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Types of Economic Action

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The rapid development of economic theory in recent decades, the construction and analysis of ever more sophisticated models, active penetration into fields of research traditionally "alien" to economics (so-called "economic imperialism")—all of this significantly reduces attention to the basic theoretical assumptions, placing their study in the category of "rearguard action" that has no substantial impact on further progress. In my opinion, this approach is counterproductive: first, because a large building needs a solid foundation, and second, because a study of the foundations of economic theory is no less interesting than a study of its expanding structure and practical applications. Of special interest within these foundations is a discussion of *economic action*, particularly because the economic phenomena being analyzed must be reduced to individual actions if the researcher consistently abides by the principle of *methodological individualism*.

Individuals and Actions

The category of action is one of the basic categories in the school of economic thought known as the Austrian School of Economics. One of its founders, Ludwig von Mises, explored the problems of human action in a voluminous book first published (in German) in 1940.[1] According to Mises, "Human action is purposeful behavior. Or we may say: Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life. Such paraphrases may clarify the definition given and prevent possible misinterpretations. But the definition itself is adequate and does not need complement or commentary."[2]

Thus, human actions differ from other manifestations of human activity such as reflex (inborn) responses, unconscious behavior, etc., by the fact that they are *purposeful*, aiming to achieve a certain goal, to obtain a desired result. Action,

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according to Mises, is an individual's conscious attempt to substitute a more satisfactory state of affairs for a less satisfactory one. He identifies three prerequisites of human action:

(1) the individual's dissatisfaction with the present state of his affairs (uneasiness);

(2) the existence of an image of a more satisfactory state of affairs; and

(3) the expectation that his actions can change the present state.

Then the choice of a particular action and its implementation (if the expectations are correct) will "convert" the individual's present state into a more satisfactory future state.

Before considering how the introduced concept of action is used to lay the foundations of economic theory, let us take a closer look at the content of the concept of *individual* (man, human being). The individual's central role in the economy and even more so in society appears quite obvious. After all, everything that we see in socioeconomic processes is the result of individuals' actions. Since people live in society (a set of organized and unorganized groups), these actions naturally *reflect* and *take into account*, to a greater or lesser extent, the expected actions of other people, their intentions and goals, the resources at their disposal, etc. An individual outside society (say, Robinson Crusoe) can exist for some time and organize his environment only because prior to his separation from the social group he was brought up in a family, which not only supported his physical existence, but also passed on knowledge and experience, fostered various skills, etc. Known cases of feral children raised by animals clearly show that children in such situations cannot become full-fledged human beings. Thus, every individual has in his consciousness (and subconsciousness) the experience and knowledge of his parents and of the small groups with which he interacted while growing up. Does this mean that the future independent actions of individuals are fully determined by the process of their education and upbringing? Of course not, because, as noted above, such actions are the result of an individual's *choice* of a particular option, i.e., a manifestation of his *free will*. As for the knowledge, skills and abilities acquired in the process of education and upbringing (also referred to as *socialization*), they appear as components of the individual's decision-making process (along with the experience and knowledge gained by the individual through his own efforts).

The fact that the only actor capable of setting goals, having interests, etc., is the **individual** (and not the family, group, society, state, etc.) is reflected in the form of the principle of **methodological individualism.** From the positions of this principle, the attribution of actions, goals and interests to the above social phenomena (for example, "the goal of the organization is..." or "the interests of society consist in...") is no more than a shortened form of longer expressions such as "the goal of the head (owner, top manager) of the organization is..." or "the coinciding interests of all or most citizens constituting a given society consist in..." If one is aware that such expressions attributing goals and interests to groups of individuals *as if* these groups were individuals are *no more than con-*

venient abbreviations, they can undoubtedly be used. But if one tries to discern some kind of reality behind them, i.e., if one believes that organizations, groups, etc., are *actually* individuals like an individual human being, this may have a number of negative effects that may be difficult to unravel.[3]

People as individual human beings are studied by many social sciences and the humanities. In economics, the individual being studied is not a real, living human being with an infinite variety of inherent qualities, but a sufficiently pale and thin "section" of man with a much smaller set of attributes, namely "economic man."

