

Consumer Sovereignty: the Key to Mises's Economics

©J. Patrick Gunning
Visiting Professor
U.S. Coast Guard Academy
Management Department
15 Mohegan Avenue
New London, CT 06320

Please send feedback:
Email: gunning@nomadpress.com

July 5, 2008

Consumer Sovereignty: the Key to Mises's Economics

Abstract

The praxeological and economic view of the isolated farmer's action is that he identifies and employs factors of production. The result, in the absence of error, is that he satisfies his wants. Analogously, the economic view of economic interaction under the conditions of the pure market economy is that the entrepreneur role identifies and employs factors of production. The result, in the absence of error, is that the wants of individuals in the consumer role are satisfied, with the exception of monopoly. This statement implies consumer sovereignty and reflects a praxeological view of the role of the entrepreneur.

If a pure market economy could exist without a huge tax burden to enforce private property rights, it would enable the members of a group to take the greatest advantage of the gains due to the "division of labor." As a result, it would be the desired system from the utilitarian perspective. A utilitarian could not logically defend an argument favoring any kind of market intervention. This judgment about the utilitarian's interventionist argument is value free.

This, in a nutshell, is the core of Mises's economics. It is built on the concept of consumer sovereignty. The burden of this argument is to defend this view of Mises's economics by examining the structure of his treatise *Human Action* (1966) and the part of his book in which he presents the image of the pure market economy. The paper also discusses previous literature on Mises's consumer sovereignty concept.

Consumer Sovereignty: the Key to Mises's Economics

Ludwig von Mises was the first to build the epistemological foundations for economics as a value-free logic of distinctly human action under market economy conditions. Afterwards, he presented an economics based on the concept of consumer sovereignty. This essay aims to document the claim that consumer sovereignty is the key to understanding Ludwig von Mises's economics.

My claim is as follows. Mises regarded economics as a value-free science. Its aim is the evaluation of arguments in favor of and against market intervention, including the extreme of the socialist society. I call these "interventionist arguments." His evaluation of the socialist society did not require an epistemological foundation. It only required a recognition that money prices are needed in a market economy to make informed decisions about which items are resources and how the items should be produced. A socialist society lacks a way for planners to acquire the knowledge needed to make such informed decisions.

The main concern of his economics was to make value-free evaluations of interventionist arguments. To make such an evaluation, he needed an image of a pure market economy. Mises built his image in the spirit of the Austrian theory of value and cost and marginal productivity theory of distribution, which had been evolving since the latter half of the 19th century. He added to this by recognizing the unique function of the concept of the entrepreneur in those theories. And he defined this function as a perfect complement to the concept of consumer sovereignty, which he borrowed from W.H. Hutt.

To my knowledge only one neo-Austrian economist, Israel Kirzner, has recognized the key role of consumer sovereignty. Also, one non-Austrian, Richard Gonce, has picked this up. Neither has recognized the value-free context of the concept. I believe that the failure to recognize these points is has resulted in a stagnation of Mises's economics.

Part 1 presents my claim in greater detail. Part 2 attempts to document my claim. It describes how the economics portion of Mises's treatise was organized and demonstrates with quotations that my interpretation is reasonable. Part 3 discusses interpretations by Kirzner and Gonce. Part 4 presents a brief conclusion.

1. THE CLAIM: CONSUMER SOVEREIGNTY IS THE KEY

To see the key role that consumer sovereignty played in Mises's economics, one must first appreciate that Mises solved the problem of value freedom in economics by instilling it with a single purpose: to evaluate interventionist arguments. Next, one must recognize that in order to achieve this purpose, he must build an image of the pure market economy. The goal of this part is to present the reasoning behind these points and then to show how consumer sovereignty was an integral part of the pure market economy image.

Solving the Problem of Value Freedom

Mises solved the problem of value freedom by instilling it with a single purpose: to evaluate interventionist arguments. The single-purposed character that Mises's demonstrated for economics has not been understood, as evidenced by a variety of interpretations of the role played by values in Mises's economics.¹ Before justifying the new concept of the entrepreneur, I must begin by describing this purpose in greater detail.

¹Some of these are described in my earlier essays on claims that Mises was a utilitarian. See Gunning 2005a and 2005b.

Mises presented the Austrian theory of value and cost and marginal productivity theory of distribution in a unique way. He interpreted it as a means to achieve the purpose of evaluating interventionist arguments of a specific yet quite broad class. This is the class in which the utilitarian concept of the economic welfare is specified by the person making the argument. To evaluate a utilitarian-based interventionist argument, we must compare the utility that would exist in the absence of the intervention with that which would exist in its presence.

That Mises was concerned only with this class is evident from his *Notes and Recollections* (1978a), which he wrote in 1940.

In my analysis of [the problems of socialism and intervention],” he writes, “I introduced a new point of view, the only one that allows a scientific discussion of these political questions. I inquired into the effectiveness of the chosen means to attain the avowed ends, that is, whether the objectives which the recommended measures were to attain would actually be achieved by the means recommended and employed (Mises 1978a: 114).

He does not directly discuss utilitarianism here. But he does discuss it indirectly when he writes about his critique of socialism. Regardless of what argument is presented for socialism, the proponent of socialism must determine the extent to which “economic well-being” is reduced. Although we cannot measure economic well-being, we cannot ignore it either. “If the socialist system leads to chaos because economic calculation is impossible,” then it is “pure trifling” to present other arguments in its favor (*ibid.*: 116).

The value-free element in this evaluation of socialism seems to have been completely overlooked in the literature relating to Mises’s values. Also overlooked was his more systematic treatment of the issue in *Human Action*. There he distinguishes between ascetic and non-ascetic world views. Neither pure reasoning nor experience can resolve disputes about whether a particular means will achieve ascetic goals because no agreement can be reached on the goals.

But where earthly things are involved, the natural affinity of all men and the identity of the biological conditions for the preservation of their lives come into play. The higher productivity of cooperation under division of labor makes society the foremost means of every individual for the attainment of his own ends whatever they may be. The maintenance and further intensification of social cooperation become a concern of everybody. Every world view and every ideology which is not entirely and unconditionally committed to the practice of asceticism and to a life in anchoritic reclusion must pay heed to the fact that society is the great means for the attainment of earthly ends. But then a common ground is won

to clear the way for an agreement concerning minor social problems and the details of society's organization. However various ideologies may conflict with one another, they harmonize in one point, in the acknowledgment of life in society (Mises 1966: 179-80.)

How does this relate to utilitarianism? One has to read backwards:

The utilitarian economist [economists from Hume to Ricardo] does not...ask a man to renounce his well-being for the benefit of society. He advises him to recognize what his rightly understood interests are (*ibid.*: 147).

