

An excerpt from ‘Human Action’:

The direction of all economic affairs in the market society is a task of the entrepreneurs. They have 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.

The consumers patronize those shops in which they can buy what they want at the cheapest price. Their buying and their abstention from buying decides who should own and run the plants and the farms. They make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests. If something is offered to them that they like better or that is cheaper, they desert their old purveyors. In their capacity as buyers and consumers they are hard-hearted and callous, without consideration for other people.

Only the sellers of goods and services of the first order are in direct contact with the consumers and directly depend on their orders. But they transmit the orders received from the public to all those producing goods and services of the higher orders. For the manufacturer of consumers' goods, the retailers, the service trades, and the professions are forced to acquire what they need for the conduct of their own business from those purveyors who offer them at the cheapest price. If they were not intent upon buying in the cheapest market and arranging their processing of the factors of production so as to fill the demands of the consumers in the best and cheapest way, they would be forced to go out of business. More efficient men who succeeded better in buying and processing the factors of production would supplant them. The consumer is in a position to give free rein to his caprices and fancies. The entrepreneurs, capitalists, and farmers have their hands tied; they are bound to comply in their operations with the orders of the buying public. Every deviation from the lines prescribed by the demand of the consumers debits their account. The slightest deviation, whether willfully brought about or caused by error, bad judgment, or inefficiency, restricts their profits or makes them disappear. A more serious deviation results in losses and thus impairs or entirely absorbs their wealth. Capitalists, entrepreneurs, and landowners can only preserve and increase their wealth by filling best the orders of the consumers. They 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.

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. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. With every penny spent the consumers determine the direction of all production

processes and the details of the organization of all business activities. This state of affairs has been described by calling the market a democracy in which every penny gives a right to cast a ballot.¹² It would be more correct 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. However, the comparison is imperfect. In the political democracy only the votes cast for the majority candidate or the majority plan are effective in shaping the course of affairs. The votes polled by the minority do not directly influence policies. But on the market no vote is cast in vain. Every penny spent has the power to work upon the production processes. The publishers cater not only to the majority by publishing detective stories, but also to the minority reading lyrical poetry and philosophical tracts. The bakeries bake bread not only for healthy people, but also for the sick on special diets. The decision of a consumer is carried into effect with the full momentum he gives it through his readiness to spend a definite amount of money.

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 in the most efficient way.

Thus the owners of the material factors of production and the entrepreneurs are virtually mandataries or trustees of the consumers, revocably appointed by an election daily repeated.

Ludwig Von Mises, 'Human Action', Volume 2, (4th rev. ed., Irvington-on-Hudson, N.Y.: Foundation for Economic Education, c1996), Property of Liberty Fund, pp: 269-271.

12. Cf. Frank A. Fetter, *The Principles of Economics* (3d ed. New York, 1913), pp.394,410