What features should economic man have in order to be able to act? He should *at least* have the following abilities:

— to *distinguish* objects in the surrounding world;

— to *compare* them with each other and to see the similarities and differences between them;

— to *rank* objects and sets of objects (situations) by order of preference, i.e., to *evaluate* them;

— to *set goals*, i.e., to establish the most/more satisfactory situations;

— to *select* certain objects;

— to *identify the connections* between objects, particularly between the planned actions and their consequences;

— to *expect* (anticipate, foresee, predict) possible future situations (sets of objects), including the consequences of his actions.

These abilities of the individual make it possible to introduce two key categories of economic analysis: the concept of *benefits* and *costs* of an action planned or taken. **Benefits** are the expected difference between estimates of the future (a more satisfactory one) and the actual state of the individual (the condition or situation in which the individual currently finds himself). Since the estimate of the more satisfactory state is *higher* than the estimate of the less satisfactory state, their difference is obviously *positive*. **Costs** are the expected difference between an estimate of means *before* the action and their estimate *after* its fulfillment. Since means are used up (in whole or in part) in the course of action, i.e., they decrease, the difference here is obviously *negative*. Hence, it can be said that a possible action will be performed if the expected benefits *exceed* the expected costs.

Here we must add an important explanatory note. The concepts of costs and benefits are often believed to be so obvious and "natural" that those who use them do not think it necessary to specify the conditions of their applicability. Meanwhile, there is a tradition in part of Russian as well as foreign literature according to which the use of these concepts is "warranted" only when and where the acting individual performs *rational actions*. In situations where the individual's actions are *of a different type*, the categories of costs and benefits, from the perspective of this tradition, are *inapplicable*.[4]

Although this thesis was previously advanced by a number of researchers, it was Aleksandr Chayanov, who formulated it most explicitly.[5] From his point of view, the farm for the peasants was a *means of survival*, a mode of subsistence, and not a *source of income*. Since the land was cultivated by family members and not hired workers, peasants had no notion of wages. Since peasants engaged in production for their own consumption and not for sale in the market, they were unaware of the category of profit: they could not distinguish between the actions of production and consumption. The absence of a notion of profit as the difference between income (pecuniary benefit) and costs meant that the latter could not be used to understand the motives underlying the actions performed by members of peasant families. Land as the main resource used for "production-consumption" was not seen by peasants as a commodity that could be bought or sold because its availability determined their survival.

In other words, in Chayanov's view, peasant farming *did not constitute a set or system of actions* according to Mises; it did not involve a conscious comparison or correlation of possible future states or a choice of means of their achievement because there was *no awareness* of the actions themselves as acts of choice among many options. In sociological terms, it was a system of *traditional* and not *rational* actions: the absence of conscious choice is one of the most characteristic features of traditionalism.

Research carried out in a number of countries in the past few decades has shown, however, that such treatment of peasant farms is not entirely correct (see the review in a work by Tracy Dennison[6]). The peasants were quite capable of making rational decisions and acting in their own interests *as they understood them*. It is another matter that from the point of view of an outside observer *this understanding itself was "incorrect."* In other words, proponents of the concept of peasant traditionalism actually believed that peasants *should have had* other interests.

But such "imputation of interests" is in complete contradiction with the principle of methodological individualism. After all, only the individual has goals and interests and, in the final analysis, only he himself knows what they consist in. Of course, an observer can *identify* these goals and interests; he is also entitled to *evaluate* them from his own point of view. But the conclusion that such goals are *irrational* if they are inconsistent with the researcher's notions of correctness is already *incorrect*.

The point is that the individual being studied, on the one hand, and the researcher as an individual, on the other, have different experience, different knowledge about the world, a different ability to perceive and process information, etc. They may have very different views of the benefits and costs associated with the various possible states of the individual being studied.

The questions under discussion have another side to them, which is connected with the differences between what, *in the individual's opinion*, he *is doing* and *how this is reflected in the theory*. A typical example is the discrepancy between the proposition of neoclassical economic theory that the goal of the firm[7] is to *maximize profit* and the results of numerous empirical studies of firms

showing that their goals are much more diverse: they may include maximization of sales, expansion of market share, increase in the value of the firm, etc. Based on this discrepancy, many researchers and practitioners draw the conclusion that the economic theory of the firm misinterprets the goals of the firm, urging the need to revise the theory.

