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**Catallactics Misapplication: Its Crucial Role in Africa's Underdeveloped Economy**

## 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 and policy constructions 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. METHODOLOGY

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 phenomenon 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 economic profession, to rejuvenate the confidence and certainty which investors and other players of the market depends 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 |

2nd

| |
|---|
| 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 well understood in the sphere of scientific studies for accuracy in monetary policy application?

2. The premise upon which the economic calculation is derived in the context of African market, accurate?

The two outlined questions above, if not accurately addressed, will continue to play the major role in most of the failures encountered through the economic development projects instituted by World Bank and its allies for Africa, as well as other failures in scientific predictions in political economic development in Africa over the past two decades. Experience of today and historic fact vindicate this assertion.

To address such questions, and for the error to be corrected, "market value" in the economic context has to be revisited and summed up to capture the cultural factors of a group of people within a defined society like 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 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 to the satisfaction of consumers. Such is the advancement of market phenomenon cum economic development.

Comparative economic development of Africa deduced ontologically, brings to bear the era of BC and AD, justify with clear evidence through historical records that the Africa of AD has deteriorated in its true economic advancement despite its exhibition of modern edifice infrastructures. The evidence of this analytical study depicts clearly that the continent is operating on a displaced economic and market-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.

The current socio-economic development examination in Africa depict a clear lost of connection of it larger labour force to it economy and it market-value which suppose to be the power house of efficient production, but rather an attempt is made to forge-in a “value” for them, in the market to complete an exchange operating circuit, with scarcity finally identified, causing a special dysfunction to the market whereby majority of the market players (grassroots circle) has lost meaning of their existence to the ecosystem to contribute meaningfully to the development of the market structure within this geographical area.

In such a socio-economic experimental 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. It has to be realised, 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 "economic and market-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 stated above establishes the correlation between market-value of the identified group of indigenes and the emergence of their civilisation through economic advancement in the era of BC of Ancient Africa.

## 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) and argue that, *the acting and thinking man is a product of a universe of scarcity created, which was caused by it action but 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 the effect and impact of scarcity, for man's welfare and development. This does not correlate 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 on the grounds of historical evidence

## 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 CATALLACTICS 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 or the value of the market defined through the cultural philosophy of a group of people.

1. 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.

2. Undermining the effect of a derived economic Value of a group of people or a society, and it impact on catallactics calculations and finally it effect on market phenomenon

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 based on monetary econmics in this area of catallactics studies in the 19th&20th Centuries, comparative to that 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 advancement.

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, which the value has to be ontologically understood from individual or group perspective to result in successful exchange that could advanced the development of a society. People buy and sell only because they appraise the things given up less than those received which is built deep down in their cultural philosophy.

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 which is ontologically defined from it cultural roots.

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. And other Project 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 under the context of the real world. 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 as a module for quantification purposes. 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. MISTAKE OF ADAPTION EXPECTATION THEORY

Adaption Expectation theory hypothesized that, people form their expectations about what will happen in the future based on what has happened in the past and computed it into an equation as

$$\boxed{Pe = Pe_1 + \boldsymbol{\lambda}(\boldsymbol{P} - \boldsymbol{Pe_1})}$$

However the theory chose to blame the error of forecasting on stochastic shocks, which this paper seek to argue that it was not totally correct and with the formula very limited to change of price movement of the market phenomena. This resulted in the development work of J. F. Muth (1961) on expectation theory. This theory presented a model for a systematic predictions, also being a victim to simpler fallacy of ignoring the cultural philosophy of a people or a society to be used to derive the market value, that will form the base to be imputed into the equation for predictions, hence was bound to create the same error as the initial theoretical formula was noted of, hence failing woefully to make a meaningful formula for practical market operations.

In an attempt to solve macroeconomic development problem by resorting to a theory that calculate prices changes, ignoring labour imputation into the economic calculation, the axiom that drive the base economy of most of the developing and underdeveloped countries; we are bound to arrive to an equation that is fraud to the macroeconomic reality of market phenomenon.

The argument of this paper has seek to correlate the Culture philosophy of a society to its market value in economic calculation, therefore seek to define the culture in this context here again as "*the ideas, customs and social behaviour of a particular people or a society*"(Oxford Dictionary)

## J. THE ERROR OF THE LABOUR ECONOMIC CALCULATION

The significant error noted from most of the labour economist is fallacious imaginary construction as a base to establish their theoretical computation. Rationalisation of labour efficiency in the market phenomenon, based on quality formal education without considering the stratification of the market system within a particular geographical area, result in an error of misalignment of a market value and it economic calculation from the labour production centres. Not all labour efficiency depends on formal education to enable a simply derivation of an arithmetic equations which known to be common among the labour economist.

