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The concept of equilibrium has always been subject to controversy. While some have considered it a building block of economic analysis, others have identified it as an obstacle to understanding economic phenomena (for surveys, see e.g. Boland 2017; Milgate 1987; Tieben 2012; Weintraub 1986). Specific views about equilibrium analysis are held by Austrian economists, who tend to be on the skeptical side of the debate. The Austrian view derives mainly from the works of Hayek (1937, 2007), who, unlike some of his followers, did have a use for the equilibrium concept, at least in his earlier works. Nevertheless, his concept of equilibrium arguably differs from the concept used in conventional economic analysis. Hayek’s views about equilibrium are sometimes—but perhaps not often enough—contrasted with those of fellow Austrian Fritz Machlup (1958), whose concept of equilibrium seems to be closer to the conventional view. Machlup defends an interpretation of the equilibrium concept as a tool of analysis that has no relationship to the question of whether there is some sort of order in society. This marks an important difference between Machlup’s and Hayek’s views. For Hayek, the use of equilibrium as a tool of analysis is justified precisely by the fact that there is a social order that in theoretical analysis can be idealized with an adequately defined equilibrium concept. In short, for Hayek equilibrium is an explanandum, while for Machlup, it is an analytical tool, and therefore, a part of the explanans.

The aim of this paper is to trace the main differences between Machlup’s and Hayek’s views, with the hope that this exercise will help to throw some light on the usefulness of the equilibrium concept to economics in general. I find two sources of the differences between the two authors’ views. The first is methodological. I argue that Machlup’s concept of equilibrium is price-theoretic, that is, it is a tool of problem-based, comparative static analysis. In contrast, Hayek’s equilibrium concept approximates the social order observed in reality. While the Hayekian equilibrium is an explanandum, the Machlupian equilibrium forms a part of the explanans. Further, Hayek’s approach is more descriptivist than problem-based. I argue that the two equilibrium concepts are not mutually exclusive alternatives. In particular, the adequacy of the Machlupian equilibrium for price-theoretic analysis is unrelated to the adequacy of the Hayekian equilibrium for analyzing the social order. In fact, I show that the two types of analysis can be seen as complementary. I conclude that the main issue is not to decide whether the equilibrium concept is useful in general but to determine the proper sphere of application of a particular equilibrium concept.

Abstract: I compare two views of the equilibrium concept: one from F. A. Hayek and the other from Fritz Machlup. I argue that Machlup’s equilibrium concept is price-theoretic, that is, it is a tool of problem-based, comparative static analysis. In contrast, Hayek’s equilibrium concept approximates the social order observed in reality. While the Hayekian equilibrium is an explanandum, the Machlupian equilibrium forms a part of the explanans. Further, Hayek’s approach is more descriptivist than problem-based. I argue that the two equilibrium concepts are not mutually exclusive alternatives. In particular, the adequacy of the Machlupian equilibrium for price-theoretic analysis is unrelated to the adequacy of the Hayekian equilibrium for analyzing the social order. In fact, I show that the two types of analysis can be seen as complementary. I conclude that the main issue is not to decide whether the equilibrium concept is useful in general but to determine the proper sphere of application of a particular equilibrium concept.

Keywords: equilibrium, F. A. Hayek, Fritz Machlup, price theory, social order, Austrian economics, Marshallians, descriptivism
plans of independent individuals with limited knowledge end up being compatible (or sometimes not)? Thus, it seems that Machlup’s concept of equilibrium is not helpful in answering Hayek’s question and vice versa. This underlines the argument made by Machlup (1958, 1), and repeated by many thenceforth, that if two people talk about equilibrium they do not necessarily talk about the same thing.

I draw two main conclusions from my analysis. First, if an equilibrium concept is found useless for a purpose or because it does not accurately reflect reality, it does not follow that this equilibrium concept is useless for any purpose. The price-theoretic case for equilibrium advanced by Machlup, and in particular, the various fruitful applications of this concept (see e.g. the works of Becker, who explicitly makes the equilibrium concept one of the cornerstones of his approach (Becker 1976)), are examples at hand. Second, price-theoretic equilibrium analysis is designed to deal with a specific subset of questions: it is concerned with comparative static analysis and focuses on large-scale and/or persistent phenomena (Becker 1993b; Hudik 2017; Stigler and Becker 1977). Arguably, this type of analysis is not directly applicable to the problem of social order analyzed by Hayek. Therefore, if the equilibrium concept is found useful in some applications, it does not follow that there is no room for non-equilibrium economics, as is envisioned by many economists of various traditions (e.g., Arthur 2006, 2010; Boettke, Horwitz, and Prychitko 1994; Burley and Foster 1994; Freeman and Carchedi 1996). In sum, the issue is not whether to use equilibrium analysis but identifying its proper area of application.

Hayek’s views of equilibrium have been discussed in various contexts and in various degrees of depth. Some of these discussions focus on the interpretation and evolution of Hayek’s views in the context of the Austrian school (Vaugh 1999, 2013), heterodox traditions (Lawson 2005), and economics in general (Giocoli 2003). Other discussions are critical of Hayek’s views and attempt to develop them further (Lewin 1997; O’Driscoll, Jr. 1977; O’Driscoll, Jr. and Rizzo 1996; Rizzo 1990, 1992). Vriend (2002) and Bowles et al. (2017) demonstrate the relevance of Hayek’s views to contemporary analysis of complex adaptive systems. All these and similar discussions are useful in interpreting and extending various aspects of Hayek’s work. However, with few exceptions, they do not attempt to trace differences between Hayek’s concept of equilibrium and alternative concepts. The discussions that dispense with equilibrium on Hayekian grounds do not explain why many economists find the equilibrium concept useful. In sum, such discussions do not provide a satisfactory answer to the following question: for what type of analysis (if any) is equilibrium a useful concept?

Although Machlup’s views of equilibrium are well known, they are usually given only a passing reference and are not developed further. Arguably, many Austrians did not find Machlup’s views on equilibrium helpful in developing a market-process approach, and neoclassical economists had little to add to Machlup’s analysis. Machlup’s work is mentioned by Rizzo (1990, 1992) and O’Driscoll and Rizzo (1996), but mainly in the context of the Hayekian problem of plan coordination. Klein (2008) identifies Machlup’s equilibrium concept as one of the four concepts used in Austrian tradition. Useful discussions of some aspects of Machlup’s views include Finger (1971) and Foss (1995). In a thorough analysis of Machlup’s methodology, Langlois and Koppl (1991) distinguish Machlup’s views from Friedman’s. An important part of my argument is that both Machlup and Friedman belong to the same price-theoretic camp in relation to the concept of equilibrium. Although I accept that there may be methodological differences between Machlup and price theorists such as Friedman, I argue that these theorists have similar views on the interpretation of equilibrium analysis.

The paper is organized as follows. Section I summarizes Machlup’s concept of analytical equilibrium. Section II distinguishes between the price-theoretic and descriptivist approaches to economics, and presents the main characteristics of both. This section also argues that Machlup’s views of equilibrium are price-theoretic. Section III presents the price-theoretic concept of equilibrium in action using Becker’s (1991) analysis of restaurant pricing as an example. Section IV then turns to Hayek’s concept of equilibrium. It summarizes Hayek’s views and discusses them from the price-theoretic/descriptivist perspective. In particular, this section argues that Hayek’s views tend to be descriptivist. Section V discusses the relationship between equilibrium as a theoretical concept and social order as a real-world phenomenon. This section argues that the price-theoretic tradition does not use the equilibrium concept to describe social order. Nevertheless, it can be used to answer certain questions about this order. This section demonstrates that the Hayekian and Machlupian approaches can be considered complementary.
I. MACHLUP’S ANALYTICAL EQUILIBRIUM

Machlup (1958) argues that equilibrium is an analytical concept—a methodological device for an explanation of a change. It is used to isolate all effects of a change in a particular variable or variables under the assumption that all other things remain equal. Equilibrium analysis proceeds in four steps: first, an initial equilibrium is defined (e.g. an equilibrium of supply and demand in a market for a good); second, a disequilibrating change is postulated (e.g. a general increase in income); third, adjusting changes are described (e.g. change in the demand for the good); fourth, a new equilibrium is identified (e.g. a new equilibrium of supply and demand). Machlup’s interpretation can be extended from temporal to spatial analysis (i.e. to comparative statics in general). That is, in addition to explaining the effects of a change, the equilibrium analysis can be used to explain differences in the values of endogenous variables (e.g. prices) in geographically separated markets via differences in the values of exogenous variables (e.g. levels of income) (Hudik 2017).

For these analytical purposes, Machlup defines equilibrium as a “constellation of selected variables so adjusted to one another that no inherent tendency to change prevails in the model which they constitute” (Machlup 1958, 9) or as a “mutual compatibility of a selected set of interrelated variables of particular magnitudes” (Machlup 1958, 10). Note the word “selected” in both definitions. According to Machlup, equilibrium is not a definite concept but a relative one: the variables chosen for the equilibrium analysis depend on the problem at hand. In particular, there is no attempt to include “all” variables that may affect behavior in the real world. The relativity of the equilibrium concept implies that one and the same situation could be both an equilibrium and a disequilibrium at the same time, depending on the perspective.

Being a mental tool, analytical equilibrium is not identifiable with any concrete situation in the real world—in Machlup’s (1958, p. 11) words, it is not an “operational” concept. The reason is that the real world is very complex. It has “infinitely more variables than any abstract economic model” (ibid.). According to Machlup, the purpose of equilibrium is not to provide an accurate or even approximate description of the real world and yet it is a useful analytical tool. Thus, it follows that rejections of equilibrium based merely on it not existing in reality miss the point. That is, for Machlup, the existence of some sort of equilibrium in the real world is irrelevant. It follows that different attitudes toward the equilibrium concept are not necessarily due to differences in empirical propositions about the world (i.e. to what extent equilibrium can be identified in real-world phenomena) but are due to differences in methodological views. These methodological differences are discussed in the following section.

II. PRICE-THEORETIC APPROACH

Machlup’s approach to equilibrium can be characterized as Marshallian or price-theoretic. The crucial characteristic of this approach in the present context is that it is problem-based, that is, the choice of relevant variables and parameters for a particular equilibrium analysis always depend on the problem at hand. The aim of price-theoretic analysis is to explain changes or differences in aggregate phenomena. In particular, the aim of such analysis is not to provide an accurate description of reality or to uncover the “true” categories in the world. Concepts used in price theory are simply mental tools that are adjusted for different purposes. With this practical purpose in mind, price theory uses approximations and simplifications at the expense of generality, descriptive accuracy, and mathematical elegance.

The approach that values the latter characteristics above practicality has been termed “Walrasian” by Friedman (1949, 1953). This alternative approach is “holistic” in that it attempts to reflect various features of reality. The problem-based approach of price theorists has led many commentators to describe this type of analysis as “partial”, while the holistic approach of Walrasians has been described as “general”. However, these epithets are misleading because price theorists consider all relevant considerations related to the issue at hand, which, of course, rarely includes all markets in the economy (Friedman 1949). Likewise, price-theoretic focus on the explanation of real-world phenomena has been interpreted as “applied” analysis as opposed to “theoretical” enquiry that is concerned with the logical consistency of formal models (Hands 2017). In fact, this allegedly “applied” price-theoretic analysis is responsible for incorporating new variables into economic analysis, such as permanent income (Friedman 1957), education (Becker 1993a; Schultz 1971), and social influences (Becker and Murphy 2000). In contrast, the attempts to incorporate various real-world features into “theoretical” Walrasian models often result in intractability. Consequently, the set of variables considered in these models (i.e. market prices, income, and
technology) are the same for both Walras and his followers (Arrow and Hahn 1983).

For the purpose of this study, the label “Walrasian” is inadequate to describe approaches that value the descriptive accuracy of assumptions. One reason is that many of these approaches are critical of Walrasian economics and do not necessarily value mathematical elegance. Moreover, Walrasian economics arguably represents a widely inaccurate description of economic reality, although this is due to exogenously imposed constraints (i.e. reality is too complex to be accurately reflected in the model), rather than a matter of modeling philosophy. Therefore, I will use the term “descriptivism” to denote all the approaches that value the descriptive accuracy of theories. Descriptivism goes hand-in-hand with attempts to construct holistic, all-purpose models: what is important to descriptivists is the realism of assumptions as such and not the adequacy of assumptions for the problem at hand. Various critiques of rational behavior or perfect competition that refer to a lack of realism and ignore the purposes for which these theories were constructed are descriptivist according to my definition.

Machlup’s analytical equilibrium is wholly in line with the price-theoretic approach: he emphasizes the relativity of the equilibrium concept and its problem-dependence (Machlup 1958, pp. 10, 12–13, 21). He also argues that equilibrium is a tool rather than a state of the world. In fact, he claims that to ‘characterise a concrete situation ‘observed’ in reality as one of ‘equilibrium’ is to commit the fallacy of misplaced concreteness” (Machlup 1958, p. 12). For Machlup, it makes little sense to assess the equilibrium concept from the perspective of descriptive accuracy but from its adequacy for analyzing a particular problem at hand. Machlup (1958, p. 11) also rejects holism: he argues that the real world is too complex, and that theory must be selective.

Again, the selection of the “right” variables is not definitive but should be performed on a case-by-case basis. Finally and importantly, Machlup (1958, p. 8) uses Marshall’s analysis of time periods to illustrate his notion of equilibrium, which suggest his affinity to the price-theoretic tradition. In the following section, I provide an example of the price-theoretic approach to equilibrium.

III. EQUILIBRIUM ANALYSIS: AN EXAMPLE

To illustrate Machlup’s concept of analytical equilibrium, it is useful to consider Becker’s (1991) analysis of restaurant pricing. Becker begins by presenting an observation that prices of many restaurants seem to be too low given that they have long queues for tables. The situation can be illustrated in a conventional supply–demand diagram (Figure 1a). In this figure, \( p_o \) is the observed price while \( p^* \) is the price that equates the quantities supplied and demanded. If we consider the usual variables affecting demand (prices and income) and supply (cost and technology), we conclude that the situation is out of equilibrium, that is, the selected variables are not “adjusted to one another that no inherent tendency to change prevails in the model”, as Machlup’s (1958, p. 9) definition requires. In particular, in the conventional supply–demand model, there is a tendency for price to increase. However, we do not observe this tendency in reality: queues in front of restaurants (or theaters and sport stadiums) is a long-lived phenomenon. This fact calls for a different equilibrium model: none of the conventional variables can explain why we observe queues in some markets and not in others. The fact that this phenomenon is persistent and widespread eliminates an error as a probable cause.

Becker’s solution is to incorporate a new variable into the model. Namely, he assumes that the individual demand for

![Fig. 1: Restaurant pricing](image-url)
a good depends on the aggregate quantity demanded of this good. Therefore, the market demand can be written as:

\[ Q = F(p, Q), F_p < 0, F_Q > 0 \]  

where \( Q \) is the market demand and \( p \) is the price of the good in question. Intuitively, people enjoy a particular good (e.g. dinner at a restaurant) more when other people also want to consume this good. If the social effect is strong, the demand function may look like the one presented in Figure 1b. Interestingly, the intersection of the supply-and-demand curves is not an equilibrium because the restaurant can increase its profit by raising its price. The price \( p^{**} \) is an equilibrium price because there is no tendency for the price to change.

It is important to highlight the price-theoretic aspects of Becker’s analysis. First, his analysis is problem-based. That is, Becker begins with an observation of a phenomenon and builds a model that aims to account for this phenomenon. To do this, the model abstracts from many variables; note for instance that the demand function (1) depends only on \( p \) and \( Q \), while other variables, including the conventional ones, are excluded. This is not because they do not influence demand in general but because they are irrelevant to the problem at hand. In contrast, descriptivism would attempt to include all the variables that plausibly influence demand to build a general model of price formation. In addition, Becker’s model does not specify any concrete mechanisms through which the aggregate demand for a good influences the individual demand for this good: the reason could be that a person wants to keep up with what is popular with other people or that confidence in the quality of the good is greater when the good is more popular (Becker 1991, p. 1110). This contrasts with descriptivism of behavioral and Austrian/evolutionary sorts which would call for the specification of decision (behavioral) or market (Austrian/evolutionary) processes. This final point brings us to the Hayekian view of the equilibrium, which is discussed in the following section.

IV. HAYEK ON EQUILIBRIUM

Hayek provides several definitions of equilibrium. For example, in his essay “Economics and Knowledge”, Hayek (1948, p. 41) states that equilibrium means that the “different plans which the individuals composing [a society] have made for action in time are mutually compatible.” There seems to be a similarity between Hayek’s concept of equilibrium as a “compatibility of plans” and Machlup’s concept of equilibrium as a “compatibility of variables”; however, this similarity is superficial. Hayek (2007, pp. 41–42) emphasizes that his concept of equilibrium refers specifically to actions and he contrasts his view with approaches that consider equilibrium as a relationship between the existing things (goods), i.e. results of past activities. The difference between the two concepts can also be illustrated by the example of Becker’s (1991) restaurant pricing model described in the previous section. In this example, the situation of excess demand satisfies Machlup’s definition of equilibrium given that the variables do not have a tendency to change. However, it does not satisfy Hayek’s notion of compatibility of plans given that some consumers’ plans are disappointed in this situation, that is, they do not succeed in having a meal at the restaurant due to insufficient capacity.

Hayek did not develop his concept of equilibrium as a tool of industry analysis (e.g. to analyze restaurant pricing). Rather, due to his preoccupation with business cycles and economic planning, Hayek’s concern was with general equilibrium. Here we find another difference between Hayek and Machlup. Although Hayek (1948, p. 44, 2007, pp. 46, 50) repeatedly states that equilibrium is a fictitious concept, he also argues that empirically there is a tendency toward equilibrium (Hayek 1948, pp. 45, 55, 2007, p. 50). The main evidence for this is that prices “tend to correspond to costs” (Hayek 1948, p. 51, 2007, p. 50n). Hence, Hayek’s equilibrium as a concept reflecting the actual social order differs from Machlup’s analytical equilibrium.

The usefulness of the equilibrium concept for Hayek does not end with a mere description of the social order. As Hayek (2007, p. 51) states:

Its function is simply to serve as a guide to the analysis of concrete situations, showing what their relations would be under “ideal” conditions, and so helping us to discover cause of impending changes not yet contemplated by any of the individuals concerned.

