREE MARKET	1047
CHAPTER 2—FUNDAMENTALS OF INTERVENTION	1057
1. Types of Intervention	1057
2. Direct Effects of Intervention on Utility	1061
A. Intervention and Conflict	1061
B. Democracy and the Voluntary	1065
C. Utility and Resistance to Invasion	1067
D. The Argument from Envy	1068
E. Utility <i>Ex Post</i>	1069
CHAPTER 3—TRIANGULAR INTERVENTION	1075
1. Price Control	1075
2. Product Control: Prohibition	1086

3. Product Control: Grant of Monopolistic Privilege . . .	1089
A. Compulsory Cartels	1094
B. Licenses	1094
C. Standards of Quality and Safety	1096
D. Tariffs	1101
E. Immigration Restrictions	1107
F. Child Labor Laws	1111
G. Conscription	1113
H. Minimum Wage Laws and Compulsory Unionism	1114
I. Subsidies to Unemployment	1115
J. Penalties on Market Forms	1115
K. Antitrust Laws	1117
L. Outlawing Basing-Point Pricing	1121
M. Conservation Laws	1122
N. Patents	1133
O. Franchises and "Public Utilities"	1138
P. The Right of Eminent Domain	1139
Q. Bribery of Government Officials	1141
R. Policy Toward Monopoly	1143
Appendix A: On Private Coinage	1144
Appendix B: Coercion and <i>Lebensraum</i>	1146
CHAPTER 4—BINARY INTERVENTION: TAXATION	1149
1. Introduction: Government Revenues and Expenditures	1149
2. The Burdens and Benefits of Taxation and Expenditures	1151
3. The Incidence and Effects of Taxation	1156
Part I: Taxes on Incomes	1156
A. The General Sales Tax and the Laws of Incidence	1156
B. Partial Excise Taxes; Other Production Taxes	1162
C. General Effects of Income Taxation	1164
D. Particular Forms of Income Taxation	1171
(1) Taxes on Wages	1171
(2) Corporate Income Taxation	1171
(3) "Excess" Profit Taxation	1173

- (4) The Capital Gains Problem 1174
- (5) Is a Tax on Consumption Possible? 1180
- 4. The Incidence and Effects of Taxation 1183
 - Part II: Taxation on Accumulated Capital 1183
 - A. Taxation on Gratuitous Transfers:
 - Bequests and Gifts. 1185
 - B. Property Taxation 1185
 - C. A Tax on Individual Wealth 1190
 - 5. The Incidence and Effects of Taxation 1191
 - Part III: The Progressive Tax 1191
 - 6. The Incidence and Effects of Taxation 1196
 - Part IV: The "Single Tax" on Ground Rent 1196
 - 7. Canons of "Justice" in Taxation. 1214
 - A. The Just Tax and the Just Price 1214
 - B. Costs of Collection, Convenience, and Certainty. . 1216
 - C. Distribution of the Tax Burden 1218
 - (1) Uniformity of Treatment. 1218
 - a. Equality Before the Law: Tax Exemption. . 1218
 - b. The Impossibility of Uniformity. 1221
 - (2) The "Ability-to-Pay" Principle 1224
 - a. The Ambiguity of the Concept 1224
 - b. The Justice of the Standard. 1227
 - (3) Sacrifice Theory. 1231
 - (4) The Benefit Principle 1236
 - (5) The Equal Tax and the Cost Principle 1240
 - (6) Taxation "For Revenue Only" 1244
 - (7) The Neutral Tax: A Summary. 1244
 - D. Voluntary Contributions to Government 1245

CHAPTER 5—BINARY INTERVENTION: GOVERNMENT

- EXPENDITURES 1253
- 1. Government Subsidies: Transfer Payments 1254
- 2. Resource-Using Activities: Government
 - Ownership versus Private Ownership. 1259
- 3. Resource-Using Activities: Socialism 1272
- 4. The Myth of "Public" Ownership. 1276
- 5. Democracy 1279
- Appendix: The Role of Government Expenditures
 - in National Product Statistics 1292

CHAPTER 6—ANTIMARKET ETHICS: A PRAXEOLOGICAL CRITIQUE	1297
1. Introduction: Praxeological Criticism of Ethics	1297
2. Knowledge of Self-Interest: An Alleged Critical Assumption	1300
3. The Problem of Immoral Choices	1303
4. The Morality of Human Nature	1306
5. The Impossibility of Equality	1308
6. The Problem of Security	1313
7. Alleged Joys of the Society of Status	1315
8. Charity and Poverty	1318
9. The Charge of “Selfish Materialism”	1321
10. Back to the Jungle?	1324
11. Power and Coercion	1326
A. “Other Forms of Coercion”: Economic Power . . .	1326
B. Power Over Nature and Power Over Man	1329
12. The Problem of Luck	1333
13. The Traffic-Manager Analogy	1334
14. Over- and Underdevelopment	1334
15. The State and the Nature of Man	1335
16. Human Rights and Property Rights	1337
Appendix: Professor Oliver on Socioeconomic Goals	1340
A. The Attack on Natural Liberty	1341
B. The Attack on Freedom of Contract	1344
C. The Attack on Income According to Earnings . . .	1347
CHAPTER 7—CONCLUSION: ECONOMICS AND PUBLIC POLICY	1357
1. Economics: Its Nature and Its Uses	1357
2. Implicit Moralizing: The Failures of Welfare Economics	1360
3. Economics and Social Ethics	1363
4. The Market Principle and the Hegemonic Principle . . .	1365
BIBLIOGRAPHY	1371
INDEX OF NAMES	1395
INDEX OF SUBJECTS	1405