Actually, there is no contradiction between these two interpretations of corporate goals. The goals identified in empirical studies are goals set by real people in charge of real firms. A corporate goal in economic theory is an *abstraction* which is *convenient* for modeling and theoretical analysis, an abstraction which makes it possible to explain and, most importantly, to predict changes in the parameters of the firm caused by changes in market conditions. If the obtained theoretical conclusions (forecasts) are consistent with practice, the model assumptions are valid.

Here is a simple illustration. In some situations, a *material point* (i.e., an abstract object which has no physical length or volume but only a certain mass) can serve as a model of man that can provide *reliable predictions*, as in the situation of a free fall from a height. It is clear that people, like the heads of firms in the situation considered above, do not regard themselves as material points. But does it follow from such an inconsistency that the propositions of theoretical mechanics should be revised? As I see it, the answer is obvious.

The above reasoning brings us straight to a discussion of the nature of the abilities that the acting individual must possess.

Bounded Rationality

All the above-listed abilities, without which it is impossible to perform successful actions, are directly connected with cognitive processes. In other words, they are *cognitive* abilities.

For a long time in the development of economic theory, it was explicitly or implicitly assumed that human cognitive abilities are *unlimited*. In other words, it was believed that individuals always have true and complete information about the past, present and future states of the world; that they have limitless possibilities to identify patterns and regularities, predict future events, etc. Such an "information superman" did not and could not have any difficulties in selecting successful actions to achieve his goals: after all, he was completely, *unboundedly rational*, calculating all the future consequences of his actions and correctly evaluating them from the point of view of his preferences. With such assumptions, the selected option was the best of all possible options, the *most effective* option, i.e., the one that provides the maximum excess of benefits over costs.

This premise significantly facilitated the construction of mathematical models in economics because it allowed researchers to assume, whenever necessary, that certain parameters were *known*. At the same time, it was obviously in conflict with everyday reality: people not only did not and do not know all they would like to know, but the very possibility of expanding the area of the known

takes effort and money, and it is impossible to understand whether the effort will be repaid *before* it is actually applied. Moreover, even a significant amount of knowledge does not guarantee that the conclusions drawn from this knowledge will be correct and comprehensive: not only knowledge but people's logical and computational abilities are limited and differ from one individual to another.

These facts were always evident to every ordinary person; they were thoroughly studied by psychology, including cognitive psychology, but it was only in 1945 that they were incorporated into economic theory with the publication of Herbert Simon's book, *Administrative Behavior*, whose ideas were further developed in his *Models of Man*.[8] He was the one who introduced the notion of *bounded rationality*.

A model of man known as REMM[9] for a long time served as a generalized expression of presumed cognitive abilities in economic theory. It was an acronym of the following characteristics of individuals: *resourceful man*: "Man searches, probes, copes and experiments and is not a passive entity";[10] *evaluating man*: "Man is an evaluator. He is not indifferent. He cares about the world around him. He differentiates, sorts and orders states of the world and in this ordering he reduces all entities encountered to a commensurable dimension";[11] *maximizing man*: "Maximizing man recognizes that all resources are limited, including his own time. Whatever his resources, man attempts to achieve the best position he can under the constraints facing him. This optimization occurs on the basis of less than perfect information, and it recognizes that decision making itself involves costs";[12] *man*.

This model of man was developed and brought much closer to reality in a model briefly referred to as RREEMM.[13] This is an acronym of the following qualities of individuals:

***R**esourceful*: human beings search for and often find (invent) new possibilities to realize a state they evaluate more positively than their current state;

***R**estricted*: human beings are constantly confronted with scarcity of resources available to them and are obliged to choose (consciously or not) among mutually exclusive options; choice implies costs in terms of foregone opportunities (those rejected in favor of one alternative);

***E**xpecting*: human beings form expectations (make conjectures and predictions) about past, present and future events and adjust these expectations by learning from experience, example or instruction;

***E**valuating*: human beings attach value to past, present and future states of the world, which leads to the formation of preferences (or substantive goals);

***M**otivated*: human beings strive to achieve a higher level for those conditions for which they have ordered preferences. This striving can be seen as an *operational* goal that determines the choice between different situations and states;

***M**eaning*: human beings, when confronted with an unknown—unstructured—situation, will try to improve the structure of this situation, to make it meaningful by using their other abilities (other elements of RREEMM). For example, in the case of an unexpected event, the individual will try to fit the

event into his models of causal relationships, adapting these models based on new experience, i.e., learning from the new knowledge gained.