For Hayek (2007, pp. 42–43), the ultimate goal of all economic analysis is to provide a causal explanation of phenomena, and equilibrium analysis is merely a stepping stone toward this goal. However, to reach this goal, one must abandon the concept of a stationary equilibrium and use a broader concept that allows for the flow of time. One is tempted to use the term “dynamics” to describe Hayek’s concept of equilibrium but Hayek (2007, pp. 42–43) explains why this term may be misleading.
Figure 2 describes Hayek’s views on equilibrium analysis. In particular, according to Hayek, the term “dynamics” can refer to two types of analyses: (1) a causal explanation of economic processes that makes no use of the equilibrium concept; (2) an analysis in terms of non-stationary equilibria. Hayek (2007, p. 43) refers to this latter type of analysis as an “intermediary field” between static and causal analysis. While the term “dynamics” has been used in opposition to both “statics” and “equilibrium analysis” (because, according to Hayek, in past literature, both these types of analysis coincided in that most equilibria considered in the literature were stationary), Hayek emphasizes that an analysis can both use the concept of equilibrium and be non-stationary. It is important to note that Hayek also explains why the price-theoretic approach exemplified by Marshall’s analysis is not suitable for his purposes. As noted earlier, the price-theoretic approach is problem-based, which means that it ignores everything that is not relevant to the problem at hand. Hayek (2007, p. 40n) understands this aspect of price-theory very well:

the method of short-term equilibrium essentially consists in disregarding all these consequences of a given change whose significance, for the problem immediately under consideration, is of the second order of smalls. This means that we deliberately neglect consequences because they do not affect the parts of the system with which we are mainly concerned—a procedure which is clearly inadmissible when we are interested in the equilibrium of the system as a whole.

The Marshallian concept of short-run equilibrium is not suitable for Hayek’s purposes because it is supposedly a partial-equilibrium approach and he is interested in a general equilibrium. The concept of long-run equilibrium satisfies the condition of being general but its disadvantage from Hayek’s (2007, p. 40) perspective is that it is stationary. Finally, although the Marshallian analysis of time periods as such marks a step toward non-stationary equilibrium analysis, Hayek finds this approach unsatisfactory. The main reason for this is that empirically, the distinction between the short run and the long run can be identified only in relation to a particular industry (industrial analysis is where Hayek finds this Marshallian device applicable) but not in relation to the economy as a whole. In considering the economy as a whole, changes occurring in the economy are not clustered around specific points in time but are dispersed over a continuous range (Hayek 2007, pp. 44–45). For example, if capital in a particular industry is fixed in the short run and variable in the long run, changes between the short run and the long run must occur in the industry producing these capital goods in the time between the short and long run. The changes in this capital-producing industry cannot be disregarded when we analyze the economy as a whole. At the same time it is unclear which point in time empirically marks the distinction between the short-run and long-run periods.

Two points in Hayek’s argument should be emphasized. First, Hayek finds Marshallian analysis appropriate for industry analysis. In other words, Hayek does not reject Marshallian analysis as such but because, according to him, it is inadequate for his purposes. Second, the reasons why Hayek finds Marshallian analysis inadequate for his purposes are partly descriptivist. Hayek rejects time-period analysis as an inaccurate description of reality: he argues that in reality, changes over time occur continuously rather than in jumps. While this is true, the relevant question from the price-theoretic perspective is what is sacrificed in our analysis of a particular phenomenon if we simplify the analysis by introducing two discrete periods. Hayek does

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Fig. 2: Approaches to equilibrium analysis
not address this issue. I conclude that the price-theoretic concept of equilibrium defended by Machlup and applied by Marshall and others, cannot be rejected on the basis of Hayek’s argument. First because Hayek focuses on issues potentially outside the scope of price-theoretic analysis, and second because Hayek’s arguments against this type of analysis are descriptivist, and therefore, stem from methodological differences.

The crucial aspect in Hayek’s concept of equilibrium is its relationship to the social order. This aspect also marks the main difference between Hayek’s and Machlup’s views. That is (Machlup, and as it turns out, other price theorists) does not discuss the relationship of equilibrium to the social order at all. I focus this issue in more detail in the following section.

V. THE PROBLEM OF SOCIAL ORDER

Hayek begins with an observation of the social order and uses the general-equilibrium concept to describe and analyze this order. The relationship between equilibrium and social order has also been emphasized by other researchers (e.g. Arrow and Hahn 1983; Boettke, Horwitz, and Prychitko 1994; Holcombe 2007). For Hayek, this general equilibrium is a sort of a Platonic ideal that can be approximated in reality but never achieved. However, over time, Hayek came to prefer the term “order” instead of “equilibrium” (Vaughn 2013) but arguably, the change in the terminology did not represent a significant change in his view. The reason for the inadequacy of the term “equilibrium” for Hayek’s purposes is that it does not allow for degrees of disequilibrium; in contrast, order can be approached to various degrees and can be preserved during a process of change (Hayek 2002, p. 15).

What is the role of the social order in the price-theoretic tradition? Interestingly, this tradition does not have a model of social order as conceived by Hayek. For example, although Marshall (1982) extensively refers to Adam Smith throughout his Principles, he never refers to his notion of the invisible hand. He only briefly mentions a policy implication of the invisible hand—the doctrine of “Free Trade”. According to Marshall (1982, p. 627), Smith’s “chief work was to find in the theory of value a common centre that gave unity to economic science.” Note that this reference is not from the main text but from an appendix. There is also no reference to the idea of an invisible hand in Stigler’s (1966), Friedman’s (2008) or Becker’s (1971) texts on price theory.6 Regarding the Walrasian general equilibrium, the results are quite similar: these works do not refer to it at all, with the exception of Stigler (1966, p. 113), who only mentions it once in a historical box on Walras. Stigler notes how impractical the general equilibrium concept is due to the large number of equations it requires even in its simplest version. These few references once again illustrate that for price theorists, the concepts of equilibrium or perfect competition are simply tools of economic analysis and are not meant to represent the invisible hand. Instead, they are designed to address specific questions about changes and differences in behavior.

Thus, it seems that price-theoretic tools are not suitable for answering Hayekian questions; however, I argue that there is a complementarity between the Hayekian and Marshallian approaches. To illustrate, consider the Hayekian question: how is it possible that we observe an order rather than a chaos in the world where there is no central planner and each individual has limited knowledge? His answer is that we are able to do this thanks to the price system, which serves as a device for communicating information (Hayek 1945). To address his question, Hayek needs a concept of some sort of an order, possibly modeled with the Walrasian general equilibrium. However, the Hayekian question is not price-theoretic because in price-theoretic analysis, equilibrium is not an explanandum. In particular, the Hayekian question is not a question about comparative statics: there are no changes or differences between phenomena that call for explanation. Nevertheless, one can formulate a price-theoretic question that is related to the Hayekian problem of the social order: why do we observe some coordination of activities via a central planner and some coordination via the price system? This is the Coasean question (Coase 1937), but Hayek (1945, pp. 520–21) alludes to it as well. Note, that for this kind of question, the existence of social order (and the related concept of the Walrasian general equilibrium) is not directly relevant. However, Hayek’s insight into the role of prices in the market order is relevant to it: his insight implies that command-and-control may not be always superior to spontaneous coordination via prices (i.e. that there is a trade-off). Therefore, the relevant equilibrium for the Coasean question is the equilibrium “amount” of planning (i.e. the optimum size of firms). To determine this equilibrium, one must consider not only the functioning of the price system highlighted by Hayek but also other variables, such as transaction and coordination costs (Coase 1937; Williamson 1985), as well as economies of scale and scope (Stigler 1951). In sum, Hayek’s insight that prices commu-

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6 References to price-theoretic analysis are descriptivist and therefore, stem from methodological differences.
nicate information can be used as a building block of price-theoretic analysis.

However, the complementarity between Hayekian and price-theoretic analysis also goes in the other direction, that is, price-theoretic tools can be used to answer specific questions about the social order. Consider Hayek’s (1945, p. 526) famous tin example. In this example, Hayek demonstrates how prices communicate information about the increase in the relative scarcity of tin. He shows how little individuals need to know to take the “right” action. The price-theoretic toolbox is, of course, well suited for illustrating Hayek’s point. Initially, there is an exogenous event that affects either the demand or supply of tin. This is what Machlup terms a “disequilibrating change”. Hayek then describes the adjusting changes that follow: economization on tin, changes in markets of substitutes of tin and their own substitutes. All these changes can be captured by the supply-and-demand apparatus and by maximizing behavior. In this sense, price-theoretic tools can be used as building blocks for Hayek in addressing his problem of social order.

VI. CONCLUDING REMARKS

Equilibrium is often considered a modern reincarnation of Smith’s invisible hand. It is not surprising that researchers who have only this particular interpretation of the equilibrium concept in mind find the equilibrium concept unsatisfactory. Hayek was perhaps one of those “disappointed Walrasians”. In his early career, Hayek naturally turned to the Walrasian equilibrium concept as an up-to-date theoretical achievement of his time. Later, he attempted to substitute the Walrasian general equilibrium with a theoretical framework borrowed from systems theory and cybernetics. However, he was unable to construct a full-fledged formal theory along these lines. The steps toward such theory has been taken only quite recently. Interestingly, this type of analysis has been most fruitful historically (e.g. Stigler 1983; Arena and Quéré 2003).

Price theorists have been skeptical about the usefulness of the Walrasian concept from the very beginning. They developed a problem-based approach in which the equilibrium concept alongside other theoretical constructs serves as an “engine of analysis”. In this approach, theory is not driven by the search for realism of assumption but rather by adequacy in relation to the problem at hand. Machlup provided a powerful interpretation of the equilibrium concept as it is used in this tradition. Both Hayek and Machlup were Austrian economists; nevertheless, the Austrian tradition followed mostly in Hayek’s steps. Perhaps the time has come to explore the Machlupian path further. Due to its affinity with the price-theoretic tradition, it has the potential to broaden the horizons of Austrian economics. On the other hand, this tradition uses conventional tools of economic analysis. On the other hand, it shares some characteristics of the Austrian approach, such as real-world relevance and skepticism toward formalism for its own sake.

NOTES

1 For a critique of holism in this sense, see Popper (1944). Price theory is compatible with what Popper refers to as a piecemeal approach.

2 In the original version of Hayek’s (1937, p. 40) essay, the definition is formulated as follows: equilibrium means “compatibility exists between the different plans which the individuals composing [a society] have made for action in time.” A similar definition can be found in Hayek (1941, p. 43).

3 On non-market-clearing equilibria see Machlup (1958) and Rizzo (1992).

4 In non-stationary equilibrium analysis, two approaches are sometimes distinguished: “functional” and “causal–genetic”. According to Rizzo (1990), Hayek belongs to the latter group. However, Hayek (1937, pp. 34–35n) explicitly mentions in a footnote that he uses the term “equilibrium” in the sense of “functional” analysis. This footnote was removed in a later reprint of the essay (Hayek 1948). Interestingly, Foss (1995) argues that Machlup’s (1958) approach to equilibrium is “causal–genetic”.

5 This is also where this type of analysis has been most fruitful historically (e.g. Stigler 1983; Arena and Quéré 2003).

6 This is not to say that these authors considered the notion invisible hand unimportant (e.g. see Friedman and Friedman 1980).

7 An important recent step in this direction is Zanotti and Cachanosky (2015). For Austrian–Marshallian connections, see Foss (1998).

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COSMOS + TAXIS


Go with the Flow: An Emergent, Free Banking Perspective on Stabilizing Nominal Spending

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Abstract: Market Monetarists and free bankers tend to agree on the theoretical desirability of having a monetary system that stabilizes the flow of nominal spending in an economy. However, their ideas diverge on two related issues: (1) how should we conceive of the process in which total spending is generated, and (2) what are the best means for stabilizing the flow of total spending, however defined. In this paper, I argue that the free banking approach is superior on both accounts. Free banking theory brings to the forefront of its analysis the all-important role that individuals acting within naturally evolved monetary institutions play in facilitating microeconomic coordination. This coordination, in turn, has the unintended yet desirable consequence of producing a stable flow of spending. In this sense, free banking theory is more consistent with an “emergent-dynamic” approach to understanding macro-phenomena, as discussed in Wagner (2010, 2012). Although I argue that free banking is superior means of stabilizing the total flow of spending, I conclude that combining free banking reforms with a strict monetary rule that adjusted the supply of base money to stabilize the flow of spending in the economy as Market Monetarist propose would serve as an effective remedy for the potential problems in a free banking system stemming from changes in the demand for base money.

Keywords: Market Monetarism; Free Banking; Monetary Disequilibrium; Austrian Economics; Market Process; NGDP Targeting; Monetary Institutions

JEL Codes: B53, E42, E50

I. INTRODUCTION

Is monetary equilibrium more likely to be achieved through a free banking system or by having central banks explicitly target nominal spending? Monetary economists have long debated what type of monetary policy does the best job of maintaining equilibrium between the supply of and demand for money balance, thereby keeping money as neutral as possible with respect to real variables. Since the onset of the Great Recession, support for a fairly new approach has gained traction amongst many in the Monetarist tradition. But unlike traditional Monetarists who recommended the monetary authority target a steady growth rate of some monetary aggregate (historically, M2), they argue that it should instead target the level of nominal spending in the economy, or NGDP.

Their proposal has gained some theoretical support from scholars in the modern free banking school, which explores how a truly laissez faire money and banking system would operate in the absence of central banks or special legal restrictions on the banking sector. One of the core findings of free banking theory is that, holding constant the supply of and demand for outside (or reserve) money, banks in a free banking system would have a direct incentive to offset changes in the demand for bank-issued money with changes in its supply. In so doing, the system would exhibit a natural tendency to stabilize the flow of total spending in an economy, as Market Monetarists desire.

Many leading thinkers in both schools derive an enormous influence from the monetary equilibrium tradition as laid out by Warburton (1950) and Yeager (1986). This shared intellectual heritage explains why they tend to agree that stabilizing the flow of nominal spending is the best proxy for maintaining monetary equilibrium. However, the two schools tend to diverge on two related issues: (1) how should we conceive of the process whereby NGDP is generated and (2) what is the best means for stabilizing it. On the one hand, Market Monetarists rely on a more mechanistic...
or “top-down” approach to NGDP, viewing it as an “object of choice” for monetary authorities (Salter 2013). This view necessarily requires central bankers to play some active role—even if that role is strictly limited (Sumner 2014a). Free bankers, in contrast, take an emergent or “bottom-up” approach to understanding NGDP. They argue that when the monetary system is shorn of unnecessary restrictions, the flow of spending will automatically be stabilized as an unintended byproduct of profit-seeking private bankers adjusting their issuance of money in response to changes in customer demand in a decentralized manner. As such, they see no need for any nonmarket entity to deliberately target or “fine tune” NGDP.

In this paper, I argue that the free banking approach is superior both as a way of conceiving of the process that generates a stable flow of nominal spending and as a means of achieving it. Free banking theory does the best job of highlighting the all-important role that individuals acting within naturally evolved monetary institutions play in maintaining monetary equilibrium and coordinating the intertemporal plans of savers and investors. It is this microeconomic coordination that spontaneously generates the desirable outcome of stabilizing the flow of total spending. Free banking theory therefore provides a theoretically richer “bottom up” description of how more complex macroeconomic phenomena like aggregate spending can be generated through the self-interested actions of individuals at the micro-level without relying on any sort of “top down” aggregate demand management. In this sense, free banking theory is more consistent with an “emergent-dynamic” approach to understanding macro-phenomena like aggregate spending can be generated through the self-interested actions of individuals at the micro-level without relying on any sort of “top down” aggregate demand management. II. MARKET MONETARISM

Monetary equilibrium theory lies at the heart of the recent proposals by Market Monetarists to have central banks target NGDP. Though many attribute this theory to the pioneering work of Warburton (1950) and Yeager (1956), the theoretical foundations of monetary equilibrium theory and NGDP targeting can in fact be traced all the way back to the Cambridge cash balance approach originally formulated by Alfred Marshall more than a century ago. According to this formulation, individuals chose to hold a certain percentage of their income, k, in the form of liquid cash balances. Generalizing this result to the entire economy, we arrive at the behavioral equation:

\[ M^D = kPy, \quad (1) \]

where \( M^D \) represents the total nominal demand for money, P represents the price level, and y represents real income/output. The product of the price level, P, and real income, y, yields nominal income, or Y. Since under the current monetary framework the supply of reserve, or outside, money (M0) is exogenously controlled the central bank and is invariant to changes in the purchasing power of money (represented by the inverse of P, 1/P), the money supply is at all times represented by the equation: \( M^S = M \).

From these two equations we can define the monetary equilibrium condition:

\[ M = kPy, \quad (2) \]

That is, *monetary equilibrium* occurs when the supply of money is equal to the demand to hold it at the prevailing price level (Horwitz 2000, p. 70). This is shown graphically in Figure 1 at the intersection of MS and MD at 1/P. As Salter and Hogan (2015, pp. 5-6) argue, when this condition holds, the existence of money does not alter the structure of relative prices—and hence resource allocation—in the economy. That is to say when monetary equilibrium holds, money is neutral with respect to real variables.
From a normative standpoint, monetary equilibrium theorists argue that many economic downturns arise when individuals attempt to build up their money balances (denoted in equation 2 by a rise in $k$). This situation is depicted in Figure 1 where the money demand curve, MD, shifts to the right. In this case, the economy temporarily experiences an excess demand for real money balances. Under these circumstances, monetary equilibrium can be restored in one of two ways. The first is through the classical remedy of allowing prices to adjust downward. This would be depicted in Figure 1 by the unchanging money supply curve, MS. In this situation, monetary equilibrium can only be restored by allowing the overall price level to fall, or equivalently allowing the purchasing power of money, $1/P$, to rise until real money balances are restored to their desired levels. However, monetary equilibrium theorists often argue that many prices in the economy (especially wages) are only imperfectly flexible, or “sticky.” As a result, this downward price adjustment is associated with a potentially sharp (and often times unnecessarily painful) rise in unemployed factors and a decline in real output. A far less costly alternative for restoring monetary equilibrium, these authors contend, would be for monetary authorities to expand the money supply, as shown by the rightward shift of MS in Figure 1, to offset the rise in money demand at the existing price level. The effect of this demand-elastic monetary policy would be to stabilize nominal spending, $Y$.

We can write the monetary equilibrium condition in a more familiar form by making a few minor adjustments to the Cambridge cash balance equation. Most notably, $k$, the fraction of nominal income individuals desire to hold as cash balances, can also be defined as the inverse of velocity, $k = 1/V$. Substituting this condition into our earlier equation, we arrive at the more familiar Fisherian version of the equation of exchange:

$$MV_y = Py,$$

Monetary equilibrium theory implies that central banks should offset changes in the income velocity of money, $V_y$ (i.e. the inverse of changes in the demand to hold their money) with changes in the money supply. The result of stabilizing the product $MV_y$ is that the level of nominal income and spending $Py$ is also stabilized. In the familiar Keynesian AS-AD framework, this translates into using monetary policy to stabilize aggregate demand (AD), $Y = C + I$, where C and I denote consumption and investment spending, respectively. In this case, as alluded to earlier, a rise in the public’s demand to hold its savings in the form of central bank-issued money (associated with a corresponding fall in present consumption) should lead the central bank to expand its balance sheet by issuing a more reserves, or “high powered money,” to the banking system. Assuming the banking system fulfills its role in intermediating the increase in loanable funds into productive investments, the fall in C can by fully offset by a rise in I, thereby stabilizing the level of aggregate demand in an economy.\(^5\)

Though the blackboard rationale of NGDP targeting is fairly straightforward, Market Monetarists acknowledge that achieving this result isn’t quite so easy in practice. For starters, monetary authorities often lack to real-time knowledge to accurately diagnose and appropriately respond to changes in nominal spending stemming from changes in the velocity of (and demand for) money. Data on NGDP is only reported quarterly, so central bankers cannot always respond in a timely manner. Even once it is reported, the reliability of the data is also an issue, as it is often subject to measurement error and undergoes frequent revisions. Because of the delay in collecting accurate data, monetary policy would be inherently “backwards-looking” (Sumner 2011, p. 17).

