Market Phenomena Catallactics Misapplication: It's Crucial Role in Africa's Underdeveloped Economy

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MARKET PHENOMENA

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Catallactics Misapplication: It's Crucial Role in Africa's Underdeveloped Economy

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A. ABSTRACT

The study and purpose of this paper is to correct the error which emerged from the careless use of imaginary construction on the direct and indirect exchange of the market, by the Central Banks of Africa to dispense their monetary policy. This results in fallacious economic predictions to the future of the market. The latter result is the frustration of the employment of capital and labour for the development of the economy of Africa.

B. PURPOSE

This science paper adopt praxeological method as the pinnacle among the other methods constructed by the Austrian School of Economics, as the methodology for the economic calculation, with the ultimate aim to correct the current malfunctioning of the market phenomena in the context of Africa. By this, it takes a critical look into the behavioural stature of the African market to achieve accurate response in the predictive model of the economics profession to rejuvenate the confidence and certainty which investors and other players of the market depend on to actively contribute to the development of the economy.

C. THEORETICAL CONSTRUCTION

There have never been any doubts and uncertainties about the scope of economic science. Ever since people have been eager for a systematic study of economics or political economy, all have agreed that it is the task of this branch of knowledge to investigate the market phenomena as asserted by L.V. Mises (1973).

To define the market phenomena, simple equations below could be derived

1st

Market Phenomena (MP) = Market Exchange (ME) + Catallactics ©

2^{nd}

Catallactics ©= Money Price (Px) + Economic Calculation (EC)

Derived Equation

Market Phenomena= Market Exchange + Money Price + Economic Calculation

The critical questions that arise when analysing the above equation are as follows:

1. Are the dynamics of market exchange in the context of African market well understood in the sphere of scientific studies in current application?

2. Is the premise from which the economic calculation is derived in the context of African market accurate?

These two questions above, not accurately addressed, have been the root cause of most of the failures in economic development projects instituted by World Bank for Africa and several other failures in scientific predictions of political economic development for Africa over two decades. Time and experience vindicate this assertion.

To address such questions, and for the error to be corrected, "value" in the economic context, according to L.V. Mises, has to be revisited and summed up to capture the cultural factors of a group of people – in this context on the African continent – to have a deeper understanding of its market phenomenon.

D. VALUE

L.V. Mises (1920): “Value” is an intrinsic quality inherent in things and not merely the expression of various people’s eagerness to acquire them. He emphasizes that an “Action man” is always concerned with both “material” and “ideal” things. Kelvin H. (2006) classifies and defines “Value” as means-value and ends-value. “Means-Value” is object or action and the “Ends-Value” is the feelings associated with the means value. He further classifies “Ends-values” into the categories of “attraction-values” and “avoidance-values”. Examples of attraction-values are love, happiness, security, ecstasy, freedom. Examples of avoidance-values are depression, anxiety, fear, boredom, sickness. Anthony R. (1987) asserted that we want or seek certain things or conditions in life (means-value) because of the state we think they will give us (ends-value). It is very important to also realize that the value of an action man or a group of people extends to its cultural philosophical roots; hence it plays a cardinal role in what motivates them as a people to engage in a market exchange. The concentration of the “exchange mechanism” is driven by the “Value” focus of a group of people. For example, if a group of people believes so much in a “Value” of investing in building houses to exercise certain “ends” like prosperity, prestige and many other interrelated web-links of “ends” such will drive the intensity of exchange in architectural constructions to develop private property and satisfaction of consumers. Such is the advancement of market phenomenon cum economic development.

Comparative economic development of Africa ontologically during the era of BC and AD deduces clearly that the Africa of AD has deteriorated in its true economic advancement despite its exhibition of modern edifice. The evidence of this study depicts clearly that the continent is operating on a displaced "Value".

Since value is the cardinal pillar of market phenomena, a technical displacement of it as a result of a missing link to the cultural ontology of the people causes a very complicated market puzzle lacking connection to any precise solution that could drive the masses, who are expected to be the cardinal players of the exchange market for economic advancement.