As we see, there is *no* "maximization" in the RREEMM model, which is well in line with the concept of bounded rationality.

The bounded rationality concept highlights the existence of limits to both components of rationality: it is not only that *data* about the world are incomplete, inaccurate and unreliable, but also that the *abilities* to draw logical conclusions from these data, i.e., the possibilities to process and assimilate them, are also limited. Intellect is a resource that is just as limited as virtually all other resources used by individuals in performing their actions. From the existence of these limits it directly follows that actually selected courses of action are not and cannot be the best of all existing alternatives and that they are not and cannot be the most effective ones, except by chance. Moreover, the maximization process itself, the search for the best alternative, which requires significant intellectual effort, is replaced by a search for (selection of) at least one suitable—*satisfactory*—action alternative. In Simon's terms, the replacement of the idea of *maximizing* with the idea of *satisficing* is a sign and consequence of bounded rationality.

The idea of man's limited intellectual abilities (and cognitive abilities in general) is associated in Simon's works with another important idea: an explanation of the existence of *heuristics* as conscious or unconscious ways of performing intellectual selection operations that substitute the discovery of an acceptable alternative for a complete sorting and comparison of options (for explicit maximization in general).[14] In other words, heuristics are rules for making choices (and, more broadly, rules for performing mental operations) that help to save the limited resources of the mind (its, so to speak, "computational capabilities") in more or less standard situations, releasing these resources for use in nonstandard situations.

For a long time, virtually all humanities concerned with man and human activity, naturally including economics, were compelled to study the brain as a "black box," merely observing input and output signals and unable to know what exactly was going on inside it. The situation changed only at the very end of the 20th century with the appearance of instruments that make it possible to record and visualize neural activity in specific regions of the brain as the individual performs different tasks. The use of this technology to study brain activity as individuals operate with certain economic categories in solving standard economic problems (primarily the problems of choice under certainty and uncertainty) has made it possible to provide a solid experimental basis for some assumptions of economic theory.

This field of research has come to be known as *neuroeconomics*. Despite its short history, neuroeconomists have already published dozens of articles on a fairly wide range of traditional economic problems (see the review in the paper[15]). I will confine myself to a single topic directly connected with the above-listed characteristics of an individual performing conscious actions: *evaluating* and *comparing alternative* states of the individual and courses of action.

In economics, such evaluations are traditionally treated as *utility estimates*. But the puzzle here is *how* people can express extremely *different* parameters of the objects compared in *qualitatively homogeneous estimates*, i.e., integrate totally heterogeneous stimuli generated by these objects. After all, it was assumed that in terms of utility it is possible to compare, say, an apple and a necktie, honesty and beauty, etc. On this basis, Marxist political economy, for example, excluded the category of utility from the realm of economic theory altogether.

Computerized tomography study of the brain has shown that man's ability to "compare the incomparable" is simply "embedded" in neural networks. In experiments where subjects were asked to compare such different objects as various kinds of fruit juices, photographs of human faces (to be ranked for attractiveness), pictures by different painters, sports cars, cooperation with someone or refusal to cooperate, various money rewards, etc., it was found that ***these tasks activated the same neural circuitry.*** In other words, signals generated by the perception of totally different potential rewards are processed similarly in the brain. This is precisely what enables individuals to compare different situations and their own action alternatives in order to choose one of them. Thus, the ability to compare objects in terms of utility is not simply a convenient assumption but an *objective* property of the human organism.

Here is another interesting point associated with neuroeconomic studies of utility. In the late 1970s, the founders of experimental economics Daniel Kahneman and Amos Tversky, based on observations of the "external" behavior of individuals in choice problems, put forward a hypothesis distinguishing between *decision utility* and *experienced utility*, i.e., sensory pleasure.[16] Brain imaging experiments carried out a quarter of a century later, which made it possible to visualize the inner workings of the brain, showed that such a difference does exist.[17] In the evaluation of the *expected* consequences of the choice of a particular alternative (i.e., decision utility), on the one hand, and in the evaluation of its *actual consequences* (i.e., experienced utility), on the other, the tasks activate *different* neural networks.