Due to these epistemic and practical constraints, many Market Monetarists argue that central banks should adopt a “forward-looking” policy stance that incorporates the expectations of market actors in order to give monetary policy a “compass” (ibid.). Their preferred approach would be for central banks to create an NGDP futures markets (Sumner 1989; 2006; 2014). The mechanics of how these markets might work vary, but the broad strokes are fairly similar. The central bank would first be respon-
sible for choosing a target trajectory for NGDP growth (say, 5 percent per annum). It would then set up a futures market for trading NGDP-denominated contracts, using the market price of these contracts to gauge market expectations about the future level of NGDP. From then on the central bank would be responsible for adjusting the money supply until the market forecast of NGDP matched its explicit target. The result, they argue, would be a truly “market-based monetary policy.”

The preceding discussion of Market Monetarism has two important implications for my analysis. The first has to do with the means they advocate using to achieve their policy goals. Though their rule-based approach would significantly limit its discretion, most Market Monetarists would maintain the central bank as a tool for establishing and executing their paramount objective: an explicit NGDP target. This highlights an interesting tension in the Market Monetarists’ literature. Though they typically believe in the superiority of markets over central planning, they are very reluctant to take the final step of closing the central bank and leaving the money supply entirely to market forces.

The second implication flows directly from the first: in a system where central banks actively adjust the money supply to stabilize the growth of NGDP, it cannot be said that NGDP represents the spontaneous outgrowth of unfettered market activity; instead it becomes an “object of choice” for the central bank. In its ideal form, the central bank is still responsible for setting the target growth path for NGDP and then actively buying and selling NGDP futures contracts at a fixed price. In its crudest form, the central bank must continually intervene and “fine tune” the economy to stabilize aggregate demand. As this emphasis on end-states illustrates, Market Monetarists predominantly speak in terms of the macroeconomic implications of NGDP targeting. This aggregative level analysis certainly makes it easier for them to converse with the mainstream of the economics profession. But this marketing advantage comes at a high cost: namely, by focusing only on aggregates, Market Monetarists tend to overlook the all-important institutional and microeconomic processes that give rise to a stable level of NGDP.

III. FREE BANKING

Although free bankers are fellow travelers in the monetary equilibrium tradition, they take a fundamentally different approach to understanding how best to maintain monetary equilibrium. Unlike Market Monetarists and most mainstream economists who typically assume the existence of a central bank and frame their entire analysis on macro-level aggregates, they begin by asking: “How Would the Invisible Hand Handle Money?” (Selgin & White 1994). Their answer provides the basis for the theory of free banking.

A free banking system is, in effect, an institutional framework where government plays no active role in money and banking outside its basic function of protecting private property and upholding contracts and the rule of law. Banks are free to enter and exit the industry as they wish, competing on a coequal legal status. They are also free to issue their own debt and equity claims in whatever form they wish without any restrictions on the quantity, types, or mix of assets they may hold as backing. In general, there are no restrictions on the contractual terms made between banks and their customers beyond the requirement that they adhere to the standard legal principles governing all business contracts (1994, pp. 1718-1719). Since no bank or group of banks enjoys any special legal privileges, there is no state-sponsored central bank with a monopoly on currency issue, no official lender of last resort, and no government deposit guarantees.

In theory, a free banking system can be built on the foundation of any monetary standard. However, free banking scholars typically begin their theoretical analysis by assuming that the ultimate form of money in such a system consists either of some commodity like gold or silver, as has historically been the case, or a frozen (or computer controlled) stock of fiat money (Selgin 1988b). Since the types of money that banks hold as reserves are produced outside the private banking system, they are often referred to as “outside” money, the supply of which is taken as exogenous by private banks. Moreover, scholars typically assume that the public in a mature free banking system is confident enough in the private banking system to hold the vast majority their monetary wealth in the form of privately issued notes, deposits, or other forms of private bank liabilities—that is, the demand to hold their wealth in the form of this basic or outside form of money is virtually zero. The demand for these outside forms of money, therefore, stems almost entirely from bank’s demand for reserves for interbank clearings.

In my analysis in this section, I will take as given that the public holds the vast majority of its monetary wealth in the form of privately issued bank notes and deposits, so that there is virtually no variation in the public’s demand for outside forms of money. I also assume either that the economy is on a commodity standard such as gold or silver (as has historically been the case) or a frozen stock of fiat mon-
ey or computer-managed stock of that grows at some predetermined rate as its reserve medium, as Selgin (1988b, 2015) discusses. In either case, variations in the supply of basic money are minimal and fairly predictable, so any resulting changes in nominal spending would be minor.

Free banking scholars readily admit that no country has ever fully embraced all the elements of a “pure” free banking system. Nevertheless, scholars have analyzed case studies from a number of “lightly regulated” banking systems that meet the basic criteria of a free banking system: a fair degree of bank freedom, multiple note issuers, and the absence of any sort of government-sponsored lender of last resort (Dowd 1992, p. 2). The evidence from these episodes suggests that these relatively free banking systems generally avoided the pitfalls that many scholars are quick to attribute to an unregulated banking system. Contrary to the concern that free banking would lead to anti-competitive concentration in the banking sector or that the supply of money was a natural monopoly, these systems showed no tendency towards monopolization; in each case where there was relatively free entry and exit and nationwide branching, the banking system supported multiple note issuing banks ranging in size from large banks to community banks (Dowd 1993; Schuler 2002). Moreover, freer banking systems experienced far fewer financial crisis and bank failures than their more highly regulated counterparts (White 1999 ch. 5).

One key stage in the development of these historical free banking systems was the emergence of private clearing-house associations (CHA). These CHA’s allowed member banks to return each other’s liabilities, settle clearing imbalances with rival banks, and economize on the cost of holding non-interest bearing reserves (White 1999 pp. 16-17). Indeed, many historical clearinghouses assumed roles that are commonly attributed to modern central banks by serving as a “banker’s bank” in holding reserves in a centralized location, managing the payment system, monitoring the activities of its member banks, and occasionally even serving as private “lenders of last resort” in the rare case of a systemic liquidity crisis (White 1999, pp. 71-79). The emergence of these CHAs proved to be a critical component in the stability and efficiency of these historical free banking systems.

Why do the operations of a free banking system matter from the standpoint of maintaining monetary equilibrium? The reason is that one desirable aspect of mature free banking systems with developed interbank CHAs that scholars stress is that the supply of bank-issued, or “inside,” money, which consists of private bank notes and deposits that serve as the economy’s primary circulating media of exchange, tends to automatically adjust to accommodate changes in the public’s demand.

The easiest way to see this is by analyzing the actions of individual profit-maximizing banks within a free banking system. Each individual bank in its effort to maximize profits and satisfy its customer’s monetary demands faces a direct incentive to offset changes in the demand for its money with changes in its supply (White 1999, pp. 60-67). For instance, if the demand for a particular bank’s liabilities unexpectedly rises (i.e. its velocity falls), that bank will enjoy positive net clearings. The resulting increase in its reserves over and above the level it demands as a precaution against variations in negative or “adverse” clearings in the interbank clearing market sends a direct signal to the bank that its customers are more willing to hold (i.e. abstain from spending) its IOUs, thereby providing it with additional loanable funds. The bank can intermediate these otherwise idle savings into productive investments by expanding its portfolio of interest-bearing loans or purchasing securities. By putting more of its money into circulation, the flow of the bank’s liabilities entering the clearing system eventually rises to its normal level, bringing its actual reserves back in line with its desired reserves. The reverse holds when a bank faces a fall in the demand to hold its liabilities. Such a bank suffers from “adverse clearings,” forcing them to contract their liabilities to restore actual reserves to their desired level. In this way, the supply of money issued by each bank is demand-elastic, and monetary equilibrium is maintained at the level of each individual bank.

We can extrapolate from the case of the individual bank to see what happens to the entire banking system when there is a general rise in the demand to hold inside money. In this case, no bank on average gains reserves relative to its competitors. However, the decline in gross clearings reduces the variance in the size of reserve losses thereby causing each bank to reduce its demand for precautionary reserves (Selgin 1988b, pp. 73-78). Since banks can safely expand their issuance of inside money without the risk of dipping below their now lower desired level of precautionary reserves, they can increase their profits by reducing their reserve ratios (i.e., increasing their money multiplier) and issuing more liabilities in exchange for interest-bearing loans. In this way, the supply of money for the banking system as a whole is demand-elastic (White 1999, p. 66). Generally speaking, then, all profit-maximizing banks in a free banking system face a direct incentive to offset chang-
es in the transactions velocity of their monetary liabilities with opposite changes in their quantity in circulation. In terms of the original equation of exchange, \( MV_T = PT \), changes in the total transactions velocity of inside money, \( V_T \), are met with offsetting changes in its supply, \( M \). For this reason, free banking scholars claim that the competitive banking system with well-functioning interbank clearing-houses has a built-in mechanism for adjusting the supply of bank-issued money in the face of shocks in the public’s demand, maintaining monetary equilibrium both at the individual bank level and for the system as a whole. In so doing, the system displays an automatic tendency to stabilize the total volume of nominal spending in an economy.

This tendency for both an individual bank and the banking system is shown in Figure 2, where total payments \((MV_T)\) is depicted on the y-axis and the stock of bank reserves is depicted on the x-axis. The vertical line \( R^s \) depicts the supply of reserves in the banking system, which at any time is exogenously to the banking system since it is produced outside the banking sector. The line \( R^D \) plots the banking sector’s demand schedule for reserves. The line is upward sloping because as the total volume of payments rises—that is, as more payments filter through the interbank clearing system—each bank’s precautionary demand for reserves rises at an increasing rate. As the figure shows, for a given stock of bank reserves and demand schedule there is an equilibrium level of total payments \((MV^*)\) in an economy. If total payments exceed that equilibrium level, banks will increase their demand for precautionary reserves to account for the larger variance of reserve losses. The opposite holds when total payments dip below the equilibrium level, implying that banks have excess reserves that they can safely lend out.

Figure 2: Bank Reserve Demand

Mirroring the discussion in the previous section, there are two key implications we can draw from the preceding analysis. First, in a free banking system there is no need for a central bank or any extra-market monetary authority to deliberately target a stable path for nominal spending. This socially beneficial outcome emerges as the unintended result of the decentralized actions of profit-seeking bankers. This efficient outcome of a free banking system therefore represents what Hayek (1946) refers to as a spontaneous order—“the result of human action, but not the execution of any human design.”

The second implication follows logically from the first. Since there is no central bank in a free banking system, the flow of spending, or NGDP, in the economy does not represent an “object of choice” for any nonmarket institution. Rather, the level of NGDP at any given moment instead represents the emergent outcome of the competitive market process. The free banking narrative, therefore, does not suffer from any internal tension. The invisible hand that works so well in other markets also extends to money.

IV. TARGETING VS. STABILIZING NGDP: TWO DIFFERENT CONCEPTIONS

4.1 Methodological Differences
A key takeaway from the previous sections is that Market Monetarism and free banking represent two fundamentally different approaches to conceptualizing NGDP. Using De Grauwe’s (2010) distinction between “top-down” and “bottom-up” conceptions of macro phenomena, Market
Monetarists offer a “top-down” explanation of NGDP. The best way to approximate monetary equilibrium in the aggregate, they argue, is by having the central bank explicitly target NGDP. Since this analysis takes place exclusively at the aggregative level, the macroeconomic processes that generate these macro-level phenomena are largely concealed within their analytical framework.

Free bankers, in contrast, offer what we might consider a “bottom-up” explanation for how macroeconomic variables like NGDP are generated. Their theory highlights the fact that central bankers face an enormous epistemic challenge in trying to achieve their macroeconomic objectives (Selgin 1988b). Under these constraints, they note that it is highly unlikely that central bankers would have access to the sort of knowledge and information that would be required for them to maintain monetary equilibrium. Even if central bankers could somehow access all the requisite information, it remains doubtful that they would be able to fully insulate themselves from the special interest groups and political incentives that might influence its monetary policy.

A free banking system largely avoids these problems. In such a system, there is no reliance on the omniscience or benevolence of the monetary authority to centrally plan the money supply in order to achieve stable economic growth. Instead, monetary and loanable funds market equilibrium is maintained organically through the decentralized actions of private bankers using their localized knowledge to equate supply and demand for their own monetary liabilities. It is this micro-level coordination that spontaneously generates the socially desirable macro-level outcome of stabilizing the total flow of spending in an economy. Unlike Market Monetarism, then, free banking analysis is solidly rooted in microfoundations that serve to illuminate the dynamic process whereby macro phenomena emerge from an intricate web of microeconomic interactions.

This “top down” vs. “bottom up” dichotomy roughly corresponds to the insightful contrast that Wagner (2010, pp. 141-42) draws between “centralized” and “emergent” approaches to understanding macro phenomena. By speaking purely in terms of one macro variable (some money aggregate) acting on another (NGDP), Market Monetarists all too often employ what Wagner calls the “centralized” approach to macro theorizing. The flaw with this, he argues, is that these aggregate variables are depicted as being the products of outside intervention rather than of internal emergence. This stands in stark contrast to the “emergent-dynamic” approach that Wagner endorses and that free bankers consistently (albeit perhaps unwittingly) employ. Under this approach, “[macroeconomic] aggregates do not act directly upon each other” but are instead “intermediated through interactions among various individuals within a society” (ibid.).

Importantly, by highlighting the fact that the complex macro phenomena of NGDP ultimately arises from the simple interactions between private agents (in this case, bankers and their customers), free banking theory is consistent with in what Wagner (2010) elsewhere refers to as the “generative” or “Neo-Mengerian” mode of analysis. According to this approach, complex social configurations like the level of total spending in an economy emerge from—or are generated through—interaction among simpler micro-level entities. As such, these variables cannot be properly analyzed in isolation from the market process that generates them. It is therefore only desirable to track these macro-level aggregates insofar as they tell us something about how well they facilitate micro-level coordination between individuals. In this sense, free banking represents a “radically micro-centric approach” to macroeconomic theorizing (Wagner 2010, p. 145)—one that restores methodological individualism to the forefront of all subsequent analysis.

It is worth noting that the desire amongst free banking advocates to achieve a stable flow of nominal spending doesn’t stem from any sort of Keynesian fixation on removing any and all aggregate volatility as the be-all and end-all of monetary policy. Rather, it stems from their recognition that a stable flow of spending is desirable only insofar as it reflects successful micro-level coordination between savers and investors in the banking system’s role as a financial intermediary. For instance, when the public decides to increase its savings by holding relatively larger balances of bank-issued money, achieving the theoretical ideal of full intermediation of savings into investment requires that banks expand their balance sheets by issuing more of their liabilities. When this occurs, what would otherwise have been idle savings are funneled into productive investments, and the gains from financial intermediation are more fully realized.

From the standpoint of understanding the competitive market process, this free banking perspective is superior to the Market Monetarist approach precisely because it brings into focus the all-important microeconomic processes that occur between individuals and banks and acknowledges that it is these processes, when taken in their totality, that generate the macroeconomic outcomes that Market Monetarists desire. Perhaps most importantly, free banking theory highlights the crucial role monetary institutions
across the economy play in bringing about monetary and loanable funds market equilibrium. This institutional focus helps highlight the fact that private bankers not only have better access to the sort of specialized knowledge that is needed to maintain monetary equilibrium but that they also have a direct financial incentive to swiftly accommodate changes in the public’s demand for money. Hence, so long as the general protections for private property and the rule of law are in place, there will be a natural tendency for these systems to avoid being the source of money-induced (i.e. nominal) economic shocks. Finally, free banking theory also helps illuminate some of the negative unintended consequences of government interventions into the money and banking system that prevent banks from being able to respond to changes in the public’s demands such as reserve requirements and restrictions on branch banking, currency issue, capital and asset holdings, and deposit interest rates. While Market Monetarists relegate these factors to the background of their analysis, free bankers bring them to the forefront.

4.2 Practical Differences

Of course, these methodological differences in the way that free bankers and Market Monetarists view the processes that produce a stable flow of nominal spending wouldn’t be of much practical relevance if the two systems generated the exact same outcome. However, as other economists have noted in recent years, there are not only conceptual but substantive differences in the nominal spending that is generated by the two regimes.

Though Market Monetarists and free bankers generally agree on the desirability of having a monetary system that achieves a stable flow of spending, many scholars all too often gloss over the fact that there are in fact many different ways to measure total spending in an economy. One advantage of the free banking approach is that it tends to automatically stabilize the most comprehensive measure of nominal spending. As White (1999, p. 67f) notes, “[t]he turnover of its liabilities a bank must worry about is not only from spending on final goods and services, but from all transactions” [emphasis added]. In terms of the equation of exchange, \( MV_T = PT \), this is represented by the term \( V_T \), or transactions velocity of money. Free banking therefore tends to stabilize the total volume of nominal transactions, \( PT \), which can be viewed as the total amount of spending that is generated in the economy from all sales of goods and services, not just final sales.

Market Monetarists would presumably have the central bank target this broader measure of nominal spending precisely because it includes all spending, including intermediate transactions and a variety of other economic activities. However, as economists have long noted, it is exceedingly difficult to reliably measure the total number and value of all transactions in an economy. So instead they of this broader measure they substitute a variable that they can fairly easily derive: nominal spending on final goods and services. NGDP targeting thus aims to offset changes in the income velocity of money, \( V_y \), with changes in \( M \) in order to stabilize nominal spending on only final output, \( Py \). Unfortunately, since GDP only includes total income from final sales of goods and services, NGDP targeting fails to capture a large share of total economic activity (roughly two-thirds, by most estimates). This implies that real GDP might not be the most reliable proxy for total spending in the economy—especially when the public shifts its time preferences away from final goods and services by deciding to save more.\(^{12}\)

The free banking version of MV stabilization is most consistent with the constant MV norm that Friedrich A. Hayek (1935, pp. 123-131) supported in principle earlier in his career (see: White 1999b). Using Hayek’s analysis of the economy’s capital structure, free banking would allow banks to respond to, say, a decrease in the public’s time preferences (i.e. an increase in their savings rate) by intermediating their additional savings into productive investments. Since the outward shift in loanable funds provided by the public to banks would tend to put downward pressure on interest rates, these investments would tend to be more highly concentrated in intermediate and capital good expenditures in the earlier stages of production. Since this increased spending on intermediate goods is only captured in GDP after some delay as they move closer to the final stage, a free banking regime that stabilizes PT might necessitate a temporary but perfectly healthy decline in total spending on final goods and services, or \( Py \). An NGDP targeting regime, in contrast, wouldn’t permit any such decline in spending. It would instead inject more money into the system to stabilize the flow of final spending, thereby lowering the market interest rate below its natural rate and disrupting the capital structure. A well-functioning free banking system would therefore be more likely to avoid the sort of intertemporal discoordination that Hayek warned about in his business cycle theory.\(^{13}\)

Of course, this potential problem largely disappears if we assume that changes in transaction velocity are always
matched one for one by changes in income velocity. In this case, we can treat both regimes as tending to stabilize both measures of nominal spending (White 1999, p. 67f). Even so, Market Monetarists and free bankers might still clash on what the most desirable growth rate of NGDP should be. On one extreme, Hayek’s proposal to stabilize the “total stream of spending” would entail a zero percent NGDP growth rate, requiring annual deflation at approximately the rate of real output growth (1935, p. 131). On the other, Sumner has long argued that the Fed should target 5 percent annual NGDP growth to stay roughly on pace with its recent historical trend.

