

## The Six Lessons of Mises: a reflection of Public Policies in Times of Pandemic

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**Abstract:** From the perspective of the market as a process, it only exists to the extent that exchanges take place. So, what is better in times of social isolation: intervene to ensure that the market works or let the market freeze freely? Moreover, to what extent is it possible to intervene in the market in times of a pandemic, preserving the principles of economic freedom? Based on Mises's principles of cooperation and economic calculation, this paper analyzes the use of public policy in a situation of social isolation. Among the primary public policy devised in this pandemic, the following measures have provided the market process's continuity: credit, tax deferrals, emergency assistance, or paycheck protection program. The concern with the preservation of the economic calculation extends to all supply chain linkages, including final customers, to continue to do their economic calculation.

**Keywords:** public policies, pandemic, economic freedom principles.

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## As Seis lições de Mises: uma reflexão sobre políticas públicas em tempos de pandemia

**Resumo:** Desde a perspectiva do mercado como processo, o mercado só existe na medida em que ocorrem trocas. Então, qual é a melhor opção em tempos de isolamento social: intervir para garantir que o mercado funcione ou deixar que o mercado se paralise livremente? Ademais, até que ponto é possível intervir no mercado em tempos de pandemia, preservando, ao mesmo tempo, os princípios de liberdade econômica? Partindo dos princípios de cooperação e cálculo econômico de Mises, o objetivo deste trabalho é analisar as possibilidades das políticas públicas em situação de isolamento social. Entre as principais políticas públicas desenhadas neste momento de pandemia, as medidas seguintes possibilitaram a continuidade do processo de mercado: crédito, postergação de impostos e auxílio financeiro às famílias. A preocupação com a preservação do cálculo econômico se estende a todos os elos da cadeia de suprimentos, incluindo os clientes finais, garantido a execução do cálculo econômico pelas empresas.

**Palavras-chave:** políticas públicas, pandemia, princípios de liberdade econômica.

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## Las seis lecciones de Mises: un reflejo de las políticas públicas en tiempos de pandemia

**Resumen:** Desde la perspectiva del mercado como proceso, el mercado solo existe en la medida en que se realizan intercambios. Entonces, ¿qué es mejor en tiempos de aislamiento social: ¿intervenir para asegurar que el mercado funcione o dejar que el mercado se congele libremente? Además, ¿hasta qué punto es posible intervenir en el mercado en tiempos de pandemia, preservando los principios de libertad económica? Partiendo de los principios de cooperación y cálculo económico propuestos por Mises, el objetivo de este trabajo es analizar las posibilidades de las políticas públicas en una situación de aislamiento social. Entre las principales políticas públicas diseñadas en este momento de la pandemia, las siguientes medidas han brindado la continuidad del proceso de mercado: crédito, aplazamientos de impuestos y asistencia financiera a las familias. La preocupación por la preservación del cálculo económico se extiende a todos los eslabones de la cadena de suministro, incluidos los clientes finales, para que las empresas sigan haciendo su cálculo económico.

**Palabras clave:** políticas públicas, pandemia, principios de libertad económica.

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## Introduction

The recent pandemic of COVID-19 leaves, in addition to the virus trail, an extensive set of experiences of economic intervention that includes countries of the most varied levels of economic development and nuances of public management, from countries with interventionist tradition, as is the case of European Democratic Social Democratic countries, even countries that have a less interventionist public management record, notably in the health field, as is the case of the United States.

The forceful need for public policies at that time is expressed in the heartbreaking data of the various economic indicators. The fall in Gross Domestic Product (GDP) in the second quarter of 2020, compared to the first quarter of the year, is significant. In OECD countries (Organization for Economic Co-operation and Development), the drop in GDP was 10.6%. In some countries this drop exceeds 20%, such as India and England. The only exception is China, which, as it was the first to do social isolation, is already in a recovery phase, showing an increase of 11.5% in the same period. Brazil fell slightly below the average of the OECD countries. According to data from IBGE (Brazilian Institute of Geography and Statistics) the fall was 9.7%.