Measuring labour performance and efficiency through the cultural system of a society especially among the developing and underdeveloped countries based on the nature of their economic market strata, to allow efficiency in their microeconomic level, has a lot to do for national economic development agenda. Anytime a report of the market defines wide misalignments of productivity input into the macro economy, the investment of monetary capital is bound to be wasted.

A formal education that produces human capital for a particular market has to take into consideration, the cultural philosophy of that market to construct it training materials to develop it labour force, beyond this, there is a likelihood of malfunctioning of the labour force that stand as the engine for industrial growth.

## K. THE ERROR OF CENTRAL BANKS POLICY IN DEVELOPING AND UNDERDEVELOPED COUNTRIES

The policy development and application of the Central Banks in developing and underdeveloped countries have one similar character of adaptation and application of macroeconomic policy which is inapplicable to the environment they operate in it based on the following errors in the economic calculation.

Their macro economy is misaligned with thir microeconomic fundamentals;

1. In a situation whereby the ratio of misalignment of labour productive input to an economy is estimated at 70:30 with 70% unproductive labour force and 30% computed as marginally productive to macroeconomic stimulation, it easy to see such a economy falling to into a category classify today by World Bank as developing economy by different methodology of rating

2. Underdeveloped economy has their percentage level of misalignment rate to be estimated at 90:10 with 90% unproductive labour force and 10% marginally productive to macroeconomic index

Therefore if the misalignment gab not corrected, studies indicate that no matter how accurate and logical monetary policy will be, investment in such a market is bound to be ineffective and wastage of monetary capital. To address such gab as the earlier content espoused, the labour force should be driven to the direction of a market value derived by the cultural system of a society.

## L. SIMPLE ARITHEMENTIC MACROECONOMIC CALCULATION

MD= ME + C (MV)........................................................................................2

MD- will be represented with the alphabet (θ) is Macroeconomic Development Measure

ME- will be represented by an Alphabet (β) is Market Exchange Index

MV- Will be represented by an Alphabet ($\alpha$) Market value measurement

C- Will be represented by an Alphabet (**λ**) Cultural effect on Labour efficiency measurement

$$\boxed{\theta = \beta + \lambda\alpha}$$

**(Θ)** is defined by this calculation as the **macroeconomic development Index** of a nation, a society or a particular geographical area

Θ = Macroeconomic Development Index/Market Phenomenon

(β) is defined by this calculation as the **market exchange Index** of a geographical area derived from my first equation as

β= **Market** Exchange: This defines the exact market sector of the economy that performs very high in Gross Domestic production (GDP)

($\alpha$) is defined by this calculation as the "***market value***" which measure the exact sector of an economy with high percentage of indigenous labour efficiency to market production

$\alpha$= Market Value in this calculation measure the sector of the market that engage more active and efficient labour force easily, which it contribution have a significant effect on the macroeconomic index

(**λ**) – It measures the number of labourers available at this sector of the market ($\alpha$) within a particular period of time.

(**λ**)= Cultural Effect on Labour efficiency, this computation takes into consideration a labour force development and efficiency which is driven by cultural impact instead of a formal cost driven education.  Such labour market classified as informal is very voluminous in developing and underdeveloped countries, hence their market value and exchange has to be built on it labour force, if not any macroeconomic calculation is bound not to be sustainable but will head to a crash. This constant (**λ**) varies with time differences because culture is dynamic hence the equation below will be accurate to measure true macroeconomic development of a state or a nation.

$$\boxed{\theta = \beta + \lambda^{t2-t1}(\alpha)}$$

## M. CONCLUSIONS

This indicates that Central Banks of Africa could not establish a macroeconomic calculation for a market system solely on monetary quantification as a basis to derive policies which are inapplicable in developing and under developed countries as happening currently, example 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 a society to arrive at it Human Development Index (HDI). The measuring of the true state of economic development of a nation should be defined on its market value as a base to derive accurate economic calculation.

The correct application of catallactics through correct *market value* derivation is the only economic calculation that will make strong input to monetary policy direction as the axiom to engineer the grassroots who are the majority market players of every economic system to contribute meaningfully to the exchange market which will reflect on a true performance and the state of macroeconomic welfare of a nation in Africa.

## 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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