Most free bankers would likely prefer a rate somewhere in between these two extremes. Selgin (2009), for instance, has argued that Sumner’s 5 percent target rate is “unnecessarily and perhaps dangerously high.” But like Sumner, he fears that a perfectly stable NGDP like Hayek proposed would involve some harmful deflation—especially in a world where total factor growth is typically positive and where prices—particularly factor prices—tend to be “sticky.” His ideal rate, therefore, would be something closer to 2-3 percent in order to offset extensive or real factor growth, allowing for on average zero inflation and even mild deflation in times during times of intensive growth when productivity is rising.14 As Selgin (1997) notes, this idea that the price level should be allowed to move inversely to changes in productivity—rising in response to negative supply shocks and falling in response to positive supply shocks—has a long history in economic thought, particularly amongst scholars in the monetary equilibrium tradition. Indeed, the notion of a productivity norm is embedded in the very nature of a NGDP targeting regime. In such a system, any attempt to insulate the price level from changes in final output prices that stem from changes in firms’ per unit costs of production would cause total spending to rise above or below its target rate. In terms of the AS-AD framework, a productivity norm implies that monetary authorities should only attempt to offset shifts in AD but otherwise allow the price level to adjust in response to supply-side factors such as higher or lower rates of productivity (denoted by shifts in the SRAS and LRAS curves).15

Another benefit of free banking over NGDP targeting by a central bank is that it helps minimize the sort of “injection effects” that Austrian economists in particular stress. The eighteenth century economist Richard Cantillon (1755) famously elucidated how the way new money enters an economy has a ripple effect on the structure of relative prices (Lastrapes 2006). This observation has important implications for diagnosing the differences between the stable spending flow achieved by a free banking system relative to that of a central bank managed regime. Virtually any central bank that targets NGDP would tend to provide a far more unitary, top-down injection point for new funds than under free banking (Salter 2013). So while in theory it’s true that a central bank could approximate monetary equilibrium by providing enough liquidity to stabilize the flow of aggregate spending, in practice there’d be no guarantee the new money would swiftly enter the hands of the individuals who most urgently demand it.16 However, this is an impossible task for any NGDP targeting regime to achieve. Central bankers—no matter how intelligent or well-intentioned—lack the sort of localized knowledge that is required to inject money directly where it is in highest demand. Consequently, as new money slowly filters through the system the array of relative prices and patterns of resource allocation will differ from what they would’ve been under free banking—even if the two regimes stabilize nominal spending equally well (Salter 2013).17

When NGDP emerges in the institutional context of a free banking system, on the other hand, there is no need to rely on any sort of non-market entity or “top-heavy” operating structure to regulate how and when money is injected into an economy. Instead, individual banks provide the injection/absorption points for money (Salter 2013, p. 47). Private bankers can therefore take advantage of their localized knowledge to allocate funds to where they are most demanded in a way that no central bank—no matter how well equipped its staff or “market-driven” its monetary policy—could possibly emulate. A key reasons for this superior outcome is that private bankers are disciplined by profit and losses to make certain they supply the right amount of liquidity into the right hands. They are also disciplined by both profit and loss and interbank clearings signals to avoid squandering their customer’s savings or under or overissuing their liabilities. By in effect dispersing regulatory authority over the supply of money amongst a dense network of private agents, this sort of market regulation, or “private ordering,” serves as a stricter constraint on opportunistic behavior than any sort of externally imposed “public ordering” can possibly provide (Wagner 2010, p. 129). The pattern of economic activity that results from this private ordering is therefore much more likely to align with consumer preferences and have the desirable yet unintended effect of promoting macro stability.

Central bankers, on the other hand, since they are not residual claimants and since they enjoy a currency monop-
Arguably the greatest advantage of the stable NGDP achieved under free banking is that it is entirely market-generated. There is no need for a central bank or any non-market entity to play a heavy-handed role in managing the economy. In their role as money suppliers, private banks are responsible for providing a stable and reliable exchange media for the economy. In their role as financial intermediaries, they are compelled by market forces to use their specialized knowledge to efficiently allocate scarce capital amongst competing entrepreneurial visions. This sort of savings-led cycle lies at the heart of what Roger Garrison (2001) calls the process of “sustainable growth.”

This analysis of the relative benefits of free banking therefore has broader implications for how we understand the causal role that monetary institutions play in promoting economic growth and prosperity. Many economists have argued that financial liberalization plays a critical role in accelerating economic growth and development. One of the cardinal virtues of a free banking system noted as early as Adam Smith (1776) is that it maximizes the amount of loanable funds at the disposal of private banks. In the professional jargon, free(r) banking systems contribute to financial deepening, defined as the ratio of private bank liabilities to GDP. When banks are free to supply all types of circulating money, they are able to use their specialized knowledge to more efficiently intermediate the public’s savings into loans and productive investments.

This beneficial effect is diminished when central banks monopolized a large share of the public’s money holdings—as they would if central banks merely switched to targeting NGDP without relinquishing their currency monopoly. Central banks tend to be relatively inefficient intermediaries of the public’s savings. In the “sustainable growth” example given above it’s important to note that in a free banking system, banks can expand their lending activities no matter what form of money the public desires to hold its wealth in. This would not be the case for central banking regimes in most countries, regardless of whether they targeted NGDP. In these cases, if the rise in savings came in the form of an increase in the public’s demand for hard-to-hard currency (a high powered, or reserve, form of money) relative to checkable deposits, the central bank is required to increase the supply of base money to prevent an “internal drain” of reserves and thereby maintain monetary equilibrium. Maintaining monetary equilibrium in a free banking system absent these legal restrictions, in contrast, does not require an omniscient central bank. Rather, it arises naturally through the actions of private bankers.

This analysis hopefully also serves to clarify the true relationship between stable NGDP and economic prosperity. By focusing on macro-level aggregates like the level of NGDP, it’s easy for Market Monetarists to slip into implying that having central banks stabilize the growth path of NGDP is sufficient for ensuring economic prosperity. What they neglect—and what free bankers admirably bring to the fore—is that the composition, or quality, of NGDP at any given moment matters much for economic prosperity than its nominal quantity. Free bankers do a far better job of stressing this point because their analysis places a strong emphasis on the importance of political and monetary institutions and the micro-level processes that help comprise a given level of NGDP.

The free banking approach is therefore much more firmly rooted in sound economic theory about the real factors that contribute to economic growth and prosperity. New Institutional economists have long argued that economic prosperity is primarily a function of institutional frameworks that protects private property, contracts, and the rule of law (Coase 1960; Alchian 1961 [2006]; Demsetz 1967; North 1990). Conveniently, this constitutional foundation is all that is needed for free banking to flourish (Horwitz 2011; Salter 2013, 2014). It’s true that one desirable consequence of a free banking system is that it tends to stabilize the flow of spending. However, we should avoid confusing cause and effect: the stable NGDP produced by a free banking system is not itself the cause of economic prosperity; rather, it is an effect of the underlying rules and institutions that foster free banking. Salter (2013, p. 46) summarizes this insight nicely:
The important point here is the constitutional framework of society that results in an environment where individuals, acting on the basis of their localized knowledge, pursue their self-perceived interest by behaving in a manner that results in money approach neutrality at the macro level. In this scenario, stable nominal spending is not the cause of economic prosperity; it is the consequence of the same institutions that produce prosperity [emphasis added].

V. ROOM FOR RECONCILIATION? MERGING NGDP TARGETING AND FREE BANKING

In the previous section, I outlined some of the major reasons why the free banking approach to stabilizing the flow (or growth rate) of nominal spending in the economy was superior to the Market Monetarists approach both in theory and in practice. These distinctions are especially vital to bear in mind when we engage in comparative analysis and ask which of the two approaches is better suited to achieve both schools’ desired ends: maintaining monetary equilibrium.

Although both theory and history suggests that moving towards a free banking system would confer considerable economic benefits, proposals for free banking are widely viewed as being far more radical than the proposals made by Market Monetarists. Scholars who have studied free banking episodes have done extensive work to combat the most common myths about the alleged perils of these lightly regulated systems. As noted earlier, they have shown that contrary to the concern that it would lead the emergence of banking monopolies and cartels, free banking systems showed no tendency towards anti-competitive behavior or concentration (Dowd 1993; Schuler 2002). They have also extensively shown that historical free banking systems like the ones in 18th and early 19th century Scotland and 19th century Canada were markedly more stable and robust than their more highly regulated counterparts in England and the United States, suffering from far fewer bank failures. Even in the rare instances where bank failures occurred, like the failure of the Ayr Bank in Scotland in 1772, no financial contagion ensued, and the spillover effects on the rest of the banking system were very minimal (Goodspeed 2011). Indeed, free banking scholars argue these systems enjoyed such great stability not in spite of but because of the absence of repressive regulations and moral hazard inducing deposit insurance or lender of last resort schemes sponsored by the government. Despite these efforts, most economists today would nevertheless maintain that the idea of an unregulated monetary and financial system remains too risky, too heterodox, and too politically unpalatable to warrant serious consideration.

Luckily, there are many areas where scholars with sympathies for free banking and/or a rules-based monetary regime can join forces to promote practical reforms that help further their shared goal of having a more stable, market-oriented monetary system. Indeed, I maintain that elements of free banking and NGDP targeting can and should be viewed—not as competing alternatives—but as complementary steps towards reform.

Perhaps the most notable drawback of a free banking system without any sort of central bank capable of making the supply of base (or “outside”) money perfectly elastic is that it would potentially be vulnerable to excessive bouts of inflation or deflation stemming from unexpected shocks to either the supply of or demand for the underlying form of money that banks hold as reserves for their outstanding monetary liabilities. For instance, suppose a fractional reserve free banking system operating on a gold or silver standard (which was historically the most common case) experienced a sudden and unexpected increase in the demand for gold or silver.27 Since gold and silver specie serve as a form of reserve, or “high-powered,” money in such a system, any sudden rush on these reserve assets—the ultimate form of redemption and, hence, most liquid form of money in the economy—would force banks to contract their balance sheets and call in their outstanding loans and security purchases. This, in turn, would reduce the supply of liquid funds available to investors, thereby putting a significant damper on investment spending. In the absence of swift international inflows of specie under a commodity-based free banking system or some sort of domestic or international lender of last resort, these shocks could cause NGDP to plummet and result in a fairly prolonged economic downturn. If such monetary shocks were fairly common, a free banking system could in theory be less stable than one with a central bank that targets NGDP or inflation.

Most free banking scholars acknowledge that this sort of perverse monetary shock is at least possible in a free banking system—particularly one based on a commodity standard or frozen stock of fiat money reserves, as we assumed earlier, where the supply of money is relatively inelastic at least in the short run. Nevertheless, they maintain that the historical episodes of free banking systems indicate that such negative shocks were virtually non-existent. In fact,
the most common cause of such liquidity crises stemmed from either a sudden *contraction* of money and credit by the central bank, as occurred in the United States and many other countries whose central banks violated the implicit “rules of the game” of the gold-exchange standard in the early stages of the Great Depression (Johnson 1997), or from a previous *over-expansion* of credit initiated by central banks that resulted in reserves flowing out of the country, as David Hume explained in his price-specie flow mechanism (Hume 1752). These central bank-induced “boom-bust” cycles were characteristic of many of the financial panics in 19th century Britain and even the collapse of the Bretton Woods system in 1971 (Bagehot 1873).

Even in the rare theoretical case where such an increase in the demand for outside money occurred in the absence of destabilizing central bank or government policies, it is perfectly conceivable that a free banking system that emerged from of our current fiat money system could avoid these potential problems by having the central bank or whatever remained of the former monetary authority adopt some sort of demand-elastic money growth rule that would allow it to adjust the supply of the basic reserve media to accommodate changes in the public’s demand. Given the complications with returning to any sort of non-flat standard such as the classical gold standard following decades where gold has been demonetized by central banks around the world, this is precisely the sort of reform that many prominent free banking scholars propose today. In light of this, the debate today largely centers on the question: what would be the optimal money growth rule for the supply of base money under a fiat-backed free banking system?

The free banking scholar who has dedicated the most time to this question is George Selgin. In the closing chapter of *The Theory of Free Banking* (1988b), Selgin argued that the simplest and least costly path towards a free banking system given the current state of monetary and financial systems would be for the central bank, prior to closing up shop for good, to freeze the stock of basic (fiat) money and for the government to implement the extensive banking deregulations that are outlined throughout his book. In light of new theoretical and technological developments over the past few decades, however, Selgin has updated his ideal proposals for monetary reform. Today, he argues that the best first step away from having a discretionary central bank and towards a more free banking system would be to have central banks—to the extent they exist at all—adopt some strict rule directing its conduct of monetary policy.

Although there are many rules that would be superior to unbridled discretion, Selgin stresses that his ideal rule for monetary policy would be one that would secure a stable flow (or growth rate) of nominal spending in the economy, just as would tend to occur naturally in a well-functioning free banking system. In practice, he argues that this would mean adopting some sort of NGDP targeting rule where the supply of base money adjust only to changes in money demand and to offset extensive growth in the economy’s factors of production. In his 2009 article “Between Fulsomeness and Pettifoggery: A Reply to Sumner,” he explicitly aligns himself with Scott Sumner and other Market Monetarists’ arguments for why targeting the flow of NGDP growth is a far better indicator of the stance of monetary policy than focusing solely on interest rates, inflation, unemployment, or any combination of these macroeconomic measures. He writes:

Like [Scott Sumner], I believe that monetary policy should strive, not to achieve any particular values of interest rates, employment, or inflation, but simply to maintain a steady growth rate of overall nominal spending. Such a policy seems to me, after all, the most straightforward, practical counterpart of the textbook ideal of keeping an economy’s “aggregate demand schedule” from shifting, or at least from shifting in an unpredictable manner, so as to keep output at its long-run or “natural” value... [Emphasis Added]

Although it would certainly be possible for central banks to explicitly target NGDP growth rate, Selgin (and, to some degree, Sumner) argues that thanks to technological innovations it would be entirely feasible today to entirely replace the FOMC and the Board of Governors role in conducting monetary policy with a simple computer algorithm or protocol designed to adjust the money supply so as to maintain a target level of total spending. In his article “Synthetic Commodity Money” (2009), Selgin outlines in detail how such a modern manifestation of Milton Friedman’s “k percent rule” might be designed today to target NGDP growth or some other money growth rule in light of more recent innovation in computer technology. Indeed, Selgin derived his idea from innovations in block chain technology that allow crypto-currencies like bitcoin to grow at a perfectly predictable predetermined rate. Sumner’s proposal for establishing an NGDP futures market where market actors help determine the growth rate of the money supply based on their forward-looking expectations of NGDP provides
yet another example of how the money supply could be determined without any hint of central bank discretion. A major benefit of having the money supply governed by such an automatic protocol, Selgin (2015b) contends, is that in the same way driverless cars are expected to largely eliminate the vast majority of accidents that are attributable to human error, “driverless money” would go a long way towards eliminating the economic fluctuations that could be attributed to monetary malpractice on the part of central bankers.

Both Market Monetarists and free bankers would agree on the virtues of moving away from our current discretionary monetary regime and towards a rules-based regime. Nevertheless, we will not reap the full benefits of financial liberalization until additional deregulations such as the ones outlined in free banking theory are enacted that give banks more freedom to offer both currency and deposit liabilities, set their reserve and capital requirements, and remove the pernicious incentives that are created by government deposit insurance and the policy of “too big to fail.” Even still, transitioning to a rules-based regime remains a critical first step towards achieving the shared goal of both Market Monetarists and free bankers: having a market-oriented money and banking system.

VI. CONCLUSION

Although I’ve endorsed the theoretical approach taken by the free banking school in this article, one of the most important implications of my analysis is that there are many margins of policy reform that both free bankers and Market Monetarists can join forces on. The most important first step would be to eliminate central bank discretion and instead have the monetary authority adopt some sort of strict rule governing the behavior of the money supply, preferably one that targets some reasonable growth rate of NGDP. However, once this step is taken it is very likely that free bankers could convince Market Monetarists and perhaps others of the virtues of further banking deregulation and movements in the direction of free banking. Such a series of reform would serve not only to create a more stable and predictable environment for monetary policy but also help create a more robust banking system that could, in turn, contribute to more rapid and sustainable economic growth and development.

NOTES


3 It is worth noting that the MS schedule in Figure 1 need not be vertical if the central bank is determined to maintain some particular price level. In this case, the MS schedule would technically be horizontal.

4 It is worth noting that an increase in the demand for money that is not met by a corresponding change in the supply of money does not necessarily imply a decrease in the demand for present consumption goods. A higher demand for real money balances can be accommodated either by a decrease in the demand for present consumption goods or by a decrease in the demand to hold bonds relative to cash.

5 In fact, many economists in the monetary equilibrium tradition have argued that Say’s law—the notion that production is the source of demand in an economy or, as Keynes (1936 [1973]) crudely put it, “supply creates its own demand”—finds its most accurate expression in monetary equilibrium (Sechrest 1993, p. 49ff; Horwitz 2000, p. 86; Leijonhufvud 1981, ch. 5). This is because when monetary equilibrium holds, the banking system has effectively done its job of translating ‘potential productivity’ into ‘effective demand’ at the intersection of aggregate supply and aggregate demand.


7 It is worth noting that the question of whether or not banks engage in pure financial intermediation or artificial credit creation when they hold fractional reserves and expand their issuance of fiduciary media (that is, notes or deposit liabilities that function as money and are not fully backed by outside money reserves) in response to a change in the public’s
liquidity preferences has been hotly contested, particularly from some economists in the Austrian tradition. Citing the work of authors like Murray N. Rothbard, Hernando de Soto, Hans Herman Hoppe, Guido Hülsmann, and Walter Block, Cochrane et al. (1999) argue that the money creation that occurs under a fractional reserve banking system constitutes a form of “credit creation.” As such, it causes the Wicksellian natural rate to fall below the market rate of interest, setting the stage for the Austrian business cycle. In contrast, both free bankers and Market Monetarists, working in the monetary disequilibrium tradition, view fractional reserve banking as a form of financial intermediation. The ability of private banks to adjust their composition of monetary liabilities in response to their customer’s demand is not only legally permissible but absolutely critical to both maintaining monetary and loanable funds market equilibrium. As Selgin (1988b, p. 60) explains, private banks do not “create” credit by expanding their issue of inside money when the public demands to hold more of their wealth in the form of inside money balances; rather, by abstaining from spending they “transfer” credit to the private banks, which can use these savings as the basis for issuing more loans for investments. Although this disagreement about whether the public’s holding of inside money balances constitutes a form of saving (where money balances are viewed as claims to future goods) or a form of dissaving (where money is viewed as a present good) has sparked vigorous debate, it is ultimately beyond the purview of this paper because the two camps I address here—the free banking school and Market Monetarists—agree on the financial intermediation view, arguing that the public’s holdings of money constitute a form of saving. For a detailed overview of this debate, see Selgin and White (1996).