In Brazil in particular there is a paradox: the same proponents of a liberal agenda are faced with the need, imposed by social isolation, to implement public policies with an interventionist bias.

The question that arises in this article is, therefore: to what extent is it possible to intervene in the market in times of pandemic, preserving the principles of economic freedom?

The answer to this question is the purpose of this article. Based on the principles of operation of a market economy proposed by Mises, notably cooperation and economic calculation, we seek to analyze the possibilities of public policy in a situation of social isolation.

Based on fundamental questions and answers proposed in Mises' s work, this article adapts these lessons as a reflection for the analysis of public policies in the context of social isolation. The reference work used is "The six lessons", original title in English: Economic Policy: Thoughts For Today And Tomorrow. Written in 1979, public policy reflections for the future have never been as current as they are today, in times of pandemic.

## 1. The Six Lessons

The Six Lessons of Mises is a compilation of the author's reflections on capitalism, socialism, interventionism, inflation, foreign investment, and, finally, politics. Each of these aspects constitutes a chapter in the book and is guided by a set of questions.

The reflection developed here on public policy in times of pandemic is based on a set of questions posed by Mises, and the respective answers lead to new questions. The initial question that opens all the others is:

- 1) What is a free economy?

The discussion of public policies in times of a pandemic requires, first of all, an analysis of the characteristics of a free economy, as opposed to a regulated economy, directed by the government. In the definition proposed by Mises (2009, p.55), “a free economy is the market economy, it is the system in which the cooperation of individuals in the social division of labor takes place through the market”.

The dimension of cooperation in a market economy is essential to understand even our civilizing process. As Hayek (2017, p. 13) argues, the survival and preservation of our civilization depends on the expanded order of human cooperation, born spontaneously “from involuntary conformity to certain traditional and, above all, moral practices”.

This view of the role of cooperation in a market economy guides the analysis of public policies in times of pandemic proposed here, but, after all:

## 2) What is cooperation in a liberal perspective?

From a counterpoint to the Marxist view that the entrepreneur is the exploiter of the worker, the great villain of the capitalist economic system, Mises (2009) proposes a reflection on the symbiotic relationship between consumers and entrepreneurs. In this sense, he asks: “Does the entrepreneur exist without a client? What about the customer, does he exist without the entrepreneur? ”.

The answer to this question is given by the very definition of economic freedom proposed by Mises, a situation where one economic agent, be it the consumer or the product, depends on the other:

Freedom in society means that a man depends as much on others as he depends on him. The captains of industry, the businessmen, the entrepreneurs, would be the real bosses of the economic system. But this is an illusion. Consumers are in charge of the economic system (MISES, 2009, p. 58).

The sovereignty of consumers is present even in the large company, since Mises’ vision is that the preference for the products of the large company can change.

This reflection is interesting, because it is precisely what we are experiencing today in a situation of social isolation. As consumers isolate themselves in their homes, the entrepreneur’s real dependence is revealed, anxious and apprehensive for the final return of consumers to the streets.

This consumer sovereignty leads to a questioning of the effectiveness of their decisions, considering that the consumer can make mistakes. In the specific context of a pandemic, the economic calculation of the consumer may be imbued with apprehensions, notably regarding the supply of products on the market, including medicines, which generates, as a rule, shortages. When desperate consumers buy all the stock and store it in their homes, are they doing it right from the point of view of economic cooperation? Mises’s answer is that our freedom includes the freedom to make mistakes, to make wrong decisions.

Faced with the possibility of consumer error, the third question posed by Mises is:

### 3) Is it possible to create a capitalist form of government to control what people consume?

This question is illustrated by Mises in the case of the control of milk consumption in between wars. The same question arises today in the context of the pandemic, given the control of the stock of some foods, and even medicines.