What are these “rightly understood interests?” They are interests derived from the recognition of the “higher productivity of the division of labor.” Recognizing higher productivity, human beings realize that they have a “common interest” in “the preservation and further intensification of social cooperation.” As “catallactic competition is substituted for biological competition,” the consequence is “harmony of the interests of all members of society” (*ibid.*: 673). Disputes can be resolved, he maintained, so long as the disputants agree that to evaluate the interventionist argument on the basis of whether the proposed intervention promotes the division of labor.²

Another statement of the value-free orientation is Mises’s *Critique of Interventionism*, which he wrote in the 1920s (Mises: 1996). In that book he writes: “The problem at hand is, What are the consequences of government and other interventions in the private property order? Can they achieve the result they are supposed to achieve?”

The Single Purpose of Mises’s Economics

The single purpose of economics, then, is to evaluate socialism and interventionist arguments on the basis of the recognition that the division of labor promotes utility by increasing the productivity of labor.

²Mises devotes a section of his Chapter 24 of *Human Action* to the concept of “The Harmony of Rightly Understood Interests.” Although he defines this term clearly, he devotes most of the section to the relationship between the concept and socialism. This may be the reason why readers of *Human Action* have failed to realize its relevance to interventionist arguments.

An interventionist argument that does not account for that fact can be regarded as deficient in its ability to achieve its utilitarian goals. The harmony of the rightly stood interest refers to the mutual benefits that can be achieved when people commit themselves to a peaceful society in which the benefits from the higher productivity of the division of labor are availed of.

The terminology used by Mises is that of the classical economists. Today we would refer to the division of labor as specialization of the human capital resource. Thus peoples' rightly understood interests refer to the interests they would have if they recognized the greater economic welfare, subjectively evaluated, of human capital specialization.

An Image of the Pure Market Economy Is Needed in Order to Achieve the Purpose

Given this purpose of economics, what procedure must be followed to achieve it? Part of the answer is dictated by the task. The goal is to evaluate an interventionist argument. So we obviously must compare two situations: a situation in which the intervention is present and one in which it is absent. If we are evaluating a particular intervention, then we need to compare a market economy that contains the intervention with one that does not. Neither of these is what Mises called a pure market economy. A pure market economy has a complete set of private property rights, among other things. This means that every individual can appropriate the full benefits of his action while he must pay the full cost.³ What we need is an image of a specific market economy that lacks the intervention. Such an economy might contain oceans for which it is too costly to define and enforce ownership rights in fish or an economy that contains deceit

³Mises writes that “[t]he imaginary construction of a pure or unhampered market economy assumes that there is division of labor and private ownership (control) of the means of production and that consequently there is market exchange of goods and services” (1966: 237). And: “Carried through consistently, the right of property would entitle the proprietor to claim all the advantages which the good's employment may generate on the one hand and would burden him with all the disadvantages resulting from its employment on the other hand (*ibid.*: 655).

or selling practices that take advantage of deficiencies in consumer decision-making. Precisely which type we should use depends on the nature of the interventionist argument. We must choose one that is relevant to evaluating the argument.

I wish that I could give examples of Mises's use of a specific market economy to make comparisons. Unfortunately, the interventionist arguments he considered were relatively simple: production controls and price controls. Indeed, he defined intervention so strictly that it was unnecessary for him to develop a concept of a specific market economy. I could find no deep discussions of intervention to deal with problems of pollution, congestion, and other problems that entail high costs of establishing or enforcing private property rights. The same is true about deceit and fraud. For the interventionist arguments he considered, the image of a pure market economy was sufficient.

For the purpose of this essay, the fact that Mises did not develop an image of a specific market economy is not a shortcoming. On the contrary, it allows us to avoid the complex problem of defining consumer sovereignty for the more complex case. Moreover, since a specific market economy that lacks the proposed intervention is a variation of the basic pure market economy, one who aims to achieve the single purpose described above would need to build an image of it in any event. There is an infinite number of specific market economies. Each can be regarded as a variation of the pure market economy due to the relaxation of one or more of the assumptions about the conditions under which individuals in the pure market economy act.

The Two-Part Challenge Faced by the Builder of an Image of the Pure Market Economy

In attempting to build an image of the pure market economy, the main challenge is to account for the full range of possible assumptions about the properties and character of actors. To properly face this challenge, the image builder must attribute to all actors the same general properties and characteristics that

any reasonable maker of an interventionist argument would do. To achieve this entails two parts. First and most fundamentally, one must define action in a way that it incorporates all that anyone would regard as implicit in the concept. To meet this part of the challenge, Mises demonstrated that human actors have means and ends and that they experience time and uncertainty. He proved the necessity of these properties by contrasting an image of the behavior that can be attributed to a person with no motivation to act or to a robot and what one knows from intuition and experience about real human action.⁴ Second, one must apply this exercise in praxeology to the economics. This, in turn, requires two successive steps. On the one hand, one must define action in terms of production, consumption and saving in a money economy. On the other hand, due to complexity, he must divide actors into roles while not losing sight of the necessity of incorporating the properties and characteristics of distinctly human action into the image.

Meeting the Challenge with the Concept of Consumer Sovereignty

Mises met the second part of this challenge with the concept of *consumer sovereignty* and its implicit correlate the *functional entrepreneur*. In a market economy, the vast majority of people find it necessary to supply resources or to produce goods for others in order to satisfy their own wants as consumers. In doing so, a person acts in his own interest, to be sure. But he also acts in the interests of the person or persons whose buying actions enable him to earn income. If the buyers are consumers, his actions will benefit them directly. If the buyers are producers, his actions will benefit them indirectly through his supply of a resource to a producer who, in turn, supplies goods to consumers. Following W. H. Hutt (1935), Mises named this idea the *sovereignty of the consumer*.

The idea of consumer sovereignty is a modern version of Adam Smith's invisible hand theorem. It is deeper than Smith's idea because it entails dividing individuals into roles that perform functions. The early

⁴See chapters 4, 5 and 6 of *Human Action*.

neoclassical economists – Stanley Jevons, Leon Walras, and Menger – had developed a systems approach to the market economy and had introduced the concept of role and function to summarize the system they had in mind. The consumer sovereignty concept is an allusion to that. As Mises pointed out, the idea can be traced to Gossen (Mises 1966:334).