To lose connection to the true "value" of the people but rather forge-in a value for them in the market to complete an exchange operating circuit, with scarcity finally identified, causes a special dysfunction of the market whereby majority of the market players (grassroots circle) lose meaning of their existence to contribute meaningfully to the development of the market system within the geographical area.

In such a situation all government fiscal policies, no matter how scientifically they are constructed, will fail to achieve their intended purpose because they misalign with the true market stature of the targeted group of people. When an imaginary construction of a policy is in error it loses its meaning of a win-win situation.

A brief historical record of African "Value" resulting in the booming of its economy as early as 5200BC shows that earlier Africans were hunter-gatherers living in small family groups even though there was considerable trade that could cover a long distance. Archaeologists have found evidence of trade in luxury items, like precious metals and shells across the entirety of the continent, which were the main items of trade. Some people, such as the Berber, lived in dry areas and became nomadic herders while in the Savannah grasslands people cultivated crops and thus permanent settlements were possible. Agriculture supported large towns and eventually large trade networks developed between towns as early as 5200BC. Historians believe that iron working developed independently in Africa unlike other continents. Africa did not have a period of copper and bronze working before it own age. Copper is quite rare in Africa while iron is common. In Nubia and Ethiopia, iron trade and agricultural surpluses led to the establishment of cities and civilization. This fact establishes the relationship between value and emergence of civilisation through economic advancement of ancient Africa in BC

E. SCARCITY

Acting and thinking man is the product of a universe of scarcity in which whatever well-being can be attained is the prize of toil and trouble of conduct popularly called economics. I seek to differ a bit from the textual construction of this foregoing assertion by L.V. Mises (1920) but rather argue that, *the acting and thinking man is a product of a universe of scarcity created by his action which could not be easily reversed; however, for his well-being he has to pay the price of toil and trouble of conduct popularly called economics.*

This places economic studies and practice in the correct historical perspective to the effect that economics forms not part of the foundation of creation but emerges as a discipline through certain actions of men that led to scarcity. Hence, scarcity has become a major challenge of man to address. This demands the compulsory knowledge of economics to minimize its effect and impact for man's welfare and development. This does not connect my ideas in support of the Karl Marx School of thought which believes that scarcity could forever be eradicated by the abolition of private property. From my perspective such an intellectual opinion is radically ambitious and does not hold the solution to the problem under debate, taking in context the "Value" of man and attitude to power of control, naturally.

F. ECONOMIC CALCULATION

Prof. Mises sets out a theoretical framework for the gradation of ends from means in his publication entitled*: The Human Action*. He believed that gradation of the means is, like that of the ends, a process of preferring “a” to “b”. A manifestation of judgment that “a” is more intensely desired than is “b” is equal as “b” to “c”. This opens a field for application of ordinary numbers but does not open to application of cardinal numbers and arithmetical operations based on them.

The immediate goal of acting is frequently the acquisition of countable and measurable supplies of tangible things. Acting man then has to choose between countable quantities; he prefers, for example, “y” to “x”; but if he had to choose between “x” and “z” he might prefer “x”. We can express this state of affairs by declaring that he values “z” less than “x” but higher than “y”. This is tantamount to the statement that he prefers “a” to “b” and “b” to “c” but the substitution of y=a, x=b, z=c changes neither the meaning of the statement, nor the fact that it describes.

It certainly does not render reckoning with cardinal numbers possible. It does not open a field for economic calculations and the mental operations based upon such calculations.

The elaboration of economic theory is heuristically dependent on the logical process of reckoning to the extent in which “Value” is derived from an acting man without undermining his culture which has been the subject in this analysis. The economist had failed to realize that such is the fundamental problem involved in the method of economic calculation. They are prone to take economic calculation as a matter of course; they do not see that it is not an ultimate given but a derivative, requiring reduction to more elementary phenomena.

They take it for a category of all human action and ignore the fact that it is only a category inherent in acting under special conditions. They have to come to the realization that the interpersonal exchange and consequently market exchange are affected by the intermediary of common medium of exchange; that is money and, therefore, price are special features of a certain state of society's economic organization which did not exist in primitive civilization and could possibly disappear in the further course of historical change.