In Monetary Theory and the Trade Cycle (1933), Hayek famously argued that the private banking system could itself cause an investment boom independent of any errors by the central bank by issuing too much credit in response to a larger demand for credit that stemmed, for instance, from more efficient production methods or new innovations. He argued that during the “upward phase of the cycle” when loan demand increases, “the risks of borrowing are less; and therefore a smaller cash reserve may suffice to provide the same degree of security.” As a result, banks might hold the market interest rate below the now-higher natural level, thereby stimulating an investment boom. However, White (1999b, p. 757) notes that Hayek’s argument here is based on “confusion between two very different types of reserves.” A reduction in cash reserves, White argues, can indeed finance an expansion of loans, an alternative asset category. However, “a bank does not hold cash reserves against the risk of borrower default (which is what Hayek appears to mean by “the risks of borrowing”)…it holds them against the risk of adverse clearings and other redemption demands. Reduction in the risk of borrower default allows a bank to reduce its loan loss reserves, which are not an asset but a subset of the book value of equity” [emphasis added]. White concludes that a reduction in loan loss reserves is therefore not a source of financing for new loans and so does stimulate an investment boom as Hayek suggests. Even in the case where more productive production methods increase firms’ demand for credit, banks will still be forced to ration their scarce supply of credit by raising interest rates because, given that these firms demand credit to spend on factors of production, any unwarranted expansion of credit would result in a higher flow of claims against the bank in the interbank clearing market. These adverse clearings would hence compel banks to rein in any excess supply of money and credit by increasing interest rates. For more on this “interest rate brake”, see White 1999c.

This “bottom up” perspective is more consistent with the evolutionary, non-equilibrium theorizing of Lachmann (1973), Potts (2000), De Grauwe (2010), Wagner (2010, 2012), and Bilo & Wagner (2012).

Wagner (2012, p. 434) discusses this second way of theorizing about the relationship between macro and micro entities in more detail, arguing that: “[m]acro phenomena emerge out of…interactions among micro units within the ecology of plans that constitute an economy.” He also distinguishes “primitive” variables, like micro-level plans and interactions, from their “derived” macro-level variables, like total spending.

A key virtue of this “emergent” approach to macro-theorizing, Wagner notes, is that it connects praxeology (which is the source of individual plans) to catallaxy (which brings these plans together into an ecology of plans). Since macroeconomic phenomena are products of spontaneous emergence and not products of individual choice, Wagner (2010, p. 145) argues, there can be no choice-theoretic foundations for macro-theory. This notion runs contrary to the Market
Monetarist approach, which treats NGDP as a choice variable for the central bank. However, it is entirely consistent with the free banking approach, which treats the catallactic phenomenon of total spending as emerging from the deliberate choices and actions of individuals acting at the level of praxeology.

12 Elsewhere, Cachanosky (2014) has noted that because Market Monetarists and free bankers often rely on these two different versions of the quantity theory, they in fact tend to stabilize two different measures of nominal spending. It is an open question, he concludes, as to whether Py (nominal income from final sales, or NGDP) or PT (nominal income from all transactions) is a better proxy for monetary equilibrium.

13 Any nominal spending targeting regime that seeks to most closely replicate the outcome of a free banking system would therefore have to target a measure like Gross Output (GO) that comprises both intermediate and final goods expenditures (Skousen 1990).

14 Selgin (1997, pp. 64-69) outlines his support for a labor or total factor productivity norm version of NGDP targeting. Such a policy would, in effect, serve to stabilize nominal factor payments. In allowing the supply of base money and NGDP growth path to fluctuate to allow for changes in “extensive” factors of production (such as, say, an increase in the labor force), this type of rule would most closely proxy the supply schedule for monetary gold under an ideal gold standard than his earlier proposal to permanently freeze the monetary base, which would likely require some “undesirable” deflation as real factors rose.

15 Though he worries that we’re “not ready for deflation yet,” Sumner (2009) largely accepts Selgin’s theoretical case for a productivity norm. He argues for a more gradual four step reform before we can safely settle on a “mild deflation productivity norm.” So even though the NGDP variation between the two extremes is nontrivial, it’s at least conceivable that all sides might converge towards a consensus on an ideal growth rate.

16 This is especially critical in the real world where the demand for money is non-uniform. As Veetil and Wagner (2015, p. 14) argue, monetary equilibrium doesn’t merely require an aggregate equality between the supply of and demand for money; it also requires that equality hold for each individual in the system.

17 Wagner (2010, p. 148) summarizes this point in his discussion of the non-neutral effects of money injections when he argues that these effects do not necessarily show up in any kind of aggregate magnitude, but rather through “changes in the structural pattern of economic activity.”

18 For more on the Fed’s poor track record of adhering to sound operating principles and avoiding political influence, see: Selgin (2012), Hogan, et al. (2015), and Boettke and Smith (2014).

19 To put it differently, monetary equilibrium is better maintained in a free banking system in large part because of its polycentric governance structure, which allows the supply of money to be controlled by a decentralized network of functionally independent banks instead of the monocentric order characterized by central banking (Salter & Tarko 2015).

20 In his Nobel address, “The Pretence of Knowledge” (1989), Hayek warned of the follies of what he called ‘scientism.’ In the realm of economics, this meant treating the complex phenomena that are the objects of study in the social sciences as if they could easily be measured and manipulated like the simpler objects of inquiry in the natural sciences. He specifically cited the profession’s obsession with identifying quantifiable aggregates like aggregate demand and trying to manage them as a perilous symptom of this fallacious way of thinking. True appreciation of the market process, he argued, required appreciating the key role relative prices play in guiding incentives and communicating dispersed knowledge.


22 For a more detailed analysis of the critical role monetary institutions play in mobilizing society’s savings into productive investments, see Schumpeter (1911 [1982]), King and Levine (1993b), and Bertocco (2007).

23 The relative inefficiency of relying on governments or central banks over private sector intermediation is also noted by King & Levine 1993a,b; Levine 1997; Sullivan 2002; Williamson 2002.

24 As Selgin and Lastrapes (2012) show, the positive growth effects of allowing competing note issue are
especially prominent in less developed countries that have suffered from high rates of financial repression.  


26 In his article "Not all NGDP is created equal," Alex Salter (2013) warns that although both NGDP targeting and free banking tend to achieve stable NGDP, the process that generates this flow of spending is critical. Using this process-oriented approach, he shows that the composition, or quality, of economic activity can differ between two regimes that both stabilize NGDP. He therefore rejects the notion that free banking and NGDP targeting are merely two interchangeable technologies for achieving the same outcome.

27 Earlier in his career, Friedman (1951) famously argued that the resource costs that would be required to maintain a gold standard would consume roughly 2.5 percent of GDP annually. This was one of his major reasons for supporting central banks and fiat money. However, White (1999, pp. 43-49) rebuts Friedman’s claims by showing that by ignoring the historical evidence and assuming 100 percent reserve system drastically overstates the resource costs of a gold standard by a factor of 100. Friedman later recanted his earlier estimate of the resource costs of the gold standard and acknowledged that given the poor track record that central banks and governments have with fiat money, it is entirely plausible a commodity standard would be less costly. Even if the resource costs are nontrivial under a commodity-based free banking system, it is far more likely any future free banking system would adopt the existing fiat standard.

28 Selgin (1988b) argues that many of the financial panics that the United States experienced in the late 19th and early 20th century were attributable to government restrictions and interventions under the National Banking System that prevented banks from branching and issuing their own paper currency without first purchasing a dwindling supply of federal government debts as backing for their note issue. Although the Fed was created to remedy these crises by furnishing an “elastic currency,” he also maintains that it was the Fed’s refusal to accommodate the liquidity rush in the early stages of the Great Contraction that set the stage for the Great Depression. For more information, see Selgin (1992, 1994).

29 Elsewhere, Selgin (2009) clarifies that he considers “final sales of domestic product” to be a better measure of overall demand than nominal GDP, but concedes this is a relatively minor point in the grand scheme of things because the two measures are closely related. With the BEA starting to report “gross output” back in 2013, some might be drawn to stabilizing that broader measure of spending for the reasons outlined above.

30 As noted earlier, it is entirely possible that scholars—particularly those who are influenced by Austrian business cycle theory and free banking theory—might prefer to have a money growth protocol aimed at stabilizing a broader measure of total spending. As Mark Skousen (2013) argues, the BEA’s new measure of “Gross Output,” which includes total spending on both intermediate (producer) and final (consumer) goods would be preferable to simply targeting total spending on final goods and services, or NGDP.

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Liberty in Education: an application of Hayek and Humboldt’s perspectives

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Abstract: This paper analyses the concept of freedom as developed by Friedrich Hayek and Wilhelm von Humboldt and examines its practical application to the specific area of education policy. To respect the spontaneous character of social orders, both authors take the view that the organization of a national education system should not be monopolized by the centralized state. By way of an alternative, different schools should be allowed to emerge and to address the different needs of children. Within this context, this paper argues that the school choice principle seems to be the most adequate to assure that personal liberty is respected when the government performs its necessary activities through its institutions.

Keywords: Hayek, Humboldt, education, state, spontaneous order.

Despite the lukewarm reception it garnered when it was first published, Hayek’s *The Constitution of Liberty* (CL) has long since come to be established as a major classic. Taking wing from the argument presented in *The Road to Serfdom*—i.e. a warning that the violations of individual freedom and the onset of despotism can come as a consequence of misguided central planning—Hayek articulates the form of government intervention that is most compatible with a free society.

According to Hamowy, the editor of the last version of CL, “what he attempts is nothing less than laying bare the political machinery necessary for a free society, treated in both its historical and philosophical dimensions” (Hayek 2011, p. 5). Hayek thoroughly investigates the nature of this kind of society, whose main characteristics result from the application of specific principles and values. Starting from more abstract considerations about the value of freedom and about its relation to other values such as tradition, reason, responsibility and equality, Hayek draws conclusions about the practical application of the value on actual policy options afforded by the welfare state. The main objective of this paper is to look to the practical application of this principle of freedom in the area of educational policy.

However, the concept of liberty as set out by Hayek is recognised by many as being somewhat problematic for the damaging effects it can produce in terms of individual rights. Taking these considerations into account, an alternative account is advanced by Wilhelm von Humboldt, who was considered by Hayek as “Germany’s greatest philosopher of freedom”. In his work *The Limits of State Action* (1854), Humboldt set out to discover “the legitimate objects to which the energies of state organizations should be directed” or, in other words, the limits that should guide the operations of government so that it can be restrained within its own legitimate sphere of operations. At the same time, he praises the intrinsic value of liberty and how it is essential for the proper development of the individual, thereby justifying the limitations of state interference. Starting from the idea that the “highest end” of individual man is the greatest development of one’s own capacities, Humboldt proceeds with an extensive analysis of the different areas of state intervention—which he refers to as “the solicitude of the state”—bringing to light the harmful effects to individual liberty.

The question of how to assure that personal liberty is respected when government is performing its necessary activities through its institutions is the main concern of both Hayek and Humboldt and also the focus of this paper. After exploring what freedom means for Hayek and Humboldt, and after explaining the theoretical framework that is considered the only way possible to have government intervention compatible with the respect for individual liberty, we will discuss the practical application of the principle of liberty in the domain of education. Given the deep impact that education has on the citizenry, it is vital to be aware of the consequences of having an educational system entirely dependent on central organization.
I. THE CONCEPT OF LIBERTY

Liberty is defined as the prime value that determines a free society. By way of a first definition, Hayek affirms that a state of liberty is the one where “coercion of some by others is reduced as much as is possible in society” (2011, p. 57). Consequently, there are two main characteristics that assist in complementing the notion of liberty. The first concerns the practical application of the concept; a policy of liberty will be the one that “minimizes coercion or its harmful effects, even if it cannot eliminate it completely” (2011, p. 59). The second characteristic of this notion of liberty is that it always involves interpersonal relations, a violation of which will always correspond to coercion exercised by another agent.

By emphasizing this aspect, Hayek intends to clarify this often poorly understood concept: liberty is not coextensive with the set of real possibilities from which it is possible to choose. Hayek writes: “In this sense “freedom” refers solely to a relation of men to other men, and the only infringement on it is coercion by men” (2011, p. 60). As such, to be free is not determined by the range of choice but by the possibility of choosing according to one’s own preferences and intentions, without anyone having the power to manipulate the course of action that will assure that person’s own satisfaction. The possibility of defining the most preferred action without being subjected to any exterior and arbitrary will is possible because to be free corresponds with having “some assured private sphere”, within which each person’s decisions are sovereign and within which no one else can interfere (2011, p. 61).

The definition of liberty as put forward by Hayek, as he himself recognises, is very close to the original meaning of the word, which emerges from the distinction between free men and non-free men or slaves. Since ancient times, being not free always meant to have to act, often arbitrarily. To be free then consisted in being free from “the independence of the arbitrary will of another” (2011, p. 59).

“Liberty may be desirable, even though not all persons may take advantage of it” (2011, p. 68). As such, in many cases the benefits of freedom do not correspond to visible opportunities recognised by everyone as favourable effects, but rather to the imposition of a certain discipline in acting according to one’s own choices that may be considered more an obligation than an advantage. Hayek writes: “liberty does not mean all good things or the absence of all evils. It is true that to be free may mean freedom to starve, to make costly mistakes, or to run mortal risks” (2011, pp. 68-69). To better understand this possibility it may be useful to consider certain religious orders whose members are cloistered and dedicate most of their day to prayers, or orders where fasting is a common practice. In such cases, provided these individuals have not been forced to follow such a way of life, it is not possible to affirm that either there is not freedom or that such ways of life should be forbidden in a free society. Following this rationale, coercion should be thus be understood as the elimination of free action, a function of individual exercise of intellect and knowledge. In other words, coercion corresponds to situations in which the individual is forced to act according to the purposes and intents of another rather than one’s own.

After analysing the meaning and main characteristics of the concept of liberty, the foundation of a truly free society, Hayek analyses the emergence of the value and the different interpretations of ‘freedom’ made by different theorists.

Liberty, Hayek posits, did not emerge by human design, even though it is an “artifact of civilization” and attributable to the state of nature. Institutions of liberty and all their creations were not implemented a priori regarding the advantages they would bring. Nevertheless, when the benefits of those institutions started to be recognised, and with the expansion of this “reign of liberty”, people began to examine the details of how these free societies operate.

Within this context, two main expressions of liberty were developed: one emerged in England and Scotland and the other in France. According to Hayek, these two theories were fundamentally different: the former is characterised as being “empirical and unsystematic”, the later is considered “speculative and rationalistic”. Moreover, the theory of liberty that emerged in England and Scotland understood traditions and institutions as the result of spontaneous growth, of interaction, and about which our knowledge is necessarily imperfect. This outlook was mainly associated with the Scottish Enlightenment of David Hume and Adam Smith but also to a degree included Irishman Edmund Burke. On the other hand, the tradition of liberty originating in France considered that the powers of human reason were unlimited, being thus possible for a utopian state to be achieved. Even though it was “an attempt to interpret British institutions” (2011, p. 109), the French tradition ended up having greater influence during the mid-twentieth century, perhaps due to its emotional/rationalistic appeal to perfectability and human pride.

One of the most evident differentiating characteristics of these two traditions consists in the understanding of the
essence of liberty, and what is considered to be the role of liberty in the evolution and operation of the social order. Hayek invokes J. L. Talmon to better clarify this distinction: "One finds the essence of freedom in spontaneity and the absence of coercion, the other believes it to be realized only in the pursuit and attainment of an absolute collective purpose". Moreover, the British tradition of liberty connotes “organic, slow, half-conscious growth” and for “trial and error procedure”, while the French tradition of liberty stands for “doctrinaire deliberateness” and for “an enforced solely valid pattern” (2011, p. 111).

Given the alternatives, Hayek is emphatic in concluding that the British tradition of liberty establishes the foundations of a theory that is "profound and essentially valid" whereas the French tradition puts forward a vision that is “completely wrong” (2011, p. 112). The validity of the interpretation of British philosophers is so profound that it can actually be traced back to ancient Greek and Roman civilizations. Both Athens and Rome attained success due to the accumulated experience of many men and of many generations, allowing for successful laws, institutions and traditions to persist for general convenience and not due to the decisions of a rationalistic mind set. A multitude of actions whose objectives were frequently not very clear, ceded origin to institutions with specific purposes according to their own needs. In this context, social order emerged as “the result of adaptive evolution”, not being a deliberate product of a “higher, supernatural intelligence” (2011, p. 115). Social evolution thus happens through successive learning processes of trial and error and of imitation of the most convenient practices: “institutions whose significance we might discover by analysis but which will also serve men's ends without men's understanding them” (2011, p. 118). The evolution of the social order is not the outcome of intellectual or moral attributes inherited by men, and for this reason it is not possible to shape civilization as they see fit. Hayek sums it up: “For in social evolution, the decisive factor is not the selection of the physical and inheritable properties of the individuals but the selection by imitation of successful institutions and habits” (ibid.). This “evolutionist” British tradition of liberty is very close to the Christian tradition of human imperfection and fallibility, the idea being that intelligence is limited by one's inclination to sin—precisely the opposite is contended by the rationalist tradition.

Therefore, the fundamental difference between both traditions of liberty can be found, Hayek asserts, on the interpretation of the importance of traditions and other cultural products that emerged without previous deliberation. This distinction is emphasized by Hayek, who clearly affirms that rationalists will end up becoming “enemies of freedom” for not being able to conceive of the existence of institutions that serve human purposes but that were neither consciously planned nor deliberately implemented. However paradoxical it may seem, Hayek notes that the true and free society will always be a “tradition-bound society” with a strong connection to the experience of different generations and to the spontaneous growth of certain socio-cultural habits.

The elements constituting accumulated knowledge and inherited experience of past generations include not only institutions, habits and even tools, but also the rules of conduct “which have grown as part of it, which are both a product and a condition of freedom” (2011, p. 123). These types of rules allow for establishing a behaviour pattern that brings some regularity to the action of men, despite the absence of commands or coercion that determine that same action. Hayek goes a little further in this argument and explains that the general and voluntary observation of these rules of conduct will actually result in the establishment of a certain social order, and that therefore it is not necessary to coercively impose rules. Nevertheless, it is also very important for these rules of conduct to have a certain certain level of flexibility going to be used by individuals to test them and even to break them. Occasionally, these attempts are going to lead to changes and improvements, demonstrating the mechanism through which civilization progresses.