Mises used the concept of consumer sovereignty to refer to the producers of consumer goods and producer goods at each link in each resource supply chain in a pure market economy. Each of these is compelled by self interest to serve the interests of individuals acting in the consumer role, with one exception – when a person is in a monopoly position. He recognized that this is not literally true of a typical capitalist economy. He realized that if private property rights are not complete, in his terms, producers may not serve the consumers' interests. In other words, he recognized external effects such as pollution and congestion. Mises also recognized the prospect for fraud. Producers may use selling tactics that deceive or defraud, leading at least some consumers to make decision errors. In advancing the ideas implied in the consumer sovereignty notion, he had in mind an economy in which there were no external effects, including those associated with public goods, and no deceit. He called this the *pure market economy*.⁵

Mises and Hutt

For both Mises and W. H. Hutt, the creator of the term, consumer sovereignty was a means to rebut a critique of the capitalist system. Hutt wanted to deal with “confusions concerning the essentially ruinous nature of competition.” Hutt asked: “Is it true, as Proudhon alleged, that ‘competition kills competition?’” (1935: 299) Note that the monopoly critique of the capitalist system is not concerned with other exceptions

⁵To avoid misunderstanding, it should be noted that by referring to roles, he ruled out the notion that the producer or resource supplier's dissatisfaction with a particular kind of work – as opposed to work in general – or her likes or dislikes regarding particular consumers or supply situations, would interfere with consumer sovereignty. In other words, producers by definition do not have preferences toward anything. They are pure maximizers of profit.

to consumer sovereignty that arise from the fact that a pure market economy is not the same a capitalist system. We can put these other exceptions into one of two classes: external effects and deceit (what Hutt called “producers propaganda” and Mises called “business propaganda”).⁶ Thus, if one’s goal is only to rebut the monopoly critique, the two other “exceptions” to consumer sovereignty can be ignored.

In using the consumer sovereignty term, Hutt defined his purpose clearly – to deal with the monopoly problem as an exception.⁷ Mises also used the concept to deal with the monopoly problem but he did not define his purpose at all. One may, at first, think that his purpose was similar to that of Hutt. A more careful reader of *Human Action*, however, would discover that his purpose was to frame all descriptions of market interaction under the conditions of the pure market economy around the dual and complementary concepts of consumer sovereignty and the functional entrepreneur, the ultimate purpose being .

2. DOCUMENTATION: THE PLACE OF CONSUMER SOVEREIGNTY

IN MISES’S ECONOMICS

The purpose of this part is to document the claim I presented in Part 1 of this essay. Mises does not make this easy. Part of the problem is that his writing style provides no guides regarding what he plans to do or summaries of what he has done. Absent such guidance, one must carefully examine words, phrases, paragraphs, subsections, sections, chapters, and collections of chapters in order make judgments about the matter. Mises’s section on “consumer sovereignty” is a good illustration. In four pages section, he uses five

⁶See Hutt 1940: 70 and Mises 1966: 320.

⁷See Hutt 1935: 299 and 1940: 70.

different terms to refer to the conditions under which consumer sovereignty applies. It is practically obvious that, strictly speaking, consumer sovereignty is present only when there is a complete set of private property rights and an absence of fraud and other ways to trick trading partner. He refers to these conditions as the “pure or unhampered market economy.” However, some of the terms that he uses in the “consumer sovereignty” section are used by him elsewhere in his treatise to refer not to these strict conditions but to a broader capitalist system. It is not possible to understand the significance of consumer sovereignty from this section. On the contrary, the section gives the impression that his case for capitalism rests on the assumption that complete consumer sovereignty always prevails even if there are incomplete private property rights and deceit.⁸

The Structure of Mises’s Economics in *Human Action*

I can defend my claim that the consumer sovereignty characteristic of the pure market economy is the key to Mises’s economics by referring to the structure of *Human Action*. The treatise consists of seven parts. Parts 1-3 of Mises’s his treatise are on praxeology, the meaning of human action under various non-economic conditions, and an introduction to economic calculation. Economic theory is presented in parts 4-6, although one might argue that the brief part 5 on socialism is an interlude. Part 7 is entitled “The Place of Economics in Society.” It contains two eclectic chapters on the profession of economics and a concluding chapter. The concluding chapter has a section on “Economics and Judgments of Value,” which helps to confirm my claim that Mises aimed to achieve a value-free economics. Thus, the economics in *Human Action* begins in part 4 of the book with chapter 14, although material relevant to economics is scattered throughout the book. A

⁸The appendix discusses the various terms that Mises uses to refer to the pure market economy in this section.

critical passage on the pure market economy in chapter 14 previews the structure of Mises's presentation on economic theory. He writes:

The imaginary construction of a pure or unhampered market economy assumes that there is division of labor and private ownership (control) of the means of production...Starting from these assumptions economics tries to elucidate the operation of a pure market economy. Only at a later stage, having exhausted everything which can be learned from the study of this imaginary construction, does it turn to the study of the various problems raised by interference with the market on the part of governments and other agencies employing coercion and compulsion (Mises 1966: 237-8).

He writes here that the pure market economy is an imaginary construction. A major part of the economist's task, he says, is to elucidate this construct. At a later stage, one turns to the real world and to the question of how market interaction is affected by market intervention. Unfortunately, he does not also tell us that these statements describe his rationale for spending practically all of his Part 4 on the pure market economy, before turning to socialism and interventionism (the hampered market economy) in Parts 5 and 6, respectively. In other words, he does not tell his readers that he is describing the structure of the economics part of his treatise. This is a significant omission since he does not describe the structure elsewhere either. In a book filled with challenges to the reader, one might overlook this passage and completely miss the critical structural message.

The Market and Prices

That Mises follows the procedure to which he referred is evident from the way that his chapters on economics are organized. Part 4 consists of chapters 14-24. Following a chapter on scope and method, Mises begins his description of what he calls *the pure or unhampered market economy*. He introduces chapter 15 logically enough in section 1 by distinguishing between "the market" and socialism. Next, in section 2, he introduces the concept of capital goods as Mengerian higher-order goods which are taken into account when a person acts. The apparent reason for this is, first, to dispel some common errors among economists who use the concept of capital and, second, to prepare the reader for Section 3, which is entitled "Capitalism."

Section 3 is intended to dissociate the analysis of the pure market economy from the negative psychological connotations of the word “capitalism.”

One must conclude that the first three sections of the chapter are meant to clear the ground for his goal of analyzing “the problems of the market society” (*ibid.*: 266). In this analysis, “economists place the study of the pure market economy in the center of their investigations” (*ibid.*: 266-7).

The real economic analysis, I claim, starts with his section on consumer sovereignty. His message is simple. The entrepreneurs direct all economic affairs, but the captains are the consumers (*ibid.*: 269-270).

The

capitalists, entrepreneurs, and landowners...are not free to spend money which the consumers are not prepared to refund to them in paying more for the products. In the conduct of their business affairs they must be unfeeling and stony-hearted because the consumers, their bosses, are themselves unfeeling and stony-hearted.⁹

The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy (*ibid.*: 270-1).

There is only one exception: “Monopoly prices are an infringement of the sway of the consumers” (*ibid.*: 272).