The argument presented above makes it very clear that monetary price will not and could not be the only vehicle of economic calculation which reveals the fallacies implied in the ideas about economic calculation by many eminent economists. The modern theory of "value" and "prices" shows how the choices of individuals, their preference of some things at the expense of other things, result in the sphere of interpersonal exchange in the emergence of market price.

These masterful expositions are unsatisfactory in some minor points and disfigured by unsuitable expressions but essentially irrefutable. In order to trace back the phenomena of the market to the universal category of preferring "y" to "x" , the elementary theory of "Value" and "Price", is bound to use some imaginary constructions to which nothing corresponds in reality, is an indispensable tool of thinking. No other method would have contributed something to the interpretation of reality until the most important challenge to such a science, which is the fallacies in its imaginations employed for such constructions, is avoided.

G. FALLACY OF CATALLECTICS APPLIED AND CORRECTIONS

The first imaginary construction is to create a market in which all transactions are performed in direct exchange. Where money is non-existent, goods and services are directly bartered against other goods and services. Again, we must carefully guard ourselves against the delusions which this construction of a market with direct exchange can easily engender.

There is a serious blunder that owes its origin and tenacity to a misinterpretation of this imaginary construction. It was the assumption that the medium of exchange, which in this context was money, is a neutral factor only. According to this opinion the only difference between direct and indirect exchange was money as a medium of exchange employed. It further asserts that the interpolation of money into the transaction did not affect the main features of the business. May be, they are being too quick to ignore the fact that in the course of history tremendous alterations in the purchasing power of money has occurred and that these fluctuations often convulsed the whole system of exchange.

It seems that either most economists do not understand or undermine the cause and effects of these monetary fluctuations. It is easily assumed that changes in purchasing power occur with regard to all goods and services at the same time and to the same extent the axiom of the theory of catallactics. It, therefore, defines the task of economics calculation as the study of direct exchange with the remaining challenge to address being the scrutiny of the problems of "bad" money.

Complying with this opinion, economists have neglected the huge challenge associated with problems of indirect exchange resulting in the treatment of monetary problems superficially. Even though historical analysis of economic development theory in this area of catallactics studies in the 19th&20th Centuries, comparative to those in the 21st Century, has advanced significantly it is very clear that its imaginary construction is skewed and favourable to Eurocentric market phenomena and it enlightenment as compared to Afrocentric market.

However, an inveterate fallacy asserted that things and services exchange are of equal value; which "value", as a subject of discourse, is well analysed in earlier pages for reference studies. This is how it was first assumed, leading to the establishment of goods and services by an act of measurement and then proceeded to barter them against quantities of goods and services of the same value. This fallacy frustrated Aristotle's approach to economic problems. And for almost two thousand years the reasoning of all those for whom Aristotle's opinions were authoritative it actually vitiated the marvellous achievements of the classical economists and rendered the writings of their epigones, especially those of Marx and the Marxian school, entirely futile. The basis of modern economics is the cognition that it is precisely the disparity in the value attached to the objects exchanged that result in their being exchanged. People buy and sell only because they appraise the things given up less than those received. Thus the notion of a measurement of value is vain. An act of exchange is neither preceded nor accompanied by any process which could be called a measuring of value. An individual may attach the same value to two things; but then no exchange can result. But if there is a diversity in valuation, all that can be asserted with regard to it is '"a" is valued higher than "b"' – implying it is preferred more. "Values" and "Valuations" are intensive quantities and extensive quantities. They are not susceptible to mental grasp by the application of cardinal numbers.

There was a spurious idea that "value" is measurable and could really be measured in the conduct of economic transactions. It is one of the greatest fallacies which lesser economists carry it as a notion, which Prof. Mises simply puts it; they maintained that money serves "as a measuring of value".

We have arrived at a realization that valuing means to prefer "y" to "x". In its studies – through logic, epistemology, psychology and praxeology – only one pattern is derived: "preferring". Preferring always means to desire or love "y" more than "x", just as there is no standard and no measurement of the value of commodities. So if a man exchanges 5kg of bread for 3kg of sachet of milo all that we can assert with regard to this transaction is that, he at the instant of the transaction and under the conditions which this instant offers to him prefers 3kg of sachet of milo to 5kg of bread. It is certain that every act of preferring is characterized by a definite psychic intensity of the feelings it implies. There are grades in the intensity of the desire to attain a definite goal and this intensity determines the psychic profit which the successful action brings to the acting individual. Psychic quantities can only be felt. They are entirely personal and there is no semantic means to express their intensity and to convey information about them to other people.