Neuroeconomics as a field of research is still taking its first steps, so that in the future one can expect new results that will support (or possibly refute) the behavioral assumptions adopted in economic theory. But its very appearance is important in that researchers have acquired a new toolkit for testing hypotheses based on observations of human *behavior* by a direct study of processes occurring at the neurophysiological level.

As noted above, the acting individual *always takes into account* explicitly or implicitly (to the extent of his limited abilities) his real or potential interactions with other individuals. In principle, this can be done in two ways: first, *indirectly*, by taking into consideration the *expected consequences in the form of the actions of other individuals* performed in response to the action of the individual in question; and second, *directly*, when the individual includes *evaluations of the state of other individuals* in the *evaluation of his own state*. Of course, it is quite possible that interactions with different individuals will be taken into consideration in different forms, i.e., both forms will be realized simultaneously.

In the case of *indirect* consideration, the individual takes into account the consequences of his actions for others only if he expects a response on their part that is *tangible and significant* to him. For example, if he has reason to expect that his action will worsen the state of another individual but the latter will be unable to find out that the cause of this was the planned action, the first individual will perform this action, improving his own situation and worsening the situation of the other (others). Similar behavior can also be expected in cases where, in the opinion of the individual being considered, the "recipients" of the negative consequences will know who caused them but will be unable to resist the action or to punish the guilty party in the future. Naturally, since the actor's expectations concerning other individuals may be *mistaken*, this way of taking social interactions into account is fraught with negative consequences for the acting individual himself.

In the case of *direct* consideration, there is a change in the actor's goal structure, so that his goals now include not only the desired state of the individual himself, but also the "improved" states of other individuals as desired by him. Such a goal structure is generally known as *altruistic*. Within its framework, the state of the acting individual's affairs which involves *improvements in the conditions of other* people turns out to be *preferable*, more highly appreciated by the actor. Needless to say, this way of taking into account the social consequences of actions may also involve *mistaken* notions of *what exactly* improves the state of affairs of other individuals. There can also be "selfish altruism," when concern for *other* people is a consequence of the individual's expectations of *their future concern for him*. In ethnological literature, this phenomenon is known as "gift exchange."[18]

Basic Types of Economic Action: Consumption, Change, Coercion, Exchange

Actions that can be performed by individuals are extremely diverse. They may be classified according to different criteria. In economics, naturally, the starting point is to distinguish *economic* actions as a subject of analysis within the whole set of actions.

In sociology, the classical definition is that of Max Weber, according to which economic action (*Wirtschaften*) is any peaceful exercise of an actor's control over resources which is in its main impulse oriented towards economic ends.[19] Along with economic action proper, Weber also identifies "economically oriented action," defining it as every action which, though primarily oriented to noneconomic ends, takes account, in the pursuit of them, of economic considerations, or action which, though primarily oriented to economic ends, makes use of noneconomic means to achieve these ends. The concept of economic *activity* combines both economic actions proper and economically oriented actions.

For a fuller understanding of this approach, it is also necessary to take into account Weber's well-known typology of *social action*, which includes four "ideal types" with different *motivations*:

— end-rational action as conscious use of conditions and means to achieve rationally calculated ends;

— value-rational action as action oriented to certain ultimate values (for example, religious or ethical);

— affectual action as action conditioned by the individual's emotional reactions;

— traditional action as action performed out of habit or in accordance with custom.[20]

Since, according to Weber, "it is necessary to take account of the fact that economic activity is oriented to ultimate ends (*Forderungen*) of some kind, whether they be ethical, political, utilitarian, hedonistic, the attainment of social distinction, of social equality, or of anything else,"[21] it evidently falls into the category of end-rational action. Thus, economic action proper, according to these definitions, is oriented to certain "ultimate" ends, has a rational nature, i.e., implies a conscious choice of means (resources) for their achievement, and is "peaceful," i.e., is not associated with coercion or violence.