Nonetheless, Hayek emphasizes that his argument in defence of the British tradition of liberty does not intend to be an absolutely devastating critique of reason. “Reason undoubtedly is man’s most precious possession” (2011, p. 130), but he adds that this is precisely the motive that underlies the necessity of avoiding its abusive application. Reason must thus be used in combination with intelligence and some control essential to understanding the extent of the complexity of society and also that its healthy functioning is the result of the interaction of forces that are mostly unknown. For this reason and also because it is impossible to predict all the consequences of human interventions, any effort made to improve the social order should happen incrementally, thereby respecting the accumulated experience and knowledge.

As previously mentioned, despite having made a most salient contribution to the debate, the concept of freedom put forward by Hayek was not unanimously accepted and
gave rise to a protracted debate between Hayek and his critics, about whom we can only make brief mention. Ronald Hamowy (1981) was one of the authors who unpacked the concept and found that, although it defines a limited private area where the individual is sovereign, it may not be enough to assure that private liberty is fully respected by society. Hamowy, the editor of CL, later argued that to have freedom defined simply as the absence of coercion may be “fundamentally incompatible” with what is the best of the tradition of libertarianism.

According to Hamowy, this definition poses a difficulty in the lack of clarity in the distinction between coercive and non-coercive acts. Hayek describes the former as being the rendering of those services that are not crucial for the existence of an individual or for the preservation of that which the individual most values. However, the precise meaning of the concepts “crucial to the existence” and “preservation of what is most valued” leaves broad scope for including a number of situations in this definition of coercion that may make little sense. Moreover, these same difficulties remain when the question of coercion is analysed under the perspective of state intervention, where freedom is to act under abstract and general rules equally applicable to all, without any form of discrimination—this form of governance is commonly called the Rule of Law. Within this context, Hayek considers that both taxation and conscription may not be seen as acts of coercion, since “they are predictable and enforced irrespective of how the individual would otherwise employ his energies” (2011, p. 210).

For Hamowy and other critics of this conception of freedom, this is precisely that which is most problematic in Hayek’s failure to clearly distinguish between coercive and non-coercive acts. It gives numerous opportunities for interference in the individual lives of each member of society, including the potential for basic rights to be violated. According to Hamowy (1981) “it would be just as consistent, within a free society governed by the Rule of Law, to interfere with many of our most basic freedoms ... provided such laws are applicable to all without distinction”. Faced with these critiques, Hayek promptly clarified some points he considered were misinterpreted. According to him, the first is related to the primary concern of the thesis of CL, which was not how to completely eliminate coercion but how to reduce it as much as possible. Hayek asserts that “to prevent people from coercing others is to coerce them”, a minimum level of coercion is always needed. In grasping the difference between coercive and noncoercive acts an act of coercion always leaves the coerced person in a position that is worse than the position previously held. On the contrary, if a change in the environment of a person adds to his own range of choice, then it cannot be considered an act of coercion. Lastly, the boundaries of the concept are better clarified by Hayek when he emphasizes that the government is only allowed to exercise coercion to prevent coercion in those cases required by general rules, which are “known beforehand” and that are “equally applicable to all”. With these three main points, Hayek attempts to refute his critics by rejecting the idea that his analysis of coercion opens the door to numerous violations of the private sphere by government.

Bearing in mind the ambiguities and the limitations of the concept of liberty and the misinterpretation of coercion it would be useful to look for an alternative concept of freedom. Following Hayek’s lead, we now turn our attention to the German philosopher Wilhelm von Humboldt.

The concept of freedom is defined by Humboldt in The Limits of State Action (1854) as being simply “the possibility of a various and indefinite activity” (p. 4), which is fundamentally associated with the individual and with his respective peculiarities. Henceforth, higher levels of freedom can only be achieved, according to Humboldt, where there is corresponding progress in civilizational results from the interaction amongst an increasing variety of individual resources and capacities. Nonetheless, when taking into consideration the history of political organizations, it becomes clear that the freedom of citizens has often been limited either for reasons related to “the necessity of organizing or securing the constitution” or for reasons related to “the expediency of providing for the moral and physical condition of the nation” (1854, p. 6). It is for this reason, Humboldt concludes, there is an important correlation between the freedom of private life and public freedom, with one always increasing in exact proportion as the other declines, the causes and consequences of which need to be further analysed.

Liberty is an essential precondition for personal growth that permits the development of one’s own capacities and singular characteristics and that ultimately results in “the decreasing necessity of acting in large, compacted masses” (1854, p. 5). For Humboldt, the “true end of man” is precisely this process of self-cultivation and self-realization, “the highest and most harmonious development of his powers to a complete and consistent whole” (1854, p. 12). An end that can only be achieved within society since that
this individual potential can only be realized when citizens freely relate to or cooperate with other fellow citizens. These free interactions benefit not only the individual, who becomes more valuable to himself for being able to live a satisfying life, but also the society as a whole, because others can take advantage of and learn from each one's unique talents.

Nonetheless, for this “self-culture” arrangement to produce the expected positive effects, it is important for the state to have a reduced sphere of intervention. Any extended form of state action will end up imposing a pattern of uniformity and hindering the variety of situations crucial for individual flourishing and for self-realization. Therefore, the role of the state as understood by Humboldt is simply “the maintenance of security, as well with regard to the attacks of foreign enemies as to the danger of internal discord” (1854, p. 54). This legitimate public realm must constitute the purpose of the state action in a free society, for without security, individuals will not be able to develop their own capacities nor to live a fulfilling life. Freedom cannot exist without security and to maintain that security is the purpose of the state. Any other interference in private affairs, even if aiming at facilitating the process of self-realization “should be absolutely condemned” (1854, p. 20).

II. LIBERTY APPLIED IN EDUCATION

Having analysed the theoretical framework that surrounds the value of freedom in both Hayek and Humboldt it is now important to understand the way in which these authors see the operation of state agencies compatibility with respect to the sphere of the individual. For the purposes of this paper, we shall only focus on the emergence of social order in the field of education.

According to Hayek, education was made compulsory following the recognition of the value of knowledge and of the benefits of expanding its use to tackle ignorance. A minimum standard of compulsory education was thus established taking into consideration two main arguments: a) that the entire community would be exposed to less risks and to more benefits if everyone shared a common basic level of knowledge, and b) that literacy is an essential element for the healthy functioning of democratic institutions and of the democratic regime itself (2011, p. 499). However, education is not a mere tool for transmitting concrete skills and knowledge, it is also a mechanism for providing a common set of values and behaviour patterns. For Hayek, this later role actually constitutes the main function of education and it is precisely here that the public system of education may also constitute a real danger to the principle of individual liberty. Despite the general acceptance of the idea that education would bring “additional knowledge” that would thus encourage “the conquest of ignorance”, Hayek contends that there is no single proof that the general availability for all of a higher level of knowledge would result in a better society. He writes, “knowledge and ignorance are very relative concepts, and there is little evidence that the difference in knowledge which at any one time exists between the more and the less educated of a society can have such a decisive influence on its character” (Hayek 2011, p. 500).

Regardless of these reservations, Hayek accepted the general argument in favour of compulsory education but reflects on the fundamental necessity of deciding how it is to be provided. As for the details of education provision, Hayek asserts that even though it might be difficult to impose a general level of education on people that are not completely convinced of and familiarized with its benefits, there should be absolutely no motive nowadays for having education institutions fully managed by the government, despite being funded publicly. Taking into account the arguments in favour of compulsory education, the role of the government may limited to a part of education; namely, on what determines the common set of values and patterns of behaviour. A wider and more centralised role from government poses a serious possibility of transforming education into a sphere “dominated by the theories of a particular group who genuinely believe that they have scientific answers to all problems” (Hayek 2011, p. 502). This situation would be very similar to that described under the French theory of liberty, where reason is regarded as the tool to achieve perfection and which will ultimately transform its defenders into “enemies of freedom”.

Where the government has the monopoly of the management and provision of educational services, there are plenty of opportunities for enforcing that which is considered the only valid and supposedly perfect pattern of conduct, defined by what Hayek had previously called “doctrinaire deliberateness”.

Bearing in mind that education may be an instrument through which the human mind can be deliberately shaped, it urges the government to assume, at least in the field of education policy, a function of supervision and protection rather than of provision. Hayek (2011, p. 503) writes: “Indeed, we may soon find that the solution has to lie in
government ceasing to be the chief dispenser of education and becoming the impartial protector of the individual against all uses of such newly found powers” (Hayek 2011, p. 503). As such, to have the government as the “dispenser of education” is the only arrangement compatible with the British theory of liberty, a social order that respects the spontaneous growth of certain habits that have been resilient over the passage of time. To avoid the central and deliberate planning of every single aspect of the education system constitutes the most adequate arrangement for respecting personal liberty in providing this service. Leaving the government solely with a supervisory role allows for the durability of the most convenient institutions, i.e. those that better address the needs and purposes of the members of society and not those decided by a hardened rationalistic mind.

Humboldt recognizes that modern states, following the concrete demands of the population, are increasingly directing their efforts to the improvement of the positive welfare of the nation. The means used for this purpose, laws and regulations that aim at promoting economic activity or remedying and preventing natural disasters, all have a common feature: “they are positively hurtful in their consequences, and wholly irreconcilable with a true system of polity” (1854, p. 22).

The institutions through which the state exercises its power to improve the physical welfare of people are characterized by a number of elements that limit the “variety of situations” that are fundamental for the development of human capacities. Humboldt enumerates the characteristics by explaining that these institutions are subjected to a “spirit of governing” that imposes on individuals a certain pattern of behaviour that is uniform and unnatural. Humboldt writes (1854, p. 23): “The very variety arising from the union of numbers of individuals is the highest good which social life can confer, and this variety is undoubtedly merged into uniformity in proportion to the measure of state interference”. This uniformity, or “common resemblance”, the result of the constrained actions of individuals, can be identified not only in the performed activities themselves but also in the results of such activities. A second consequence is the impact they have on the resources and will-power of an entire population. When the state agency prescribes a law or implements a measure, individuals tend to perceive it as an external imposition, as something somehow distant even though it may affect them directly, and they do not feel a special attachment either to its content or to its consequences. And this carries over to the future: “the man who frequently submits the conduct of his actions to foreign guidance and control, becomes gradually disposed to a willing sacrifice of the little spontaneity that remains to him” (Humboldt 1854, p. 26). As such, there is a dangerous promotion of dependency on the state and a consequent reduction of active energy and effort that individuals put on their daily lives. Humboldt explains that “he now conceives himself not only irresponsible for the performance of any duty which the state has not expressly imposed upon him, but exonerated at the same time from every personal effort to ameliorate his own condition” (ibid.). An additional pernicious consequence of institutions designed by the state to improve the positive welfare of citizens is related to their general character, which prevents individual cases from being addressed. Within this context Humboldt includes the topic of national education, which he quickly identifies in the title of the chapter as “an institution for reforming the mind and character of the citizen”. According to Humboldt, all the difficulties that result from institutions that are designed to promote the positive welfare of the citizen are also observed in the case of education. However, the case is more serious and its implications are more complex if we consider that the main purpose of education is to develop the individual. As such, national education promotes a single form of development and imposes a definite form on personal development, which constitutes a strong contradiction in itself, since that will form individuals that are merely social clones.

National education, Humboldt claims, “leads at once to utter torpidity and stagnation, or a depression or deficiency of energy” (1854, p. 69) and instead of supporting the diversity of peculiarities, ends up repressing individual impulses and produces a general sedateness. On the contrary, private education is seen by the Humboldt as a better alternative, since it takes into consideration and shows greater respect for the characteristics of individuals. A multiplicity of relations and combinations between individuals and their peculiar features can only emerge without the unity of organization by via state agency.

Despite clearly failing to comply with the objective of developing the individual by imposing a uniform behaviour pattern and repressing the spontaneous development of faculties, Humboldt suggests that a system of guardians or family training would suffice, provided that the state would be able to intervene to prevent lack of resources or negligence (1854, pp. 69-71). Humboldt reiterates that even if admitting that national education would achieve
the proposed objectives, “it effects too much” and, for that reason, it lies “wholly beyond the limits within which political agency should be properly confined” (1854, pp. 71-72).

As indicated, whenever the state positively promotes the welfare of its citizens, the spontaneous development of individuality is significantly hindered. Humboldt writes: “A political community, organized and governed according to this system, resembles rather an accumulated mass of living and lifeless instruments of action and enjoyment, than a multitude of acting and enjoying powers” (1854, p. 42). The government should be restricted to the protection of individual characteristics: a spontaneous cultural order is encouraged to emerge.

The political structure as defended by Hayek and Humboldt's spontaneous order embodies the values of cooperation and formal equality between individuals. Being an element of civil society, education not only allows for the generation of spontaneous orders but is also assisted by them.

According to the characteristics of a spontaneous order as put forward by diZerega, the face-to-face cooperation that emerges within this arrangement “enables individually and tacit knowledge to be employed effectively in pursuing new plans and goals” (diZerega 2008, p. 3). This is precisely what happens if education is organised following the arguments defended by Hayek and Humboldt: parents and children are allowed to follow the plans that better address their interests and necessities by deploying their own knowledge in decision-making. Another important feature identified by diZerega is the fact that, despite being biased towards some concrete values, the abstract rules that structure spontaneous orders, do not define any specific objective to be pursued within their arrangement. In the case of education, when the government abstains from monopolising the management and provision of education, the respect for individuality and the equality of status, guide the educational process of children. Nonetheless, the combination of these two values does not define every single feature of the education system. There is a large number of possibilities to be chosen according to individual knowledge about the most adequate plan to address different needs and interests identified by those involved in the process. In diZerega's work, actors define the success or failure of a spontaneous order by providing feedback signals to other actors to assist them in operating within the system. A similar dynamic takes place when a diversity of schools is allowed to implement their own projects to compete with other schools, with the most successful being those that are able attract more students by offering a programme that better fits their interests and needs. However, this system of education is not a pure spontaneous order. It is founded on an organization that defines the general operating rules and then monitors them to provide a service that cannot be understood as a mere consumed product. Education does not have a client in the simple sense of consumers as in diZerega's pure spontaneous order. The clients are students and children who need to be defended against some features of the market, which would be the result of its natural impersonal character, through the implementation of different mechanisms. On the one hand, these mechanisms may be of a procedural nature, such as independent inspections to evaluate the conditions of schools and national-based exams to assess the academic performance of students or the legal protections of teachers that are employed at schools.

On the other hand, they may have deep moral concerns, so as to avoid the establishment of schools with projects that segregate children according to irrelevant distinguishing characteristics.

Lastly, it is also important to note that to develop as a spontaneous order, education may also be affected by the misapplication of local knowledge, which can leave individuals in a least-favoured position to achieve their objectives. As diZerega (2008, p. 5) rightly points out, when actions are based on misleading information “coordination breaks down because the order becomes disconnected from the concrete circumstances that sustain it”. In order to avoid these informational asymmetries in the spontaneous order, that integrate the education system, there are conditions that must be taken into account when implementing concrete education policies based on the ideas advanced by Hayek and Humboldt.

III. CONTEMPORARY EXAMPLES OF LIBERTY IN EDUCATION

For the past several decades, in respect of personal freedom, different mechanisms which fall under the umbrella of “school choice” were developed and implemented. Milton Friedman is considered the theorist most associated with school vouchers, one of the most well-known mechanisms to implement choice. Following the acknowledgement that the tasks of funding and providing education could coexist separately, Friedman suggests the government issue parents vouchers to be spent at the school of their choice (Friedman
1955). In providing an equal opportunity for every child to attend any school, the principle of liberty in this mechanism is reflected in two different dimensions. On the one hand, new and different schools will arise and individuals will be able to choose from a set of different schools for the kind of education they consider to better fit their own needs and interests. On the other hand, such diversity will act as a bulwark against the imposition of a uniform and collective pattern of conduct.

In addition to these positive aspects, there other advantages inherent in the operation of the free market identified in these education mechanisms. If individuals or parents, have the freedom to choose any school and if the school only receives funding on a per-pupil basis, then schools will compete with each other to attract as many students as possible. Choice has both an instrumental and an intrinsic value, in that it gives a strong incentive to providers to improve the quality and efficiency of their services so as to not be financially penalized due to the loss of students at other schools (Le Grand 2007). Another important advantage of an educational system based on the idea of individual liberty is the gains on the level of equality of opportunity since the most disadvantaged children get the opportunity to attend different schools and to improve their educational performance.

Despite these advantages, a system of education that is not fully managed by the government and that allows for the participation of private actors in the provision of services does have its critics for whom this arrangement raises serious moral concerns. Their main concern is associated with social justice and lies in the risk of racial segregation that they assume will take place when the most advantaged families which have more resources to take more informed decisions, secure places at the most popular schools, leaving the less successful schools to the most disadvantaged children (Tooley et al. 2003). In an article empirically testing the assumption that schools privately managed provide higher quality education, Smith and Meier (1995, pp. 475-476) conclude that there is "strong support for the cream-skimming hypothesis and nothing to support the demand for quality assumption" and that "choice has real potential to exacerbate the already considerable problems of de facto segregation in the public system". Moreover, school choice is usually strongly opposed by teachers and their unions with the argument that the pressure of market-mechanisms is going to have a negative impact on their own performance. According to educators, teaching is a vocation and an activity that should not be concerned solely with financial gain or financial efficiency and, for this reason, to use economic criteria to assess a teacher's performance will not assure the quality of the service provided. As a result, teachers argue that this means reduced job security, lower salaries and fewer opportunities for career progression (Hill, Rainey and Rotherham 2006). Another criticism often made is related to the possibility of choice fundamental to the concept of liberty as put forward by Hayek and Humboldt. According to such critics, people are not genuinely interested in making such choices, as long as the quality of the service is good; choice is a concern for those who have the resources to choose carefully, they argue (Le Grand 2007). This possibility of choice and the exit mechanism associated with it raise a concern about private interest being put ahead of public interest, since by choosing to leave a certain school, parents "weaken[ing] those schools for everyone else by taking away money and reducing the school’s political capital" (Hill and Jochim 2009, p. 11).

Some of these limitations are recognised as potential problems by those who defend the respect for personal freedom in the provision of publicly funded education. Racial segregation is usually discounted by school choice advocates in that this problem is not caused by market mechanisms but derived from the traditional concept of 'catchment areas'. Empirical evidence collected by Jay P. Greene and Nicole Mellow (1998) suggest that in not attaching attendance to residence, private schools are more likely to succeed at promoting racial integration than public schools. In a more recent analysis regarding the Swedish system, Kristian Tiger stated (Hlavac 2007) that competition policies and open access actually reduced racial segregation at schools, by contrast to what the old centralised system was fostering.