Mises's section on consumer sovereignty is only the first thrust, so to speak. He follows it with sections on “Competition,” “Freedom,” and “Inequality of Wealth and Income.” These sections, with the minor exception of a brief part of the section on competition, also are also ground-clearing. The real meat of the chapter – the application of the concept of consumer sovereignty – comes in sections 8-14, where he describes how entrepreneurial activity and competition among entrepreneurs lead to consumer sovereignty.

The following quote from Section 8 characterizes the approach:

⁹In this passage, Mises writes of entrepreneurs as part of a larger class that includes capitalists and landowners. This apparently contradicts my (and Mises's own) statement that entrepreneurs direct all economic affairs. That there is no contradiction is evident from his discussion of the different meanings of “entrepreneur” in his chapter 14. See pp. 250-255.

The specific entrepreneurial function consists in determining the employment of the factors of production. The entrepreneur is the man who dedicates them to special purposes. In doing so he is driven solely by the selfish interest in making profits and in acquiring wealth. But he cannot evade the law of the market. He can succeed only by best serving the consumers. His profit depends on the approval of his conduct by the consumers (*ibid.*: 291).

As pointed out, Mises identified the monopoly exception to consumer sovereignty. He deals with this exception in the next chapter, chapter 16, entitled “Prices.” The discussion of monopoly encompasses about half of the chapter. The extensive treatment of monopoly is another indication of the significance of consumer sovereignty. In other parts of the chapter he also confirms the centrality of the consumer sovereignty concept. For example, at the start of his discussion about how the prices of higher-order goods are determined, he writes: “The ultimate source of the determination of prices is the value judgments of the consumers” (*ibid.*: 331). Numerous other examples can be found by searching the word “consumer.”

Time Preference and the Theory of the Trade Cycle

The chapters on markets and prices make up the core of Mises’s elucidation of economic interaction under the conditions of the pure market economy. He follows these with four chapters that culminate with his most well-known contribution to economics – his theory of the trade cycle in chapter 20. The theory of the cycle, too, is based on the notion of consumer sovereignty. To understand this one must recognize time preference – the notion that consumers have wants for goods in the near and in the more distant future.¹⁰ Entrepreneurs adjust to this by producing both consumer goods for the near future and capital goods that are intended to contribute to the satisfaction of wants in the more distant future. An unexpected increase in the quantity of money distorts the entrepreneurs’ calculations by causing interest rates to change in a way that is similar to how they would change if there was a decrease in consumer demands for near-future goods and a corresponding increase in their demands for more distant-future goods. When entrepreneurs adjust to the

¹⁰This concept has been widely misinterpreted in the literature. That this is what Mises meant by time preference has recently been cleared up by Gunning (2005c) and by Walter Block et. al (2006).

change, they make decisions that are bound to be regarded as errors in the future by borrowing more money than otherwise to increase their production of capital goods. Since real consumer demands for goods at different times have not changed, we can say that the entrepreneurs produce too many capital goods. These malinvestments get revealed when the bids of consumers for goods and their saving lead entrepreneurs to increase their bids for resource to supply near future goods and to decrease their bids for capital goods. A readjustment, which is interpreted by observers as a contraction, is necessary. Thus, the unexpected increase in money causes a business cycle.

That Mises's theory of the cycle is based on consumer sovereignty is confirmed in Mises's preliminary remarks about the cause of the cycle:

It is in influencing this primordial function of the rate of interest that the driving force of money can become operative in a particular way. Cash-induced changes in the money relation can under certain circumstances affect the loan market before they affect the prices of commodities and of labor. The increase or decrease in the supply of money (in the broader sense) can increase or decrease the supply of money offered on the loan market and thereby lower or raise the gross market rate of interest although no change in the rate of originary interest [demand for near future goods in relation to goods in the more distant future] has taken place. If this happens, the market rate deviates from the height which the state of originary interest and the supply of capital goods available for production would require. Then the market rate of interest fails to fulfill the function it plays in guiding entrepreneurial decisions. It frustrates the entrepreneur's calculation and diverts his actions from those lines in which they would in the best possible way satisfy the most urgent needs of the consumers (*ibid.*: 547).¹¹

Thus Mises sees the increase in money as inhibiting consumer sovereignty with respect to the demand for near future goods because of its interference with the market interest rate. The entrepreneurs cannot satisfactorily coordinate the satisfaction of demands for near future consumer goods with the satisfaction of demands for more distant future consumer goods.

Mises presents a revealing discussion in this chapter on why he included the theory of the trade cycle in Part 4 of his book. He first points out that if the increase in quantity of money is due to government intervention – for example, by a central bank (Mises calls this the “monetary authorities”) – one might want

¹¹See also the discussion at *ibid.*: 553, 564, and 565. Note: the term “originary interest” refers to consumers' tradeoffs between near and distant future goods.

to “relegate” a discussion of the problems “to the analysis of interventionism.” Intervention is discussed in Part 6 of his treatise. But he counters this by saying that

the right place for the analysis of the problems involved is not in the theory of interventionism but in that of the pure market economy. For the problem we have to deal with is essentially the relation between the supply of money and the rate of interest, a problem of which the consequences of credit expansion are only a particular instance (*ibid.*: 573).

What he means by this is that because the relationship between the quantity of money and the market interest rates is present in the pure market economy, the theory of the effects of an increase in the quantity of money in a pure market economy is a general theory of which the an increase caused by the monetary authorities is a special case. This statement thus confirms that part 4 of Mises’s treatise is about the pure market economy.

Theory of Resource Prices

In the next chapter, chapter 21, on “Work and Wages,” Mises approaches the determination of wages (the price of labor) and unemployment from the point of view of the consumer. Regarding how wages are determined, he writes: “It suffices to observe incidentally that the employers deal with labor as they do with commodities because the conduct of the consumers forces them to proceed in this way” (*ibid.*: 593). In his discussion of catallactic unemployment, he writes: “Wage rate fluctuations are the device by means of which the sovereignty of the consumers manifests itself on the labor market” (*ibid.*: 599). He also refers to the pure market economy which, of course, is the context within which he considers issues relating to work and wages. He writes:

Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose....The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work (*ibid.*).

An “unhampered market” is a less precise name than the pure market economy. But since he had previously used this term (see the appendix), it is clear that he is writing about the pure market economy.

Mises’s chapter 22 is about natural resources, or land. Consumer sovereignty is also the unifying element in this chapter, although he does not actually say this. He writes:

The modern theory of value and prices is not based on the classification of the factors of production as land, capital, and labor. Its fundamental distinction is between goods of higher and of lower orders, between producers' goods and consumers' goods (*ibid.*: 636).

This idea refers back to how the prices of all of the higher-order goods are determined. As we noted above, Mises says that they ultimately derive from the valuations of consumers.