In economic theory, its basic element—economic action—is understood more broadly. According to Mises, "the spheres of rational action and economic action are therefore co-incident. All rational action is economic. All economic activity is rational action."[22] Rationality here, as in the sociological approach, primarily means a conscious choice. But the very notion of choice is amended in a significant way: it involves calculation (or at least an evaluation, a rough estimate) and a *comparison of the benefits and costs* of achieving an end by alternative means. This makes it possible to specify that "the sphere of the purely economic is nothing more and nothing less than the sphere of money calculation."[23]

In my view, the whole range of economic actions can be reduced in terms of content to four basic types: consumption, change, appropriation and exchange.

Consumption is an action involving *direct* use of resources without any prior change. A significant part of resources (except information resources and the so-called durable goods) cease to exist as a result of consumption, becoming part of the individual as an open system. The most obvious example is food, whose consumption helps to maintain body energy balance.

Change is an action involving the *transformation* of available resources into a form in which they can become objects of consumption. The most important special case of change is the action of **production**, in the course of which a set of resources is transformed by the individual into a new resource suitable either for direct consumption or for use as a resource in other production actions.

Actions of consumption and change (production) can be performed by the individual only with objects *accessible* to him. Accessibility is a category that has both a *physical* and a *social* dimension. In physical terms, accessible objects are those which one is able to reach, approach, etc. In social terms, something is accessible when its use will not meet with resistance from other individuals. Obviously, by no means all objects the individual *would like* to use (or change so as to be able to use them) are such. Consequently, both consumption and

change of objects must often be preceded by other actions aimed at ensuring their accessibility. This function can be performed by two types of action: appropriation (alienation, seizure, taking, coercion) and exchange.

Coercion (appropriation) is an action involving the physical, "forcible" separation of the object from the place it occupies in space and its transfer into the area of accessibility of the acting individual. A simple example is the gathering of mushrooms or berries. A more complex example is when a thing is taken away by force from another individual who had previously included it in his accessibility area.[24] Is it always the case that when an individual who wants to perform an action of appropriation with respect to some object meets with *resistance* from other people, his intention to appropriate remains unrealized, i.e., the action is unsuccessful? Of course not. The appropriation attempt will fail if the first individual's potential for violence is *lower* than the potential for violence of the second individual (or group of individuals). Otherwise, the action will be successful and the individual will *take the thing away* from the other (others).

As it is easy to see, the inclusion of this kind of action among economic actions is *in conflict* with the sociological interpretation of economic action according to Weber, who emphasized its "peaceful" nature. Until relatively recently, economic theory also considered only such types of action as exchange, production and consumption (as well as distribution). Only in the second half of the 20th century, within the framework of a trend known as "economic imperialism" (i.e., the use of economic analysis methods outside the domain of economics), various elements of the content of this type of action began to be interpreted in economic terms. First of all, let us note an article by Gary Becker entitled *Crime and Punishment: An Economic Approach*,[25] in which criminal actions, including violent ones, were interpreted from the perspective of the ratio between their costs and benefits. Within the framework of a modern school of economic theory known as Law and Economics (or economic analysis of law), this interpretation is extended to entire legal systems and various branches of law, including criminal law.

In this context, it is important to mention that violence or threat of violence ensures the functioning of *most economic institutions*, except those which are self-fulfilling, i.e., such that the *people to whom they are addressed* can directly *benefit* from compliance with their requirements. In all other institutions, it is the presence of *enforcement mechanisms* that enables these institutions to perform their functions of coordination, restriction and distribution. That is why the exclusion of the action of coercion (or violence) from the set of economic actions will actually exclude institutions as well from economic analysis.

Exchange is an action involving the "reciprocal" transfer of things and services between two (or more) individuals as a result of which each of them gets the object that was *desirable* but *inaccessible* to him. In the modern world, exchange has taken the form of *trade*, or an exchange in which things and services are exchanged for *money*, which can then be exchanged for other things and services.

How are all the above-listed basic types of human action interconnected with each other? Since any action, according to one of its definitions given above, is

a change in the state of the individual from a less satisfactory to a more satisfactory one, *consumption* is the most "natural," "*primary*" action because it directly changes the state of the individual and directly affects the achievement of his goals. Man's very existence is impossible without consumption. At the same time, as already noted, it is possible to consume only what is accessible, so that the other three basic types of action can be regarded as *secondary* ones, serving to create objects for consumption either through the *transformation* of existing objects, through the *withdrawal (seizure)* of such objects from nature or other individuals, or through an *exchange* with other individuals.