Furthermore, choice offers an opportunity for children who are usually limited to a poor-quality schooling to attend another school their parents consider to be a better fit. In fact, even in those cases where segregation remains, there are studies suggesting that its impact is mitigated by the benefits those children enjoy from attending a school with additional resources (Jones-Sanpei 2006). As for the concerns raised by teachers, those who argue in favour of school choice reject the idea that working conditions will be worsened and argue that teachers employed under a market-logic will have the very same legal protections. Moreover, they also argue that under this arrangement, teachers will have stronger incentives to invest more in their skills, since that their hiring and career-progression will be
Based on specific competences and performance. Choice proponents recognise that the mechanisms of choice may result in lower salaries because they will be paid according to a fixed-budget, dependent on the number of students enrolled, and because these schools face the necessity of being financially viable. However, this is seen only as a temporary setback which will be offset with the increase in the number of students attracted (Hill, Rainey and Rotherham 2006). Finally, the argument about the conflict between private and public interests is easily contradicted even by the self-evident view that no public interest can be served with children being trapped in poor-quality schools.

Additionally, choice advocates have developed a set of conditions that must be respected and implemented to have unintended consequences reduced to a minimum. As Le Grand (2007) describes: firstly, competition must be real and that implies not only the existence of a set of valid alternatives (and no barriers to access the market) but also that the funding follows the children, so that schools can feel the consequences of not being chosen as an incentive to improve. A second condition is related to the process of choice itself: in order for parents to make as informed decisions as informed as possible, and also to mitigate potential information asymmetries, they must be provided with assistance through school catalogues or advising offices. Finally, Le Grand argues that in order to assure that deliberate selection of students does not take place, every school should adopt a first-come-first-served based admissions policy.

Another important pro-market proposal associated with school reform is the creation of charter schools, a movement that has been established in the United States for more than two decades. Charter schools are public schools that emerged from the development of a contract (or a charter) between the official state body responsible for education and the community. This charter defines the objectives to be achieved and criteria for which the school will be held accountable in terms of student achievement, but also allows for schools to have a considerable degree of autonomy and independence concerning their own organization.5

Charter schools bring teachers, parents and students together to provide the most adequate educational tools for children to be able to learn according to their own necessities, characteristics and interests. Teachers and school leaders are allowed to be more innovative and to adjust the curriculum and the materials in the service of students’ special needs. Moreover, parents are also invited to be more involved in the education of their own children, being able not only to contribute to the design of the school curriculum, but also to participate on the development of the school culture and ethos. For this reason, diversity is a key characteristic of charter schools, it being thus possible to find schools dedicated to specific themes or subjects, which find schools dedicated to specific themes or subjects, which go from STEM to the performing arts or college/vocational preparation.

As public schools, charter schools are free and funded by local, state and federal taxes according to the number of students they attract, and are forbidden to charge tuition fees. Moreover, these schools cannot apply any special entrance requirements.

Similar to the voucher system, the creation and current expansion of charter schools is controversial, its critics being mainly concerned with social justice and social segregation. In addition to the criticisms previously described, opponents of charter schools usually accuse philanthropists of promoting free-market ideology, with the supposed intention of destroying public schools and destabilizing teachers’ unions.

Another criticism frequently made of schools managed or created by groups of individuals driven by different motivations is the concern about the values that will compose the ethos of the school and that will guide the education provided. Taking these arguments into consideration, central governments are responsible for the crucial initial step in the whole process of establishing schools under this model. As already mentioned, state authorities run a thorough check on applications for new schools in order to avoid the establishment of schools that may endanger the set of basic and common values that sustain a liberal-democracy.

School choice mechanisms have lately been the subject of many studies and cross-country empirical analyses to assess their value. One of the most recent evaluations of school vouchers in the United States was conducted by Miron and Urschel (2016), who made an analysis of 14 studies of the impact of voucher programmes on students’ achievement. According to them, there is a general “moderate” effect on the academic achievement of the participants in the voucher programmes. Seven studies presented mixed findings6 and the other seven presented positive findings, with none of the studies finding a negative impact on students covered by voucher programmes. Moreover, Shakeel, Anderson and Wolf (2016, p. 2) found “positive and statistically significant achievement effects of school vouchers” from a meta-analysis of evidence from selected international randomized experiments.
controlled trials evaluating the test scores of participants in such programmes. They concluded that this positive impact varies according to a number of factors, being more evident in reading tests, for programmes outside the US (Colombia or India) and for publicly-funded programmes. Currently, in the United States, nearly 3 million children are being educated in schools established under a charter. The latest academic studies published concluded that students in charter schools perform better than their peers in traditional public schools with a better job being also done with least advantaged and minority background children. Berends (2015) found that the studies on the effects of these schools show mixed results in terms of school achievement, but are consistently positive in terms of school attainment. In an article reviewing 25 years of these types of school, Berends concluded that despite great variations, charter schools are a positive experience, particularly in increasing high school graduation rates and college retention rates. In England, schools funded by the government but managed privately are called Academies or Free Schools and due to their relatively recent implementation, the data regarding their performance is still scarce. Nonetheless, by looking at the inspections made by Ofsted, it is possible to infer that this school choice mechanism has been very important in improving the quality of English schools: 27% of Free Schools inspected in September 2015 were rated as Outstanding, comparing to only 17% of maintained schools. Since 2010, 65% of schools that were rated as Inadequate and closed as a maintained school are now rated Good or Outstanding after being converted in an Academy (Bolton 2016; DfE 2017).

IV. CONCLUSION

The main objective of this paper has been to consider the concepts of liberty as put forward by Hayek and Humboldt in understanding how liberty could be applied in the context of a specific public policy—education—respecting the spontaneous character of social orders.

Both Hayek and Humboldt agree that there is no plausible justification for having a centralized national system of education and that education models should be allowed to develop more spontaneously, provided that some basic criteria are assured. The individual, in order to maintain his single characteristics and faculties, needs to be able to freely interact with other individuals, to establish relations and to be exposed to “a variety of situations”. In the provision of education, this can be facilitated when some of the main characteristics of spontaneous orders are adopted, with individuals using their local knowledge to achieve the objectives they consider the most essential to their necessities and interests. By contrast, when the state assumes a monopoly based on doctrinaire deliberateness, these conditions so important for individual development, are unlikely to be achieved. Individuals thus become mere social clones without energy and willingness to work on their own betterment.

In order for personal liberty to be respected, schools must have the opportunity to diversify their offering and to address more closely the different needs of children, as well as to provide them an appropriate environment to cultivate their own talents and peculiarities. The mechanisms of school choice in this article provide some examples of how the provision of education can be organized in order to respect individual liberty as defended by Hayek and Humboldt. There are many other mechanisms of decentralised governance that contribute to increased school autonomy and to parents’ and to students’ satisfaction—magnet schools, different systems of tuition tax credits or of competition between municipalities—which can also be analysed under this perspective. And despite the moral concerns and the critiques of their efficiency, the general evaluation of these tools is positive, with the most recent studies on the subject not finding any harmful consequences for children.

The interaction and cooperation between individuals, which result from the combination of freedom with diversity, is fundamental in allowing the emergence of a spontaneous social order that respects individuality and that allows each one to pursue their own life-plans. As Humboldt (1854, p. 23) recognises, “the very variety arising from the union of numbers of individuals is the highest good which social life can confer, and this variety is undoubtedly merged into uniformity in proportion to the measure of State interference”.

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NOTES

1 Given that Hayek’s political philosophy was constantly evolving, it is important to note that for this paper we are taking into account his views in the 1960s.

2 Hayek provides us with examples such as dress code conventions.

3 Under Hayek’s proposal, Hamowy explains, it would be compatible with individual freedom to be covered by a piece of legislation prescribing enslavement of each single male citizen for a given period of time and during a certain age.

4 See UCL 2017, where it is argued that government policies failed for the past decades to reduce racial segregation and continue to fail.

5 Cf. Nathan (1999) for a detailed and useful description of the emergence of the charter school movement and of the characterization of these schools, as well as of the reasons behind their creation.

6 Of these, three concluded that the school voucher system tends to favour African American students, while one concluded that it tends to favour low-performing students (Miron and Urschel 2016).

7 Information regarding the latest data and studies on charter schools and their operation in the United States may be found on the website of the National Alliance for Public Charter Schools.

8 The Office for Standards in Education, Children’s Services and Skills is responsible for inspecting and regulating of educational services in the United Kingdom.

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Benedetto Croce as an Economist

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Abstract: This paper examines the economic contribution of Italian philosopher Benedetto Croce. Although deservedly credited as a great philosopher of the 20th century, he is seldom thought of as an economist. Yet, he is one. Croce’s approach to economics most closely aligns with the “Austrian” school of economics, emphasizing the deductive method, a “praxeological” view of economics as a science of “human action”, a subjective theory of value and economic facts, a radically subjectivist theory of cost, and resistance to positivism and naturalism. In many of these areas Croce formulated the principles of Austrian economics decades earlier than Mises, Hayek and other key members of this school.

Keywords: Austrian School, Croce, praxeology, subjectivism, positivism.

INTRODUCTION

Benedetto Croce is deservedly credited as one of the great European philosophers of the 20th century, especially in the areas of ethics and aesthetics. What is however, far less known and appreciated, is that Croce was a first-rate economist of a speculative, theoretical bent. He developed a very sophisticated economic conception which in many respects anticipated the basic tenets of what has come to be known as the modern “Austrian” economics.

The purpose of this essay is to explore Croce’s contribution to economic theory and to show that he was responsible for the development of many of the crucial theoretical concepts of the “Austrian” school of economics most notably formulated by Ludwig von Mises, Lionel Robbins and Murray Rothbard in the 20th century, but mostly ignored by historians of economic ideas. What is particularly surprising and peculiar, is that this contribution went almost unnoticed even among the Austrian economists themselves. They could have found any number of antecedents and sometimes ready-made formulations for their own theories in Croce but for a variety of reasons, mostly having to do with the fragmentary nature of Croce’s economic writings (just two letters to Pareto and some isolated comments) and professional skepticism of economists toward the economic acumen of a philosopher, have chosen not to do so. For example, Ludwig von Mises thought that no philosopher, save for perhaps Collingwood, had any serious grasp of economics. He disparagingly talked about Croce as just one more among philosophers ignorant of economics (Mises 2007, p. 308). In Hayek’s works, I was unable to locate a single reference to Croce. Lionel Robbins’ great methodological book An Essay on the Nature and Method of Economic Science also does not contain any reference whatsoever to Croce, although many claims and theorems in that book hold a striking resemblance to Croce’s arguments developed decades earlier. Rothbard mentions Croce’s great polemic with Pareto in a footnote to his article “Towards a Reconstruction of Utility and Welfare Economics”, and correctly describes Croce as a “praxeologist”, but without any further analysis or wider appreciation of Croce’s contribution (Rothbard 1956, p. 9).

The only significant exception to this trend seems to be Israel Kirzner. In his book Economic Point of View he devotes a couple of pages to the debate Croce-Pareto, and correctly argues that Croce understood economic science in a Misesian aprioristic and deductive way, as opposed to the positivist Pareto. He even deservedly criticized Mises for not recognizing the significant similarities between his and Croce’s understandings of economic science:

Professor Mises has not recognized the close similarity to his own position which is evidenced in Croce’s writing (see L. Mises, Theory and History, p. 308). What appears to be the principal point of difference between their positions has little relevance to the conception of the character of economic science. Both writers emphasize the rationality of all human action; both recognize that a chosen program may fail to be adhered to either because of a technical error (an error of knowledge) or because of the choice of a new
program of ends with respect to which action will be “rational” (Kirzner 1976, p. 214).

What I will attempt to show in this paper is that Kirzner’s account was essentially correct, but incomplete, that he underestimated the extent of Croce’s neglected contribution. Not only in that there was a striking similarity between Mises and Croce, but also that Croce developed many of the crucial theorems of Austrian economics, especially as pertaining to methodology, welfare economics and price theory. In Croce’s works at least four crucial arguments could be identified that came to be known to us, in some cases in very similar versions, via the works of Mises, Hayek, Robbins, Rothbard and others. In some cases, particularly when it comes to the utility theory and the doctrine of demonstrated preferences, Croce went further than the standard theory and developed an original interpretation that is in tension with the conventional Misesian praxeology.

Croce’s arguments that will be explored are:

- Economics is a science of conscious human action
- Subjective character of economic data and radically subjective theory of cost.
- Apriori character of all economic theorems (rejection of empiricism)
- Unification of the doctrine of demonstrated preference with subjective utility.

I will explore Croce’s contribution to each of these areas.

I. ECONOMICS AS A SCIENCE OF CONSCIOUS HUMAN ACTION

Both in the letters to Wilfredo Pareto and in his Philosophy of the Practical, Croce develops a detailed theory about what he calls the “economic principle” and what we may call “the subject matter of economic theory”. This analysis seeks to separate economic principle from ethical, philosophical, naturalistic and psychological principles. Croce eventually ends up defining economics in the same abstract way as Mises: as a science of human action qua human action. In the same neo-Kantian fashion as Ludwig von Mises, Benedetto Croce insists that economics could analyze only conscious human choices, and not the reflective, unconscious reactions that belong to the animal realm. In a letter to Wilfredo Pareto he says:

If we speak of conscious choice, we have before us a mental fact, if of unconscious choice, a natural fact; and the laws of the former are not those of the latter. I welcome your discovery that economic fact is the fact of choice; but I am forced to mean by choice, voluntary choice. Otherwise we should end by talking not only of the choices of a man who is asleep (when he moves from side to side), but of those to animals, and why not? of plants and why not again? of minerals… (Croce 1966, p. 181).

Mises formulates the same idea at the very beginning of Human Action by suggesting that the “opposite of action is not irrational behavior but a reactive response to stimuli on the part of bodily organs and instincts which cannot be controlled by volition of the person concerned” (Mises 1998, p. 20).

At the same time however, this conscious human action as the subject matter of economics is value free: action is analyzed as action, not as being miraculously “coordinated” with any moral, ethical, or utilitarian consequences that it might have. Just as Mises and Robbins would later do, Croce analyzes economic action as embedded in an abstract ends-means structure, not as containing any particular specification or normative evaluation of either human ends or means to achieve them. He criticizes Pareto for trying to isolate economic choices as a distinct category of human action, which is strictly morally indifferent, i.e. neither moral nor immoral. On the contrary, argues Croce, economic choices are indifferent not in terms of being a separate category, but in virtue of being philosophically emptied of any moral content: “since choices are necessarily either altruistic or egoistic, either moral or immoral, you have no way of escaping from the difficulty except the one I suggest: to regard economics as concerned with practical activity in so far as it is (abstractly) emptied of all content, moral or immoral” (Croce 1966, p. 172). In other words, the category of economic action abstracts from any moral or motivational considerations and thereby sharply delineates economics from other humanistic disciplines such as ethics, political theory or even psychology.

As an illustration of this abstract character of economic action, as opposed to moral and immoral ones, Croce offers in his second letter to Pareto a telling example:

I will give you another example: that of a knave who thinks it ofelimo to himself to murder a man in order to rob him of a sum of money. At the moment of as-
sassination, and although remaining a knave at heart, he yields to an emotion of fear or to a pathological feeling of compassion, and does not kill the man... the knave will call himself an ass and an imbecile, and will feel remorse for his contradictory and inconclusive conduct; but not indeed a moral remorse (of that he is by hypothesis incapable), but precisely a remorse that is merely economic (Croce 1966, p. 183).

Therefore, Croce comes close to what Kirzner somewhat misleadingly calls the “Robbinsian economizer”, an actor involved in finding out how to achieve the given ends with the minimum of invested means, i.e. resources, irrespective of any moral or ethical considerations involved in the act of choice.

Compare this with how Mises defines praxeology: “Praxeology is indifferent to the ultimate goals of action. Its findings are valid for all kinds of action of the ends aimed at. It is a science of means, not ends” (Mises 1998, p. 15). In the most significant hard-core Misesian treatise on methodology, the first edition of Lionel Robbins' book we find the following formulation: “Economics is not concerned with any ends as such. It is concerned with ends in so far as they affect the disposition of means” (Robbins 1932, p. 29). All this is directly Crocean theory, but neither of them ever mentions Croce in the context of their definitions of economics as a science of human action which “economizes” scarce means to achieve ethically indeterminable ends.

Mises spends quite a bit of time defending both the value-free status of economics and also its independence from the errors of psychologism and empiricism. This is another typical Crocean theme. The most basic tenet of Misesian praxeology, the “fundamental action axiom”, is just a different rendition of the Crocean idea of economics as a science of abstract human action: “man acts and uses means in order to achieve ends”—the famous Misesian formula he uses in order to deduce (with the help of an auxiliary assumption of the disutility of labour) the entire body of economic theory. He describes the fact of human action as an “ultimate given” of economics, as the last irreducible fact of economic theorizing (Mises 1998). However, he never gives proper credit to Croce as the first clear expositor of this fundamental idea. Consider for example Croce’s most pregnant definition of economic value:

there is nothing in the universe that is valuable, except the value of human activity. Of value as of activity you cannot demand a so called genetic definition.

The simple and the original is genetically indefinable. Value is observed immediately in ourselves, in our consciousness (Croce 1966, p. 179).

It difficult to find a more convergent view of value to Mises’ own than this.

Furthermore, Mises (1998) makes the case for the doctrine that could be safely described as epistemological pragmatism, coupled with methodological dualism. This means that he does not believe that the issue of the relationship between the body and the soul, between the physical and the spiritual, could be resolved scientifically, and that any kind of reductionist monism—be it a materialist or an idealist one—is necessary and proper in economic science. Nevertheless he accepts the premise that the science of human action must use different tools and methods, then the physical sciences, has to accept *methodological dualism*.

Actually, Mises rejects on the metaphysical level even pluralism, and argues for a pragmatistical neglect of these metaphysical issues in economics:

Monism teaches that there is but one ultimate substance, dualism that there are two; pluralism that there are many. There is no point in quarrelling about these problems. Such metaphysical disputes are indeterminable. The present state of our knowledge does not provide the means to solve them with an answer which every reasonable man must consider satisfactory (Mises 1998, p. 17).

However, this does not mean that economists can avoid using the theoretical vocabulary and postulates that stem from a specific metaphysical point of view: namely, from “idealistic” philosophy. Mises only points out that this acceptance of methodological dualism is a pragmatic, rather than epistemological choice, and that indeed the debate about the final metaphysical issues, does not belong to economics.

In his letter to Pareto, Croce develops exactly the same line of argument. He accuses Pareto of smuggling a metaphysical assumption into the purely economic theorizing, which he considers unscientific and unjustifiable:

...the disagreement between us consists in your wish to introduce a metaphysical postulate into economics science; whereas I wish here to rule out every metaphysical postulate and to confine myself entirely to the analysis of the given facts...Your implied meta-
physical postulate, is, however, this: that the facts of man's activity are of the same nature as physical facts; that in the one case as in the other we can observe regularities and deduce consequences therefrom, without ever penetrating into the inner nature of the facts; that these facts are all alike phenomena (meaning that they would presuppose a noumena, which evades us, and of which they are manifestations) (Croce 1966, p. 178).