Other Exceptions to Consumer Sovereignty

Finally, we get to chapter 23 in which Mises introduces the possibility of external effects (*ibid.*: 653-63). The fact is, he points out, that market economies in everyday life lack a complete set of private property rights (*ibid.*: 655). As a result, there are external effects. By introducing the topic in this way, he confirms that all of his discussion up to this point has been about the pure market economy and, therefore, assumed the absence of external effects. It is evident from this introduction to external effects that a reader who had interpreted his consumer sovereignty discussion in chapter 15 as biased because it did not take into account external effects would misunderstand Mises’s meaning and procedure.

Mises never does explicitly deal with the third exception to consumer sovereignty – “producers’ propaganda.” However, he does not ignore it. He merely rules it out of economics by assuming that the task of government is to control fraud. Specifically, he writes that “within the sphere of private property and the laws protecting it against encroachments on the part of violent or fraudulent action, there is no antagonism between the interests of the individual and those of society” (*ibid.*: 726). Regarding the possibility of a producer persuading a consumer to buy a product that she will regret buying, by means of a hard sell or

subliminal persuasion that is not as strong as deceit, he deals with this under the subject of advertising. An advertiser may succeed in this, he writes. However, it is such a small problem that we would not want a law against advertising (*ibid.*: 321).

Conclusion

One can readily criticize Mises's apparent neglect of fraud, deception and induced consumer errors. I certainly would not defend it. One cannot dispute, however, the fact that he meant the whole of his economics up to the last chapter of Part 4 of *Human Action* to be an elucidation of economic interaction under pure market economy conditions.

The Praxeological Basis for Consumer Sovereignty as the Foundation of Economics

Mises regarded economics as a branch of praxeology.¹² Praxeology is the study of action in its most abstract form. More specifically, it is the elucidation of all that is implied in the self-evident concept that distinctly human beings act. The praxeologist says that the human actor *in general* is driven by his desire to remove uneasiness and that he possesses the power to remove it.¹³ This implies the actor's imagination of a future state at which uneasiness is removed. These conditions further imply ends and means, a concept of causality, time and uncertainty. (*ibid.*: chapters 4-6) Consider the isolated farmer. This construct is more than an actor in general. The isolated farmer acts as a *producer* and as a *resource supplier* in an effort to satisfy his wants as a *consumer*. This, we suppose, is what Mises had in mind when he wrote that:

¹²The idea that economics is a branch of praxeology should be evident to every close reader of *Human Action*. Unfortunately, however, Mises only states this clearly at the very end of his treatise (*ibid.*: 885). It is stated more clearly in his 1978b book. See Mises 1978b: 73.

¹³Mises 1966: 13-4.

every allocation of goods – even those in the processes of production – is an exchange, and consequently the basic law of economic action can be comprehended also in the conduct of the isolated farmer (1933 [1981]: 146).

Economics is not concerned with comprehending action in a solitary actor. The economist aims to understand market interaction – action with respect to others under the conditions of private property rights and the use of money. Given the complexity of this task, what better way (or – more correctly, what *other* way) can one approach it than to try to conceive of market interaction by looking at the extent to which the actions of numerous individuals, under market economy conditions, can also be conceived in terms of a producer role and a resource supplier role trying to satisfy the wants of individuals acting in the consumer role?

By means of this analogy and by combining the producer and resource supplier into a single role, the functional entrepreneur, one can maintain a link between economics and praxeology by making consumer sovereignty and the functional entrepreneur the foundation of economics. Maintaining this link helps assure that propositions about economic interaction are also propositions about distinctly human action.

Once one commits to the idea that economics is a branch of praxeology, she is compelled to explain the phenomena of economics in terms of action – means and ends. The complexity of action under market economy conditions leads the economist to search for a way to make the separate, uncountable actions comprehensible. The image of a pure market economy, with functions and roles, provides the economist with a means of doing this. Moreover, since most people evaluate a system of interaction through the lens of utilitarianism, the same image – one in which all utility is felt by a single role – provides the economist with a framework for expressing interventionist arguments and evaluating their logic and relevance.

The image is constructed in such a way that action that leads to a greater satisfaction of consumer wants is separated from cases in which it leads to a lesser satisfaction than otherwise (monopoly). The entrepreneur role in this theory becomes the active element and the director of the means. It performs the function of

causing the means to be used so that they cause consumer wants to be satisfied. The entrepreneur role corresponds to that part of the isolated farmer's use of means to achieve his ends.

3. RELATED LITERATURE

Kirzner on Mises's Consumer Sovereignty

So far as I know, only two authors, Israel Kirzner and Richard Gonce, have previously made claims about the centrality of consumer sovereignty in Mises's economics.¹⁴ I first discuss Kirzner. In at least three of his writings, Kirzner discusses the centrality of consumer sovereignty (1996: 170-72; 1999:220-1; and 2001: 108-110, 169-170). The following is probably his most representative statement:

Mises believed, as a proposition of positive economics, that, with certain exceptions, market outcomes are determined by consumer preferences. Decisions by producers and by resource owners are, in a freemarket society, motivated by the desire to anticipate the spending decisions of consumers...There are grounds for believing that, in his criticism of what he judged to be unsound economic policies, Mises was simply assuming that his readers held consumer sovereignty to be a desirable feature in an economic system...A free market will tend to generate decisions that can be successfully implemented and which respect and do express consumer sovereignty (2001: 169-170).

¹⁴Murray Rothbard has written critically about the concept of consumer sovereignty, although the object of his criticism was not Mises but Hutt (Rothbard 2004: p. 619ff). His critique fails to recognize the strict complementarity in Mises, at least, between consumer sovereignty and the role of the functional entrepreneur. In addition, like Kirzner and Gonce, Rothbard imputes a value element into the concept, failing like the others to realize that in *Human Action*, at least, Mises meant consumer sovereignty to only apply, strictly speaking, to the imaginary construction of the pure market economy.

The positive proposition implicit in the notion of consumer sovereignty, says Kirzner, is that prices tend, with the exception of monopoly, toward a level that corresponds to consumer preferences.¹⁵ The normative judgment is provided by “readers,” namely, that consumer sovereignty is desirable.

In distinguishing between positive economics and the soundness of economic policies, Kirzner implies that he failed to recognize that, in his formal economics, Mises argued that consumer sovereignty prevails only in the pure market economy.¹⁶ Since Mises regarded the pure market economy as an imaginary construction, it is not sufficient to say that Mises assumed that readers regarded consumer sovereignty as desirable. Mises also assumed that readers were contemplating a system with a complete set of private property rights and an absence of deceit and fraud. To recognize and shout these assumptions out is a necessary step in order to defend Mises’s economics from the charge of being value laden and ideologically biased.