In the history of mankind, the proportion between these secondary actions in terms of their occurrence has changed significantly. For hundreds of thousands of years, from the time of the emergence of the first human communities to the Neolithic Age (8000-7000 B.C.), the economy was *appropriative*: objects for consumption were created through gathering, hunting and fishing. Since hunting, especially the hunting of large and gregarious animals, often assumed the character of *collective action* by many members of the tribe, the experience gained helped to develop the *communicative abilities* of human beings and demonstrated the importance of coordination in the course of such activities. Hunting and fishing tools were partly taken from nature in ready form and partly produced, while foodstuffs were also partly changed by cooking on a fire. Despite these actions of *change*, the most widespread actions were those of appropriation.

The transition to a *productive* type of economy—stock-raising and agriculture—has come to be known as the *Neolithic Revolution*. The advantages of specialization that became apparent at about the same time led to the spread of trade between communities. From that time, actions of *change* and *exchange* became prevalent. But actions of *appropriation* (both from nature and from other individuals and their communities) continued to be widespread. This is clearly evident from the social structure of ancient societies, where along with groups of producers (crop farmers, cattle breeders and artisans) and coordinators (chiefs and priests) there was a steady group of warriors.[26] This means that for thousands of years military campaigns designed to capture and appropriate booty were a way of supplying articles of consumption that was just as common as production and exchange (trade).

The prevalence of change and exchange with the retention of appropriation (or at least the *threat* of it) is also characteristic of modern economic systems. Sustained military spending and large police forces are clear evidence of this.

From the economic perspective, the differences between change (production) and exchange, on the one hand, and appropriation, on the other, are quite obvious. The former two types of action ensure the *creation of value*, and the latter, only its *redistribution*. But from the point of view of the *individual* (or an organized group), his *private benefits* from the forcible appropriation of an object may prove to be, under certain conditions, *much higher* than the benefits from the production or purchase of this object. That is why, despite the archaic roots of this kind of action dating back to pre-Neolithic times, *incentives* for violent appropriation systematically appear in contemporary society as well.

Such incentives are particularly high in countries with sufficiently abundant (and concentrated) sources of *natural resource rent*: minerals tradable on the world market. It is precisely in such countries that the state—an organization which has a comparative advantage in the use of legal violence—has an incentive to appropriate this rent without making much effort to ensure protection of property rights throughout the rest of the economic space.[27]

In both economic and management literature, a frequently discussed topic is a classic "businessman's dilemma": *make or buy?* The answer to this question determines many consequences important to the businessman, as well as to the economy as a whole: whether to start in-house production of the required intermediate product (i.e., to diversify the company) or to find an outside supplier; to look for an opportunity to merge with an appropriate company, to try to acquire it or, on the contrary, to "spin off" part of one's own company, etc.

How a particular businessman answers this question evidently depends on the overall benefit/cost ratio for each option, on the benefit-cost structure, and on current and future resource capacity. But the question in all these cases is formulated similarly.

The introduced notions of basic economic actions suggest that actually the question is *incomplete*. In fact, the question a businessman asks himself goes something like this: *make, buy or grab*?

Why is it that in most modern economies the question is rarely formulated in this way? The *preliminary* answer is that in most economies of the world *the costs associated with the implementation of the last option are prohibitively high for businessmen*. In other words, since this option merely redistributes but does not create value, individuals acting in these economies *somehow*[28] make sure that "violent entrepreneurship"[29] for the most part *does not pay*. At the same time, in a number of other countries (including Russia) such conditions are still lacking, so that the "complete" dilemma facing businessmen (which can be called a "*businessman's trilemma*") is quite relevant to these countries.

Since according to the *2009 Index of Economic Freedom* report published by the Heritage Foundation (http://www.heritage.org), only 83 of the 179 countries considered, or about 46%, are ranked as free, mostly free or moderately free while the rest are ranked as mostly unfree and "repressed," theoretical and empirical research on the above "trilemma" is not only of academic, but also of practical interest. Meanwhile, there are relatively few studies in this area, in contrast to those concerned with other types of economic action (see the review in a paper by Stergios Skaperdas[30]). As I see it, all types of economic action deserve equal attention. Hence, if the economic analysis of coercion draws the attention of more researchers to its problems, one of the purposes of this article will be achieved.

