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The Pure Market Economy and the Evenly Rotating Economy: Equilibrium in Austrian Economics

Mises defines the evenly rotating economy as follows:

[T]he evenly rotating economy...is characterized by the elimination of change in the data and of the time element. (It is inexpedient and misleading to call this imaginary construction, as is usual, the static economy or the static equilibrium, and it is a bad mistake to confuse it with the imaginary construction of a stationary economy.) The evenly rotating economy is a fictitious system in which the market prices of all goods and services coincide with the final prices. There are in its frame no price changes whatever; there is perfect price stability. The same market transactions are repeated again and again. The goods of the higher orders pass in the same quantities through the same stages of processing until ultimately the produced consumers' goods come into the hands of the consumers and are consumed. No changes in the market data occur. Today does not differ from yesterday and tomorrow will not differ from today. The system is in perpetual flux, but it remains always at the same spot. It revolves evenly round a fixed center, it rotates evenly...(Mises, *Human Action* 1966: 246-7).

<https://mises.org/humanaction/chap14sec5.asp>

The evenly rotating economy is an imaginary construction. The economist's purpose for using it is to help "elucidate the operation" of a second imaginary construction, the pure market economy.

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 and that consequently there is market exchange of goods and services. It assumes that the operation of the market is not obstructed by institutional factors. It assumes that the government, the social apparatus of compulsion and coercion, is intent upon preserving the operation of the market system, abstains from hindering its functioning, and protects it against encroachments on the part of other people. The market is free; there is no interference of factors, foreign to the market, with prices, wage rates, and interest rates. 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 (*ibid.*: 237-8).

<https://mises.org/humanaction/chap14sec3.asp>

Mises' *pure market economy* cannot be conceived without the evenly rotating economy. The use of logic requires an image such as the evenly rotating economy, as Mises points out:

In reality there is never such a thing as an evenly rotating economic system. However, in order to analyze the problems of change in the data and of unevenly and irregularly varying movement, we must confront them with a fictitious state in which both are hypothetically eliminated. It is therefore preposterous to maintain that the construction of an evenly rotating economy does not elucidate conditions within a changing universe and to require the economists to substitute a study of "dynamics" for their alleged exclusive occupation with "statics." This so-called static method is precisely the proper mental tool for the examination of change. There is no means of studying the

complex phenomena of action other than first to abstract from change altogether, then to introduce an isolated factor provoking change, and ultimately to analyze its effects under the assumption that other things remain equal. It is furthermore absurd to believe that the services rendered by the construction of an evenly rotating economy are the more valuable the more the object of our studies, the realm of real action, corresponds to this construction in respect to absence of change. The static method, the employment of the imaginary construction of an evenly rotating economy, is the only adequate method of analyzing the changes concerned without regard to whether they are great or small, sudden or slow (Mises, Human Action 1966: 247-8).

Think about it. Try to conceive of your own action. What does it mean to you to say that you act. You cannot conceive of your own action without a corresponding image of non-action. This corresponding image is one of behavior that does not entail thinking and choosing.

What does it mean to act? To answer, you must contrast action with what it would mean to not act.

Mises demonstrates how to use this logic, or method, of conceiving action in chapters 4-6 of his treatise. He also demonstrates it when he refers to the prerequisites of action. For example, he writes:

Acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory...A man perfectly content with the state of his affairs would have no incentive to change things (Mises, Human Action 1966: 13).

Just as you cannot conceive of your action without building an image of yourself not acting, the economist cannot conceive of market interaction without an image of market relationships that contains no action. The evenly rotating economy is such an image. No one acts, yet necessary functions are performed that enable factors of production to be transformed into consumer goods. Labor is supplied, capital goods are employed, consumer goods are produced, consumers consume the consumer goods, prices are paid for the factors of production and consumer goods, saving occurs, an interest rate is established, etc.

When Mises writes something comparable to what mainstream economists typically mean by an economy in equilibrium, he is referring to this image of market relationships that contains no action. He is referring to the evenly rotating economy. Such an economy could never exist. Nor is there any reason to investigate it further. It is contradictory as Mises points out.

In spite of the fact that it is contradictory, an economist cannot build an image of market interaction without it. The market interaction represented in the image of the pure market economy requires a corresponding image of behavior without thinking and choosing. Mises describes the use of this tool here as well as its deficiencies as an image of reality as follows:

[The evenly rotating economy] is merely a tool for our thinking. It is not the description of a possible and realizable state of affairs. It is even out of the question to carry the imaginary construction of an evenly rotating system to its ultimate logical consequences. For it is impossible to eliminate the entrepreneur from the picture of a market economy. The various complementary factors of production cannot come together spontaneously. They need to be combined by the purposive efforts of men aiming at certain ends and motivated by the urge to improve their state of satisfaction. In eliminating the entrepreneur one eliminates the driving force of the whole market system.

Then there is a second deficiency. In the imaginary construction of an evenly rotating economy, indirect exchange and the use of money are tacitly implied. But what kind of money can that be? (Mises, Human Action 1966: 248-9).

<https://mises.org/humanaction/chap14sec5.asp>

How does the economist represent the thinking and choosing that exists in real market interaction? The answer lies with the concept of the entrepreneur function. The entrepreneur function represents all distinctly human action under the conditions of the pure market economy. Thus, the elucidation of interaction under pure market economy consists almost entirely of elucidating the performance of the entrepreneur function.

A note on the pure, or unhampered market economy.

Mises occasionally uses the term “unhampered” in tandem with “pure” to refer to the image of market interaction under pure market economy conditions. On rare occasions, he omits the term “pure.” However, his use of the term “unhampered market economy” should not be confused with Rothbard’s use of the same term. Mises assumes the presence of private property rights and a government (monopoly over coercion) to enforce them. Rothbard disregards the need for a monopoly over coercion and a corresponding need for a means of financing the enforcement of private property rights.

Today, with so many neo-Austrian students learning their economics from Rothbard, it would be best to discard the term “unhampered” completely. At the same time, one should not lose sight of the ultimate goal of building the image of the pure market economy. The image of a pure market economy is the starting point for evaluating arguments favoring or opposing market intervention. There is no way to conceive of “the market” (which means market interaction or market phenomena) without starting with the image of a pure market economy. But one must remain cognizant of the fact that the pure market economy is also an imaginary construction. This means that one must keep in mind the assumptions required to build it.

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