Moreover, it is not on target to represent Mises assumption by referring to consumer sovereignty. The fundamental assumption about readers – or, more correctly, about those who might be inclined to make interventionist arguments – is that they favor “society.” To elaborate, Mises assumes that readers are interested in promoting the harmony of the rightly understood interests which, in turn, means that they recognize that a pure market economy, if it was possible to attain, would enable individuals to get the greatest utility from the division of labor.¹⁷

¹⁵In more than one place, Kirzner associates this proposition with Menger. Although Kirzner is correct about Menger on the issue of the relationship between consumer preferences and the prices of goods of different orders, Menger wrote nothing of which the author is aware about the pure market economy. Kirzner seems to have implicitly assumed that competition implies a pure market economy.

¹⁶It is undeniable that Mises wrote and gave speeches in which he did not make this apparently subtle distinction. That is the reason for my caveat “in his formal economics.”

¹⁷See Mises’s special meaning of society and social cooperation at (*ibid.*: 143-5)

The difference may appear to be subtle and small. Perhaps it is for an historian of thought. However, this is not so for someone interested in advancing economics, as a branch of praxeology. It is critically important to state, with the utmost precision, the scope and limitations of what can be learned by studying the imaginary construction of the pure market economy. The importance of this stems from the fact that the choice among policy proposals is never between the pure market economy and a hampered market economy. It may be between a specific unhampered market economy with incomplete private property rights and the same market economy onto which some intervention has been imposed. Or it may be between one specific hampered market economy and another specific hampered market economy. It is true that to properly evaluate an interventionist argument we must learn all we can from the study of the pure market economy. However, the way in which we apply our knowledge acquired in this way depends upon the specific market economies we are comparing.

Gonce on Mises's Consumer Sovereignty

So far as I know, only one other author – a non-Austrian who was largely critical of Mises – has previously argued the centrality of consumer sovereignty in Mises's economics. In 1988, Richard Gonce published an essay in a history of economics collection. In his introduction, he wrote:

The thesis of this essay is that the idea of consumer sovereignty, assured by a principle of harmony of rational interests in the long run, but endangered by a notion of entrepreneurial driving-force, is the overarching doctrine identifying [Mises's version of substantive Austrian economic theory] (Gonce 1988: 136.).

After a fine elucidation of the concept, Gonce concludes that *Human Action*

is a brilliant polemical accomplishment. As an example of results produced by the method of laying down axioms and proceeding by ratiocination, it is ingenious and admirable. As a contribution to technical economic theory, however, it is less impressive: focusing on the case of pure capitalism and the long-run time period, it draws on existing economic theory, but sets up a series of definitions, distinctions, and assumptions, and on them mounts arguments that pass over or eliminate any considerations that might compromise consumer sovereignty, harmony of interest, and optimality of consumer satisfaction.

The greatest value of his contribution lies in its provocativeness (*ibid.*: 144).

Gonce clearly understood the centrality of consumer sovereignty. Mises did not evaluate interventionist arguments by explicitly comparing a specific unhampered market economy – e.g., an economy with incomplete private property rights but no government intervention – with a specific hampered market economy.¹⁸ Thus, Gonce can be excused for not recognizing that what he called a polemical accomplishment could be construed as an omission and as a foundation for the a procedure of comparing specific market economy that is completely unbiased. One can only marvel that someone outside of neo-Austrian economics was able to achieve a better grasp on Mises's economics than those within.

Eshelman on Harmony of the Rightly Understood Interests

In 1993 Larry Eshelman published a paper intended to place what he claimed was Mises's utilitarianism in a broader moral philosophy framework. Eshelman was able to flush out the fact that Mises's evaluations of policy were based on a moral principle derived from the theorem of the rightly understood interests. He was not concerned, however, with the fact that Mises's attributed this theorem to the classical economists' evaluations of interventionist arguments. Eshelman deserves credit for identifying the principle and theorem. Unfortunately, no neo-Austrian economist put Eshelman's recognition or the theorem in its proper context. Mises's evaluations of interventionist arguments were based on the assumption that people who made interventionist argument subscribed to the theorem. On this basis, he could correctly claim that his refutation of the arguments on the grounds that the intervention did not achieve its goals was value free.

¹⁸The closest he comes to doing this is to say that for people who consider a definite restrictive measure as justified, “[t]he decision about each restrictive intervention is to be made on the ground of a meticulous weighing of the costs to be incurred and the prize to be obtained. No reasonable man could question this rule” (Mises 1966: 748).

Mises Partly to Blame

Mises himself is partly to blame for misinterpretation of his economics. First, he neglected to describe the relationship between value judgments and economic theory to his readers in the appropriate places. Second, he neglected in his evaluations of interventionist proposals to distinguish between the pure market economy of abstract economic theory and a specific market economy that lacks the intervention that is being evaluated. He seems to have implicitly assumed, albeit incorrectly, that his readers would make the appropriate distinction.

4. CONCLUSION

A popular view among neo-Austrian economists is that support for laissez faire must be based on values. This view maintains that even Mises, who claimed to have had the goal of developing a value-free economics, is a case in point due to his alleged utilitarianism. This view has been a major hindrance to the further development of Austrian economics in the Mises tradition. Because of it, a full understanding of Mises's economics requires one to appreciate two key points: (1) how Mises achieved value freedom in his economics and (2) the significance of consumer sovereignty. The first section in part 1 of this essay demonstrated Mises's value-freedom. It then went on to present my claim that consumer sovereignty is the key.

The burden of part 2 of the essay was to support my claim that consumer sovereignty is the key to understanding Mises's economics. I used four pieces of evidence. First I identified a specific passage in

which he described the grand scheme. Second, I showed that the economics chapters in his book were arranged in precisely the way that one would want to arrange them in order to complete the broader project. The theory of the pure market economy part was followed by parts, respectively, on socialism and on the hampered market economy. Third, I showed that in his consumer sovereignty section, Mises was concerned only with elucidating the concept under the conditions that he defined as the pure or unhampered market economy. Fourth, I showed that, following the first three ground-clearing sections of part 4 of his treatise, all of the other chapters in the part were based on the pure market economy and, correspondingly, the concept of consumer sovereignty.