NOTES

1 L. von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens*, Geneve, 1940. An academic English-language edition of the book was published in 1949 (I quote the 1996 fourth edition).

2 L. von Mises, *Human Action: A Treatise on Economics*, New Haven, 1996, p. 11.

3 An analysis of concepts such as "social interest," "national interest," etc., from the perspective of the principle of methodological individualism is very important but is beyond the scope of this article.

4 Strictly speaking, there is no place for irrational actions in Mises's concept of human action because a basic attribute of action that distinguishes it from other forms of human activity is its deliberate nature, a conscious choice among different options.

5 A. Chayanov, *Peasant Farm: Selected Works*, Moscow, 1989 (in Russian).

6 T. Dennison, "Muzhiks and Peasants," *Neprikosnovenny zapas*, No. 2, 2002.

7 In the light of the above, let us recall that the expression "goal of the firm" is an abbreviation of the expression "goal of the CEO."

8 H. Simon, *Administrative Behavior*, New York, 1945; H. Simon, *Models of Man. Social and Rational*, New York, 1957.

9 W. H. Meckling, "Values and the Choice of the Model of the Individual in the Social Sciences (REMM)," *Schweizerische Zeitschrift für Volkswirtschaft und Statistik,* 1976, Bd. 4; K. Brunner, W. H. Meckling, "The Perception of Man and the Conception of Government," *Journal of Money, Credit, and Banking*, 1977, February; K. Brunner, "The Perception of Man and the Conception of Society: Two Approaches to Understanding Society," *Economic Inquiry*, 1987, vol. 25, July.

10 Ibid.

11 K. Brunner, W.H. Meckling, op. cit., p. 71.

12 Ibid., p. 72.

13 S. Lindenberg, "Social Rationality As a Unified Model of Man (Including Bounded Rationality)," *Journal of Management and Governance*, 2001, vol. 8.

14 R. A. Epstein, *Simple Rules for a Complex World*, Cambridge, MA, 1995; G. Gigerenzer, "Fast and Frugal Heuristics: The Tools of Bounded Rationality," *Handbook of Judgment and Decision Making*, Oxford, 2004.

15 C. F. Camerer, G. Loewenstein, D. Prelec, "Neuroeconomics: How Neuroscience Can Inform Economics," *Journal of Economic Literature*, 2005, vol. 43.

16 D. Kahneman, A. Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, 1979, vol. 47.

17 R. J. Yu, X. L. Zhou, "Brain Potentials Associated with Outcome Expectation and Outcome Evaluation," *Neuroreport*, 2006, vol. 17, No. 15.

18 M. Mauss, *The Gift: Forms and Functions of Exchange in Archaic Societies*. London: Routledge, 1990 (1922).

19 See: M Weber, *Economy and Society*, vol. I, Berkeley, 1978.

20 M. Weber, *Basic Concepts of Sociology*, New York, 1962.

21 M Weber, *The Theory of Social and Economic Organization*, New York, 1964, p. 185.

22 L. Mises, *Socialism: An Economic and Sociological Analysis*, New York, 1979, p. 113.

23 Ibid., p. 125.

24 A more rigorous analysis of this example requires the concepts of *property rights* and *property regimes* (see, for example, V. Tambovtsev, "Improvement of Property Rights

Protection: Dormant Reserve of Russia's Economic Growth?" *Voprosy ekonomiki*, No. 1, 2006).

25 G. Becker, "Crime and Punishment: An Economic Approach," *The Journal of Political Economy*, 1968, vol. 76, No. 2.

26 Naturally, the appearance of these groups also points to the emergence of a stable division of labor.

27 V. Tambovtsev, L. Valitova, "Resource Abundance of the Country and Its Political and Economic Consequences," *Ekonomicheskaya politika*, No. 3, 2007.

28 This "somehow" is actually quite clear: consistent efforts by the state to ensure the rule of law.

29 The term "violent entrepreneurship" was introduced and is used by the Russian economic sociologist Vadim Volkov to describe a wide range of phenomena in which the answer to the question of how to get access to the necessary resources is "grab."

30 S. Skaperdas, "The Costs of Organized Violence: A Review of the Evidence," *CESifo Working Paper* No. 2704, 2009, July.

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