In other words, is it possible to have a market without economic freedom? The answer to this question requires, first of all, an understanding of the market concept in the Austrian school's view (BARBIERI, 2001; SILVA; MEIRELLES, 2010). As defined by Mises (2009, p. 5): "the market is not a place: it is a process, it is the way in which, in selling and buying, in producing and consuming, people are contributing to the global functioning of society".

The production of any good or service requires the articulation of countless actors along the production chain, from local to international suppliers and manufacturers. This interdependence has intensified as the global economy is increasingly structured around global value chains, representing an increasing share of international trade as well as global GDP and jobs (GEREFFI; FERNANDEZ-STARK, 2011).

The decision of consumption, as well as of production, is a long process that articulates several markets, several stages of negotiation, where a series of information is gathered, constructed and shared among the various market players. As Mises points out, "the knowledge accumulated by humanity in its long history, however, is not something that only one person can hold. Over the centuries, we have accumulated such an immeasurable amount of scientific and technological knowledge that it is humanly impossible to an individual the domain of all that leather, however extremely well endowed "(MISES, p. 70).

In view of the complexity reached in the knowledge base accumulated by humanity, notably with the expansion of the markets, it is impossible to have a supra-market entity defining what to be produced and consumed, because it is a lot of knowledge necessary to carry out a market transaction.

In the specific case of the pandemic, there is a global cooperation effort to develop, manufacture and distribute vaccines and or treatment protocols, not only because of the urgency but also because of the complexity of the knowledge. This Research and Development effort leads us to the fourth question:

### 4) What is the best way to obtain knowledge and organize it?

According to Mises (2009), the role of the entrepreneur in the discovery of new paths, changing the paths of knowledge, seeking to prove to other people the value of his finding, in an even convincing endeavor, is what makes the economy move. As in the age of great sailing, where the daring to explore lands overseas, resulted in the expansion of markets.

The entrepreneur is precisely the one who assumes the risk and costs of this process of identifying new opportunities. He is the one who discovers new paths, changes the course of knowledge, and sometimes the absence of many people. For this reason, as Hayek (1973) points out, in his book "Fatal errors of socialism", regarding the role of knowledge in the organization of the economy, the best way to enhance knowledge is through the action of the entrepreneur.

However, in times of pandemic and social isolation, the most diverse pressures and initiatives are noted to exercise this role of “market engineering”, there is a belief that it is possible to reinvent a new economy, an artificial market, through a calculation performed by government agents. This belief is strengthened, above all, because we have recent examples of economic growth promoted by socialist countries, such as China. That said, there is a fifth important question for this pandemic moment:

5) Is it possible to create a market artificially?

In the identification of the most advantageous project, from an economic point of view, market-based calculations are indispensable. In this sense, there is no Market Economy without the cash price to be able to perform the economic calculation, says Mises (2009, p. 74): “Cash prices not only inform the consumer, but also provide the trader with vitally important information about the factors of production (raw materials, machinery and equipment)”.

According to Mises (2009, p. 75), “economic calculation - and, therefore, all technological planning - is only possible when there are cash prices, not only for consumer goods, but also for factors of production. It means that there must be a market for all raw materials, all semi-finished items, all instruments and machines, and all types of human work and service”. For this reason, continues Mises, socialist countries take as a parameter the prices set in the capitalist world.

However, the capitalist world also does selective controls in some market segments, artificially controlling some prices and stocks, as is the case with subsidies and import quotas. In this sense, Mises proposes another reflection:

6) Is it possible to restrict government actions to a specific market segment and ensure that in the other segments the market works?

The experiences of price control, such as the tabulation of milk in the interwar period, is highly criticized by Mises, because the freezing of the price of a certain commodity locks the entire production chain related to it. Here again he brings up the discussion of the role of the entrepreneur and economic calculation. The government can even table, but the entrepreneur, the businessman when he looks at this table, reacts to that table by looking for more profitable investment alternatives.