However, in the market society there are money prices. Economic calculation is a theoretical calculation built on money prices. The various quantities of goods and services enter into calculation with the amount of money for which they are bought and sold on the market or for which they could prospectively be bought and sold. This indicates that it will be a fictitious assumption that an isolated self-sufficient individual or general manager of a socialist system could conduct a successful economic calculation. It is impossible because there is no way which could lead one from the money computation of a market economy to any kind of computation in a non-market system.

H. THE PROBLEM OF ECONOMIC CALCULATION

Modern technology (economic calculation) is essentially the applied art of quantitative prediction of the outcome of planned actions; and one calculates with a reasonable degree of precision in the outcome of a planned actions in such a way that a definite result emerges. However, the mere information conveyed by technology would suffice for performance of calculation only, if all means of production, both material and human, could be perfectly substituted for one another according to definite ratios or if they all were absolutely specific. Such conditions are never present in the universe in which man acts because there are more or less specific means for the attainment of various ends. On the other end, most means are not absolutely specific; most of them fit for various purposes. This sets man the tasks of allocating them to those employments in which they can render the best services which make technology computation impossible. Technology operates with countable and measurable quantities of external things and effects; it knows causal relations between them but it is foreign to the relevance of human wants and desires. The economic calculation has failed to play its core role expected because what the acting man wants to know is how he must employ the available means for the best possible result to remove uneasiness as far as possible.

Technology and the considerations derived from it would be of little use for an acting man if it were impossible to introduce into their scheme the money price of goods and services. The lofty theorist in the seclusion of this laboratory does not bother about such trifling things; what he is searching for is the causal relations between various elements of the universe. But the practical man, eager to improve human conditions by removing uneasiness as far as possible, must know whether under given conditions what he is planning is the best method or even a method to put people at ease. He must know whether what he wants to achieve will be an improvement when compared with the present state of affairs and with the advantages to be expected from the execution of other technically realizable projects which cannot be put into execution if the project he has in mind absorbs the available means. Such comparison can only be made by the use of money price. This makes money to become a vehicle of economic calculation. This does not define money as a separate function. It has a core role as a universally used medium of exchange, nothing else. Where there are no money prices there are no such things as economic quantities. There are only various quantities relations between various causes and effects in the external world but there is no means for a man to find out what kind of action would best serve his endeavours to remove uneasiness as far as possible. The task which acting man wants to achieve by economic calculation is to establish the outcome of acting by contrasting inputs and outputs. However, economic calculation is either an estimate of the expected outcome of the future actions or the establishment of the outcome of past action. This further emphasizes that the estimate of the expected future outcome is never based in historical and didactic aims but only act as a guideline.

Its practical meaning is to show how much one is free to consume without impairing capacity to produce. It is with regard to this problem that the fundamental notions of economic calculation – capital and income, profit and loss, spending and savings, cost and yield –are developed. The practical employment of these notions and of all notions derived from them is inseparably linked with the operations of a market in which goods and services of all orders are exchanged against a universally used medium of exchange, money.

I. CONCLUSION

This indicates that Central Banks of Africa could not establish an economic calculation solely on monetary quantification as a basis to derive policy examples like the simplistic employment of Gross Domestic Product (GDP) as a measuring tool to determine the development and welfare of a state economy without establishing correct market Value of the people. A true state of economic development of a nation should be defined on its market value interlinked into its economic calculation. The right application of catallactics will engineer the grassroots who are the majority of every economic system to contribute meaningfully to the exchange market which will reflect on a true performance and the state of economic welfare of a nation.

APPENDIX

Catallactics*: Is a theory of the way the free market system reaches exchange ratios and prices. It aims to analyse all actions based on monetary calculations and traces the formation of price back to the point where an agent makes his or her choices.*

Praxeology: *Is the deductive study of human action based on the notion that humans engage in purposeful behaviour*

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