REFERENCES

- Block, W., W. Barnett II, and J. Salerno. (2006) "The Relationship Between Wealth or Income and Time Preference Is Empirical, Not Apodictic: a Critique of Rothbard and Hoppe." *Review of Austrian Economics*. 19: 69–80.
- Eshelman, Larry J. (1993). Ludwig von Mises on Principle. *Review of Austrian Economics* 6 (2), p. 3-41.
- Gonce, Richard A. (1992) "L. E. von Mises on Consumer Sovereignty." Chapter 11 in Richard A Walker (ed.) *Perspectives on the History of Economic Thought*." Brookfield, Vermont: Edward Elgar Publishing Company, 1988: 136-146.
- Gunning, J. Patrick. (2005a) "How to Be a Value-Free Advocate of Laissez Faire: Ludwig von Mises's Solution." *American Journal of Economics and Sociology*. 65 (3): 81-89.
- Gunning, J. Patrick. (2005b) "Did Mises Err? Was He a Utilitarian?: Reply to Block." *American Journal of Economics and Sociology*. 65 (3).
- Gunning, J. Patrick. (2005c) "Praxeological vs. Positive Time Preference." *History of Economic Ideas*. 8 (1): 105-120.
- Hutt, W. H. (1935) "The Nature of Aggressive Selling." *Economica*. 12 (August): 298-320.
- Hutt, W. H. (1940) "The Concept of Consumers' Sovereignty." *Economic Journal*. 50 (March): 66-77.
- Kirzner, Israel (1996a) "Reflections on the Misesian Legacy in Economics." *Review of Austrian Economics*. 9 (2): 143-154.
- Kirzner, Israel M.(1999) "Mises and His Understanding of the Capitalist System. *Cato Journal*. 19: 2 (Fall)
- Kirzner, Israel M. (2001) *Ludwig von Mises: The Man and His Economics*. Wilmington, DE: ISI Books.
- Rothbard, Murray. (2004) *Man, Economy, and State with Power and Market*. Auburn, Ala.: Ludwig von Mises Institute.
- Mises, Ludwig von. (1966) *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company (earlier edition originally published in German in 1940 under the title *Nationaloekonomie*).
- Mises, Ludwig von. (1978a) *Notes and Recollections*. South Holland, IL: Libertarian Press.
- Mises, Ludwig von. (1978b) *The Ultimate Foundation of Economic Science: An Essay on Method*. Kansas City: Sheed, Andrews and McMeel . Originally published in 1962 by Van Nostrand, Princeton, N.J.

Mises, Ludwig von. (1996 [1929]) *A Critique of Interventionism*. Irvington-on-Hudson, N.Y.: Foundation for Economic Education. (Originally published in 1929 as *Kritik des Interventionismus* and republished in 1976 under the same title and incorporating the essay "Nationalization of Credit?").

Wicksteed, P. (1914) "The Scope and Method of Political Economy in the Light of the 'Marginal' Theory of Value and Distribution." *Economic Journal* 24 (March): 3-26.

APPENDIX

MISES'S CONFUSING DISCUSSION OF CONSUMER SOVEREIGNTY

I believe that I have made a very strong case that consumer sovereignty was the foundation of Mises's economics. Yet this has not been recognized by either the neo-Austrians who followed Mises nor non-Austrians. This includes Mises's presumed best US students, Israel Kirzner and Murray Rothbard. Why? My answer, on the basis of *Human Action*, is that his treatment is confusing.¹⁹ To support my claim that Mises's treatment is confusing, this appendix extracts several pertinent quotes from his 4-page section on the subject. It pays special attention to the term "market." On the one hand, it is concerned with whether a reader who is more sympathetic to Mises is likely to see where his concept of consumer sovereignty fits into his grand scheme. On the other hand, it is concerned with whether a typical mainstream economist is likely to get an accurate view of his discussion.

What is the Market Society?

Mises introduces his section on consumer sovereignty with the following paragraph.

The direction of all economic affairs is in the *market society* a task of the entrepreneurs. Theirs is the control of production. They are at the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to *obey unconditionally* the captain's orders. The captain is the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of *market* prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him. (*ibid.*: 269-70, italics added).

In this paragraph, Mises argues that all producers, financiers, and resource suppliers in *the market society* are subject to consumer sovereignty.²⁰ We have already noted that he recognizes the exception of monopoly *for the pure market economy*. He mentions this exception later in the section. He also recognized the exception of externalities, which exist when private property rights are incomplete (*ibid.*: 654-663). And he recognized the exception of fraud, which he had earlier in the text ruled out for the pure market economy by

¹⁹There may, of course, be many other reasons including the different agendas of the students and Mises's failure to communicate in person the ideas that he aimed to communicate in his treatise.

²⁰It may be of note that Mises appears to use the term "entrepreneur" in two distinctly different senses. In the first sentence, it refers to the pure entrepreneur as a dealer in future's markets (*ibid.*: 256). Later in the paragraph, the entrepreneur is the entrepreneur of what he calls the imaginary construction of the functional distribution. This class includes farmers and capitalists (*ibid.*: 254). This dichotomy is characteristic of Mises's treatment of the term "entrepreneur" and is another source of confusion.

assuming the absence of fraud.²¹ Thus, his statement appears to be about the *pure market economy*. Does he really mean for it to apply to the *market society* also?

In the section immediately preceding the “consumer sovereignty” section, he seems to distinguish between the market society and the market economy:

The analysis of the problems of the *market society*, the only pattern of human action in which calculation can be applied in planning action, opens access to the analysis of all thinkable modes of action and of all economic problems with which historians and ethnographers are confronted. All noncapitalistic methods of economic management can be studied only under the hypothetical assumption that in them too cardinal numbers can be used in recording past action and planning future action. This is why economists place the study of the *pure market economy* in the center of their investigations (*ibid.*: 266-7).

In this quotation, he seems to be using the term “market society” to refer to “capitalism” as it has evolved through history. Also in the introductory section of the chapter, he uses the phrase “market society” to discuss the possibility of mixed system. Referring to a “society based on private ownership by the means of production,” he writes that there is no such thing as a mixed economy – a system that would be in part

²¹Fraud is not mentioned in Mises’s definition of the pure market economy. Mises says only that the government protects “the market” against “encroachments” (*ibid.*: 237, as quoted above). This fact may be another source of confusion. At the beginning of Chapter 15, where he describes the “Characteristics of the Market Economy,” he writes the following:

The state, the social apparatus of coercion and compulsion, does not interfere with the market and with the citizens’ activities directed by the market. It employs its power to beat people into submission solely for the prevention of actions destructive to the preservation and the smooth operation of the market economy. It protects the individual’s life, health, and property against violent or *fraudulent* aggression on the part of domestic gangsters and external foes. Thus the state creates and preserves the environment in which the market economy can safely operate (*ibid.*: 257, italics added).

It seems to me that one is compelled to assume that the “market economy” at the beginning of Chapter 15 is the same as the “pure market economy” that he defined in Chapter 14 and that “the state” in this quote is the same as the government in his earlier definition. Given these assumptions, one can deduce that Mises means for this paragraph to help clarify the concept of protecting the market against encroachments. By encroachments, he is referring, among other things, to “fraudulent aggression.” It is difficult to interpret this paragraph in any other way. After all, it comes at the beginning of his chapter on the market and his chapter on the market is the first step in his task of elucidating the pure market economy. An opponent to this view could argue that Mises uses the term “market economy” elsewhere in his text in a broader sense. (Of particular interest is that in the earlier part of Chapter 14, the term “market economy” is prefixed by the term “pure.” In the latter part, where he broadens his discussion, there is no prefix.) I would rebut this first by pointing to the structure of his book and his stated goal in Chapter 14. Second, I would refer to his chapter on “The Government and the Market” (chapter 27), where he discusses a hampered economy. He writes: “What characterizes [the hampered market economy] is the fact that the government does not limit its activities to the preservation of private ownership of the means of production and its protection against violent or fraudulent encroachments” (*ibid.*: 718). I would have to assumed, of course, that “unhampered” in this quote means the same thing as “pure” in the earlier chapter.