However, assessing the recent context of the pandemic, in view of the urgent demand for vital products, such as medicines and protective equipment (PPE), countries have effectively carried out selective controls. According to OECD data, the export control of medical products increased significantly between the months of March and May 2020, the peak period of the pandemic for several European countries.

Considering that the economic agent can make mistakes, and he is free to make mistakes, as Mises points out, how to implement public policies in times of pandemic that preserve the principle of economic calculation and, at the same time, guarantee the supply of vital products?

## 2. Public Policies in Pandemia

The fundamental assumption defended in this article is that public policies in times of a pandemic are not only necessary but must be fundamental to preserve the basis of functioning of a market economy, which is cooperation. For this, the solution is to guarantee the economic calculation.

On the one hand, it is impossible to control parts of the economy, without affecting everything else, because it is interconnected. This is the aspect of cooperation highlighted by Mises. On the other hand, people make calculations, people look for ways out of restrictions. In this sense, how to guarantee the functioning of a Market Economy in times of a pandemic? How to preserve the economic calculation?

The analysis of public policies implemented by the main countries affected during the pandemic will be made from this perspective: to what extent have they preserved the economic calculation?

According to the OECD Economic report (OECD, 2020), guidelines at this time of pandemic for public policies mainly include:

- Support for employment fluctuations, but strengthen income protection
- Facilitate the rapid restructuring of firms and assist them in digitization, especially SMEs
- Support for liquidity and availability to face financial crises
- Provide resilience to supply chains and a green transition
- Maintain supportive fiscal and monetary policies
- Public finance: investing and focusing on progressivity and justice

As can be seen in Table 1, public policies commonly applied in OECD countries involved a combination of credit support (whether providing guarantees or direct financing) and tax deferral.

Why is credit important at this point? Credit at this moment ensures that cooperation relations are not broken in the short term, during the period of social isolation. These cooperative relationships include not only the relationship between banks and borrowers, but also between entrepreneurs and employees. For this reason, one of the common measures adopted by countries is payroll financing.

Tax deferral is also an important way to preserve the economic calculation. Given the fact that the entrepreneur is not producing and, therefore, is not receiving, why charge him taxes and further stifle his financing capacity?

The concern with the preservation of the economic calculation extends to all supply chain linkages, encompassing the relationship with final consumers, hence the USA's "paycheck" protection program. The same occurs in the Brazilian case with emergency assistance.

**Table 1.** OECD - Public Policy Measures adopted during the pandemic period

COUNTRY	MEASURES ADOPTED
Austria	Deferral of taxes
Germany	Public finance and credit for recapitalization of large companies: EUR 100 bi (2.9% of GDP) - Financing for SMEs and Economic stabilization fund for relevant start-ups - Extension of the credit limit by public banks: EUR 357 bi (10.4% of GDP)
South Korea	- Funds to stabilize financial markets (corporate bond market stabilization fund, short-term money market stabilization fund, stock market stabilization fund and a scheme of primary collateralized bonds): WON 75 tri (about 3.9% of GDP) - Special Purpose Vehicle for the purchase of corporate debt: WON 10 trillion (0.5% of GDP)
Spain	- Credit support: public guarantee of EUR 104 billion and private guarantee of EUR 80 billion
United States	- Payment Check Protection Program - Loan for small business (<500 employees), can be transformed into donations (loan forgiveness) if used for labor costs
Great Britain	- Loans and guarantees for businesses in difficulty (GBP 330 billion - 14.9% of GDP)
Italy	- State loans and credit guarantee (EUR 220 billion) - Extra liquidity (moratorium on debt and interest payment, until the end of September, including for vulnerable families - Deferral of taxes
Netherlands	- Deferral of taxes (EUR 45-60 billion)
Switzerland	- Deferral of taxes

Source: OCDE (2020).

As can be seen in Table 2, in the Brazilian case, additional measures are also highlighted to ensure that cooperative relations between consumers and entrepreneurs are maintained, such as transfers to the energy development account, allowing electric energy concessionaires to continue receiving the energy sold.

Although challenging from the liberal point of view, it is possible, in the face of a situation of isolation, to provide the functioning of the market process respecting two basic principles of a free economy: cooperation and economic calculation. When the government pays the electricity bill for the most vulnerable population, it is guaranteeing the economic calculation, it is ensuring that companies that sell energy, for example, will continue to do their calculation, contracting at a price to sell at another value.



**Table 2.** BRAZIL - Public Policy Measures adopted during the pandemic period

MEASURE	Provisional Decree	Expected Spend (R\$ billion)	Effective Expenditure* (R\$ billion)
Emergency aid for vulnerable people (60 million people): R\$600 over 5 months *	MPs no. 937, 956, 970 and 988/2020	254.40	212.75
Expansion of the Bolsa Familia Program	MPs no. 929/2020	3.04	0.37
Financial aid to States and Municipalities	MPs no. 939, 978 e 990/2020	79.19	55.17
Granting of Payroll Financing	MP no. 943/2020	34.00	17.00
Transfer to the Energy Development Account	MP no. 950/2020	0.90	0.90
Quotas of Operations and Credit Guarantee Funds	MPs no. 977 and 972/2020	35.90	25.90
Additional expenses from Ministry of Health and other Ministries	-	52.91	32.48
TOTAL		511.98	366.90

\* Until September 2020

Source: Ministry of Economy.

## Conclusion

From the perspective of the market as a process, the market only exists to the extent that exchanges take place. So, what is better in times of social isolation: intervene to ensure that the market works or let the market freeze freely? Moreover, to what extent is it possible to intervene in the market in times of pandemic, preserving the principles of economic freedom?

The conclusion of this reflection of Mises' six lessons for this pandemic period constitutes the fundamental assumption defended in this article, namely: public policies in times of pandemic are not only necessary but must be guided by the principle of cooperation, the basis for sustaining a market economy, in order to preserve the economic calculation.

Among the main public policy devised in this time of the pandemic, the following measures have provided the continuity of the market process: credit, tax deferrals, and financial assistance to families. Credit endures relations of cooperation not only between banks and borrowers but also between entrepreneurs and employees, such as payroll financing. Tax deferral preserves the economic calculation since the entrepreneur is not producing and therefore not receiving. The concern with the preservation of the economic calculation extends to all supply chain linkages, including final customers, in order to companies continue to do their calculation, contracting at a price and selling at another value.

The big question that now arises is, once cooperative relations are maintained, what will be the future impacts of excess spending promoted by public policies to keep the economic system functioning?

OECD recommendations for post-pandemic economic recovery include: strengthening supply chains, with greater stocks and greater supplier diversification; maintaining low interest rates; public spending and tax policies to support economic activity; promotion of social justice.

The equation of these various aspects is not simple. To the extent that we preserve monetary prices, which is fundamental in economic calculation, we maintain cooperative relations. In the long run, the effort to maintain cooperative relations may impact monetary prices, or not. At the moment, in the specific case of Brazil, there are price increases in sectors such as food. However, this increase may be temporary. Everything is a matter of adjusting the economic system to the new conditions of production and consumption. This rebalancing of the production chains can also express new relations of cooperation, especially when considering the inclusion of new agents in the system, through financial assistance programs for the vulnerable population.

The question that arises is: will governments have the breath to keep this economy running without resorting to the issue of currency?

Since what guarantees the functioning of the Market Economy is the monetary price, then we could print currency and guarantee the completion of transactions. Right? Now, but do cooperative relations not require compensation between consumers and producers? The issue of currency only provides the creation of demand artificially, without an immediate correspondent in terms of supply, which tends to be reflected in higher prices. It should be noted that one of the Six Lessons is precisely inflation.

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RECEBIDO: 9 DE FEVEREIRO DE 2021.  
APROVADO: 21 DE FEVEREIRO DE 2021.