Exercises such as this become tedious. This is why I say that Mises’s discussion is confusing. The best way to get to the heart of it, I maintain, is to recognize the structure of *Human Action*.

capitalist and in part socialist (*ibid.*: 258). Later in treatise, he writes that so long as a government, or socialized sector of the society does not become entirely separated, it is part of the *market society* (*ibid.*: 716). Also read what he says when he introduces the term in *Human Action*:

The classical economists sought to explain the formation of prices. They were fully aware of the fact that prices are not a product of the activities of a special group of people, but the result of an interplay of all members of *the market society* (*ibid.*: 62).

Surely he could not assume that his readers at this stage of his discussion would associate the term “market society,” as he used it in this introductory statement, with his definition of the pure market economy in chapter 14.

Yet, if he means for the term “market society” in the consumer sovereignty section to have a broad meaning, there is an obvious conflict with the way he uses that term in the introductory paragraph to the “consumer sovereignty” section. Indeed, the use of the term in that section seems to be an anomaly. He presumably means to use “the pure market economy.”

Other Market Concepts

We now discuss other references to the pure market economy in his section on consumer sovereignty. Mises points out that there are many producers at different orders in the structure of production. Many of these do not produce goods for consumers. He thereby directs his readers’ attention to the notion that consumer sovereignty entails messages being communicated up and down each resource supply chain. Taking account of all of the producers and resource suppliers who help produce a product, Mises writes that consumers “determine the income of every member of the *market economy*” (*ibid.*: 271, italics added). Here he uses the term “market economy.” One assumes that he means the same thing that he did when he used the term “market society” and “pure market economy.”²² However, he does not actually say this and his introduction of yet a third term to mean the same thing is confusing.

Mises then digresses to discuss an idea promoted by Frank Fetter that the consumer is like a voter in a democracy. Mises says that a more correct version of the metaphor would be to say that “a democratic constitution is a scheme to assign to the citizens in the conduct of government the same supremacy the *market economy* gives them in their capacity as consumers” (*ibid.*, italics added). Here he uses “the market economy.” But he goes on:

It is true, in the *market* the various consumers have not the same voting right. The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process. To be rich, in a *pure market economy*, is the outcome of success in filling best the demands of the consumers (*ibid.*, italics added).

In making his point, Mises uses three different terms: “the market economy,” “the market” and the “pure market economy.” As in the previous case, he presumably means all of these terms to refer to the “pure

²²As noted earlier, he also uses the term “market economy” in a more general sense in Chapter 14 where he seems to distinguish it from the pure market economy. To demonstrate these uses, one should search the term “market.”

market economy.” And again, his use of more than one term serves to confuse, especially since he uses those other terms more broadly elsewhere in his treatise.²³

Mises goes on to describe the one exception to the consumer sovereignty concept:

There is in the operation of a *market economy* only one instance in which the proprietary class is not completely subject to the supremacy of the consumers. Monopoly prices are an infringement of the sway of the consumers (*ibid.*: 271-2).

Here he uses the phrase “a market economy,” implying that the concept of consumer sovereignty applies to all classes of market economies. Clearly this cannot be what he means. He must be referring to the pure market economy. Failure to modify “market economy” with “pure” and his use of the generalized “a” is misleading again.

Mises goes on to refer to a metaphor that is often used by people who do not think deeply about the market economy. People often compare the bosses of businesses with the leaders of government. This type of comparison is shallow, he asserts. “The position which entrepreneurs and capitalists occupy in *the market economy* is of a different character. ‘A chocolate king’ has no power over the consumers, his patrons” (*ibid.*: 272, italics added). Here he writes about the market economy but, again, he would have been wise to confine his remarks to the “pure market economy.”

Finally, anticipating the argument that business people may entice government officials to give them special privilege, he asserts that the capitalists and entrepreneurs *cannot* influence government officials. He writes that “[i]n an *unhampered market economy* the capitalists and entrepreneurs cannot expect an advantage from bribing officeholders and politicians” (*ibid.*: 272-3, italics added.) In the preceding chapter 14, he wrote of “the pure or unhampered market economy” (*ibid.*: 237, as quoted above). Here he leaves out the term pure, presumably because he wants to stress the pure market economy’s nature of being unhampered by government. However, this procedure, which presumably would make sense to a Misesian scholar, reveals again a certain looseness of terminology that leaves a hint that Mises may be playing with words in order to manipulate the reader into supporting an ideology that she otherwise would not support. Clearly, it is an avoidable ambiguity that can have no other result but to detract from his message.

Conclusion

The main problem with Mises’s presentation is his failure to sufficiently assist his reader. There was nothing particularly novel about the idea of regarding market interaction under market economy conditions as a means of satisfying the wants of consumers.²⁴ The consumer sovereignty concept does not apply strictly to real world examples of the market economy because private property rights are never complete and because deception and “information asymmetries” are pervasive. Unfortunately for interpreters, Mises did

²³Referring specifically to his term “the market,” that is the title of chapter 15. However, the title is quite *inappropriate*. The reason is that his chapter is not specifically about the market or the market economy. It is about the pure market economy. See his chapter 12 for broader uses of the term “the market.”

²⁴I am not referring to Hutt here but to a much earlier exposition by Philip Wicksteed (1914). Wicksteed writes that:

organized production, which is the proper economic field, is a means only, and derives its whole significance from its relation to “consumption” or “fruition,” which is the vital field, and covers all the ends to which production is a means...(Wicksteed 1914a: 14).

not make it crystal clear that he was concerned with consumer sovereignty under very special conditions. In these passages, he began by referring to “the market society,” then shifted to “the market economy,” then referred to the “pure market economy” and “a market economy,” and then referred to the “unhampered market economy.” A Mises scholar who was aware of the structure of *Human Action* and of the grand scheme in his economics would presumably know that whenever Mises asserts consumer sovereignty, the only consistent interpretation is that he is writing always about the “pure, unhampered, market economy” and that, in this section on consumer sovereignty, he always has in mind only one exception: monopoly. His remarks about consumer sovereignty in other parts of the text often apply to the wider “market economy.” But the main concern of the section on “consumer sovereignty” is the pure market economy. In this economy, as Mises had defined it earlier in *Human Action*, (1) the only function of government is to maintain order, to enforce private property rights and to prevent fraud by using its control over coercion and (2) there is a complete set of private property rights.