However, not only does Croce reject this interjecting of metaphysical monism into economics, he justifies the acceptance of methodological dualism by using essentially the same “Misesian” pragmatist arguments. He does not offer any philosophical reasoning to support the contrary monist idea of the physical world being an “epiphenomenon” of the mental, but simply says that the ‘experience’ teaches us about the irreducible difference “between external and internal, between physical and mental, between mechanics and teleology, between passivity and activity” (ibid.). So, the unavoidable dualism is just a methodological pragmatic convention, not a conclusion based on any full-scale ontological theory of reality, or any such ‘metaphysical’ superstructure. It is rather a convenient tool we use to make sense of the world, a language we inherited from everyday experience, and for which we do not have any substitute in practice. It is the way how our social world works. It is a “given fact” of our reality we cannot escape in the scientific analysis of economics (Misesian “ultimate given”).

II THE SUBJECTIVE CHARACTER OF THE ECONOMIC DATA

We now come to one of the critical points in Croce’s economic theory—his completely Misesian idea of economic data as being subjective: “The data of economics are the practical data of human activity in so far as they are considered as such, independent of any moral or immoral determination” (Croce 1966, p. 173). This is a wholesale rejection of empiricism, not only in its cruder positivist forms, but equally of the more subtle attempts to deny the subjective character of economic science by the dissident attacks on praxeology by some Austrians. One of the most significant hallmarks of this praxeological approach is Croce’s critique of the very concept of measurability as applied to economics, which is closely related to the attempts to isolate something which would be treated as “economic phenomena” as opposed to the non-economic ones, that are allegedly “purely subjective” and hence not measurable. He is highly critical of Pareto’s attempt at abstracting the narrow “economic” range of phenomena from a wider praxeological whole into which they have to be logically embedded:

Would it for instance be in conformity with the nature of the thing, to cut away, as you wish to do, only that group of economic facts which relates to objects capable of measurement? What intrinsic connection is there between this merely accidental attribute, measurability, of the object entering into an economic action, and the economic action itself? Does measurability lead to a modification in the economic fact by changing its nature, i.e. by giving rise to another factor? If so, you must prove it. I, for my part, cannot see that an economic action changes its nature whether it relates to a sack of potatoes, or consists in an exchange of protestations of affection! (Croce 1966, p. 176).

On the most obvious level, this is an anticipation of the standard argument, developed by Hayek and Mises among others, against the ideas of measurement in economics. Hayek’s rejection of this idea in his Nobel Prize speech (1974) and in his Counter-Revolution of Science (1952), is particularly prominent and influential:

The correlation between aggregate demand and total employment, for instance, may only be approximate, but as it is the only one on which we have quantitative data, it is accepted as the only causal connection that counts. On this standard there may thus well exist better “scientific” evidence for a false theory, which will be accepted because it is more “scientific”, than for a valid explanation, which is rejected because there is no sufficient quantitative evidence for it (Hayek 1974).

The measurability is thus only one accidental feature of economic data, which oftentimes might not be relevant at all for understanding the true causal relationship that exist between the various economic facts. What really constitutes the causal relationship in economics is the teleological connection between the different objects, material or not (Crocean “potatoes” or “protestations”), created by human mind and its purposeful action. Dixit Hayek:

Take the concept of a “tool” or an “instrument”…It is easily seen that these concepts cannot be interpreted to refer to ‘objective facts’, that is, to things irrespective of what people think about them. Careful logical
analysis of these concepts will show that they all express relationship between several terms, of which one is the acting or thinking person, the second some desired or imagined effect, and the third a thing in the ordinary sense. If the reader will attempt the definition he will soon find that he cannot give one without using some term such as ‘suitable for’, or ‘intended for’ or some other expression referring to the use for which it is designed by somebody (Hayek 2010, pp. 89-90).

Hence, not only that the objects of economic theory are not measurable, they are not objects in the first place, but the synthetic teleological creations of human mind out of material that can, but do not have to be, physical and measurable in nature. In this way, Croce explains the interplay between the teleological and physical constituents of economic data:

Certainly, physical objects form part of the data of economics; and these, just because they are physical, are measurable. But economics does not consider physical things and objects, but actions. The physical object is just a brute matter of an economic act; in measuring it we remain in the physical world, we do not pass over to that of economics, or else, when measured, the economic fact becomes volatile (Croce 1966, p. 165).

So, the measurable, physical aspects of an economic fact are equally insufficient to establish economic causation as is the raw sensory or introspective data underlying the non-physical forms of economizing (such as Crocean “exchange of protestations”). This “abstract” (in the Hegelian sense) material has to be organized into a concrete means-ends causal nexus by a human mind and its purposeful decision-making, in order to qualify as “economic”. Therefore, in a sense, only the irrelevant aspects of economic facts could be quantified and measured.

Closely related to this is the radically subjectivist theory of cost. Since value is not objectifiable, neither is the cost; it is always embedded into an act of choosing. The Austrian theory contains maybe the clearest exposition of the subjective theory of cost; it unifies subjectivism, methodological individualism and praxeological insistence on action instead on psychological conditions of action. Austrians argue that the only real costs are the opportunity costs of an action, the value of utility foregone by doing A instead of B, and that this value is always subjective, individual and known only to an actor in the moment of choosing. It is impossible to measure the cost by an outside observer, just as it is impossible to measure value or utility.

Perhaps the clearest exposition of the Austrian theory of cost is given in James Buchanan’s great book *Cost and Choice* in which he writes:

1. Most importantly, cost must be borne exclusively by the decision-maker; it is not possible for cost to be shifted to or imposed on others.
2. Cost is subjective; it exists in the mind of the decision-maker and nowhere else.
3. Cost is based on anticipations; it is necessarily a forward-looking or ex ante concept.
4. Cost can never be realized because of the fact of choice itself: that which is given up cannot be enjoyed.
5. Cost cannot be measured by someone other than the decision-maker because there is no way that subjective experience can be directly observed.
6. Finally, cost can be dated at the moment of decision or choice” (Buchanan 1969, p. 41).

Croce offers a very close formulation of the radical subjectivity of cost in the Philosophy of Practical:

If A spent seven soldi to buy a loaf of bread yesterday, and today he spend the same amount in making the same purchase, the seven soldi of today are not for this reason those of yesterday, nor is the bread the same as that of yesterday, nor the want that A satisfies today the same as that of yesterday, nor is the effort that his action costs him identical with that of yesterday. If individual B also spends seven soldi for a loaf of bread, the action of B is different from that of A, as that of the A of today was different from that of yesterday” (Croce 1967, pp. 365-66).

According to Croce, not only that the costs of two different actions are different, but also the costs of the same action at different times and in different circumstances are different. Cost is very tightly bound with individual choice made in a unique decision-making environment.
III. **APRIORI CHARACTER OF ECONOMIC THEOREMS**

This is maybe the area in which Croce’s development of praxeology went furthest and came closest to the formulations of Mises. Taking the lead from Menger and Bohm Bawerk, Croce defines economics as “mathematical” and “pure” science. This does not mean that economics has to use mathematical formulae in its analysis but only that the method of reasoning has to be axiomatic-deductive, the method by which complex theoretical statements are derived by using deductive logic from unquestionable first principles. Squarely in the Mengerian tradition, Croce equally rejects empiricism and historicism as the appropriate methods in economic analysis because of their acceptance of the doctrine that economic laws are contingent upon some particular circumstances of time and place, different historical conditions and so on. For Croce, economic laws are just like the theorems of Euclidean geometry, apodictically true, independent of all experience and all different circumstances:

The propositions of the Science of Economics are rigorous and necessary. Granted that soils of different degrees of fertility are cultivated, their possessors will all obtain besides the absolute rent, a differential rent, with the exception of the possessor of the least fertile soil” (Ricardo’s law). “Bad money drives out good” (Gresham’s law). Now, it is not conceivable in any case that soils of different fertility, all of them cultivated, should not give a differential rent. It will be said that the State can confiscate the differential rent, or that the possessor, owing to his bad cultivation or to his bad administration, may lose it; but the proposition does not remain less sound on this account (Croce 1967, pp. 369-70).

It is important to note two things in this connection. First, economic laws are necessarily true, but nevertheless they are not mere tautologies; they tell us something about the real, outside world. The concept of a differential rent or the concept of Gresham’s law, or that of marginal utility, are not mere logical statements, mere analytical reformulations of some logical truths. They convey new information about the real world in a way the tautological statements do not.

The second important implication is that the reason why economic laws are *apriori* is not that they are metaphysical truths, but rather that they contain the introspective facts of our experience that would be very difficult to abandon. Economic laws express a “rational necessity” of life, for example that people would prefer more to less of a same economic good, *ceteris paribus*. Economic laws allow us to understand reality, and not only to analyze the mental content of our representations. In this regard they are similar to the theorems of geometry; although abstract and general in nature, they nevertheless have a practical purpose:

> [w]ithout geometry we should not have been able to build the house in which we dwell, nor to measure this star upon which we live, nor the others that revolve around it or around which we revolve. Thus it would be impossible to find one’s way in empirical reality without these economic formulae, and that would happen which happened when economic science was in its infancy, namely that by its means measures of government were adopted, which were admirably suited to produce in the highest degree those evils which it was thought could be avoided by its help (Croce 1967, pp. 372-73).

A good analogy and illustration for this argument could be Quine’s reformulation of traditional epistemology developed in his paper “Epistemology Naturalized” (Quine 1969). In this famous essay, Quine accepts the Kantian distinction between the conceptual form and empirical content of our consciousness, but relativizes them: the dichotomy between the conceptual scheme and sensory content in Quine’s reformulation ceases to be a standard Kantian metaphysical dichotomy between apperception and perception and is taken to mean just biologically and historically conditioned dynamics of conceptual scheme and empirical content.

In other words, the Kantian forms remain, but understood as biological and practical capabilities of human beings rather than as transcendental characteristics of human mind. In a similar way, the Crocean and Misesian concept of *apriori* knowledge refers to the same Kantian synthetic *apriori* forms, just liberated from their metaphysical content, and reduced to practical “necessity of life” as Croce has nicely put it, or to the hallmarks of biological and historical existence of man.

This should not be taken as a claim that the validity of economic laws depends upon their practical application. On the contrary, the laws are *apriori*, and the beneficial effects of their application represent just an illustration, rath-
er than a proof, or demonstration of their truth. The difference between Croce and Mises on the one hand and say Friedman on the other, is that empirical content in Mises and Croce comes into the theory just on the level of defining the elementary terms, not on the level of testing their complex logical consequences. Once this axiomatic content is adopted by a pragmatic convention, the entire work of the theory is solely a deductive one. The only way of empirically challenging the praxeological derivations would be to insist on different definitions of elementary terms; for example, by saying that man does not act, and hence all further consequences of the theory are false. On the contrary, in Friedman’s view, empirical considerations come into play both in this first stage and in the stage of creating the final “product”—the complex theorems or “hypotheses” (Friedman 1953). No theory is safe from empirical falsification, both on the level of axioms and theorems, which theorems are just the temporary and tentative hypotheses to be further “tested”.

Economic laws are hence apriori for Croce, and the beneficial effects of their application represent just an illustration, rather than a proof, or demonstration of their truth. The apriori theoretical knowledge of economic laws allows us to avoid harmful public policies by abstaining from actions that on the purely aprioristic grounds are clearly irrational:

Such for instance would be the proposal for fresh expenditure on public works that are useless or of little use during a period of economic depression in a country, and instead of relieving, increase the general depression; or the increase of protective tariffs, when industrial progress is slow, which ought to encourage industry, but on the contrary produce an industry that is unstable and artificial, in place of one that is spontaneous and durable (Croce 1967, pp. 373-74).

So it is impossible to empirically test whether the Keynesian fiscal ‘stimulus’ as a means of countercyclical policy is justified or not; for Croce, this concept is simply nonsense, because it goes against the deductive logic of economics based on empirically and pragmatically self-evident axioms, more geometrico demonstrata.

Note that the strong analogy between geometry and praxeology that Croce exploits is the same analogy Mises is using time and again to demonstrate that scientific notions could be aprioristic, and yet to convey the real positive knowledge of the real world capable of practical application. Hence, Croce’s understanding of the apriori character of economic theory is letter philosophically indistinguishable from Mises’. Economics starts from the axioms, which are unquestionable, not as logical tautologies, but rather as the apodictic and pragmatic statements pertaining to the real world. The entire edifice of economic theory is built via the process of deduction of theorems from the set of those apriori ‘geometrical’ axioms. To test economic theories is impossible since they are “necessary” (Croce) and apply irrespective of any experience.

Unlike some of the other Croce’s contributions detailed in the next section, this one is important not as original and distinct from the mainstream of the Austrian school, but as a brilliant anticipation of the common fund of ideas that had been missed and underappreciated by the later economists of the same orientation, on account of Croce’s status as a philosopher, and not as a professional economist.

IV. DEMONSTRATED PREFERENCE AND SUBJECTIVE UTILITY

Croce always argued that the application of deductive reasoning in economics was a form of “applied mathematics”. However, this did not mean the application of mathematical methods in detail, but just the logical, or apriori mode of reasoning. His theory is at odds with the application of mathematics as it is being done in the contemporary treatments of general equilibrium, as well as in the neoclassical utility theory. The basic assumption that underlies those contemporary applications of mathematics is that in human action there is constancy, consistency as well as transitivity of preferences. Only if those assumptions are satisfied, the use of differential equations in the general equilibrium models, or of the infinitesimal calculus in utility theory, make any sense. It is not necessary to emphasize that rejection of these assumption is the cornerstone of Misesian theory. As we shall see shortly, Croce rejects all of these assumptions as well.

The whole basis of functional analysis in neoclassical economics is the assumption of there being some constant relationships between the measurable magnitudes and on the preference rankings being transitive. Mises attacked these assumptions in his numerous works. For example in Mises 2000, he argues that impossibility to apply the equations of mechanics to economics stems from the fact that human action does not possess the behavioral constants analogous to the physical constants one uses in the equations of physics.
For example, the gravitational constant. In praxeology, as Mises says, “everything is a variable”, so mathematical analysis cannot render any new knowledge which is not already contained in the verbal formulations of it (Mises 2000, p. 99). Mathematics can model past data if they are given, and express the state of static past equilibrium through the systems of differential equations: the problem in economics is that what has to be understood is how one state of equilibrium gives way to another through the actions of real individuals. This process always creates the new data that do not belong to the modeled past state of equilibrium and hence render the entire mathematical treatment of equilibrium useless. Every moment is a new moment, with new data bringing about the new momentary equilibrium (“the plain state of rest” in Misesian terminology).

Croce developed this same idea in 1900! In developing his counter-argument to Pareto’s idea of the scales of value, Croce asserts that the reason why the concept of a value scale is nonsensical has to do with the fact that economic action is always happening in a given moment. All valuations are momentary: when a person performs action A, instead of B, C or D, this does not mean that she prefers A to B, and B to C, and C to D, which would require her to choose B in the moment after A was done. No, argues Croce, the fact that the person had chosen A over all other alternatives means only that she preferred A to all other actions. In the next moment, she could easily decide to choose C over B, or B over D; the fact of a person choosing A does not imply any further choice among other alternative in some later moment:

The absurdity involved in the notion of greater or smaller values is, in short, the assumption that an individual may be at the same moment under different conditions. The homo economicus is not at the same moment in a, b, c, d, e, f,...but when he is in b, he is no longer in a; when he is in a she is no longer in b. he has before him only one action, approved by him; the action rules out all the others which are infinite, and which for him are only actions not preferred (non-values) (Croce 1966, p. 165).

The implications of this are enormous. One of the most obvious would be that cardinal utility is untenable. The idea of interpersonal comparisons of utility is closely associated with the Lausanne school to which Pareto belonged and it was throughout the 1920s and early 1930s used as a rationale to welfare economics (Herbener 1997). However, Robbins (1932) is widely acclaimed as having refuted cardinal utility. Mises, Hayek and other Austrians in the 1930s, 1940s were assuming the Robbinsian refutation to be the last word on cardinal utility. And yet, Croce predates Robbins by more than 25 years. Robbins essentially derives the untenability of cardinal comparisons of utility by widening the scope of economic principles to include psychic income alongside the monetary and tangible income. And in this regard, the subjective utilities of two different persons could not be compared because nobody could penetrate the consciousness of another person and then compare the level and intensity of some feeling with his own. Hence, any public policy based on such interpersonal comparisons embedded into marginal analysis is unjustified.

However, we can say that Croce’s analysis is more consistent in terms of rooting every concept in the subjective utility and individual choice, and tying tightly value and utility in the act of choice in time, rather than in some theoretical generalizations about the way preferences are formed. When a person decides to take an action a, all other possible choices are simply non-actions. In an act of exchange for example, what is being exchanged is not the greater for smaller value (as the conventional Austrian theory would have it) but a value for a non-value:

A is worth B, the value of a is b, does not mean (the economists of the new school knew it well) that a=b; nor even as is said a>b; but that a has values for, and b has not. And value—as you know—exists only at the moment of exchange, i.e. the choice (Croce 1966, p. 174).

So, he goes a step further in elaborating the subjective character of marginal analysis than either of the great lights of Austrian economics. Croce rejects the idea of ordinal utility as intra-personal comparability of different actions or choices in time, as it has been developed by the Austrian school; the notion that in every moment we can have a clear picture that we prefer A to B, and B to C, and the only restriction is that we cannot extrapolate from this to the next moment. Croce, however, does not accept even this: he consistently insists that if the value is demonstrated only in action, than everything that we can say about relative valuations of different things or different choices is that an action A at time t was preferred to all other actions. Not that at this given moment we preferred this action to something else, even in an unquantifiable fashion. Not only that we cannot
quantify our preferences for different actions and choices at a given moment, we do not have, as far as economic science is concerned, any other preferences apart from that which is demonstrated in action!

Croce is actually applying the Rothbardian doctrine of the demonstrated preference to the concept of ordinal utility. If economics deals only with human action and the preferences represent the economic phenomena only as long as they are demonstrated through action, then the ordinal ranking of different choices or goods in our mind is a mere psychological chimera! I can believe at a given moment that I prefer Coca-Cola to Pepsi, and Pepsi to Canada Dry. But, this is a mere introspective and psychological fact, not in the least more relevant for economic analysis then the numerical values I might have fancied myself to attach to those choices.

Actually, from the point of view of the demonstration of my preferences, the ordinal rankings of Coke, Pepsi and Canada Dry is equally irrelevant, psychological and non-economic as my claim that I like Coke 2 times as much as I like Pepsi. The only fact that I am demonstrating through an act of buying a can of Coke is that I prefer Coke and do not prefer either Pepsi or Canada Dry, and nothing more. That is what Croce has in mind when he says that the value scales (be they ordinal or cardinal) are absurd.

How is this reconciled with the theory of diminishing marginal utility which seems to require at least some form of intra-personal comparison of utility? Croce provides a brilliant answer, quite consistent with his extreme action-oriented subjectivism, in the Philosophy of Practical:

If the individual A eats the bread that he has bought for seven soldi, when swallowing the second or the tenth or the last mouthful, he has a pleasure, not inferior to that which he had when swallowing the first, but different: the last was not less necessary for him, in its way, than the first; otherwise he would have remained unsatisfied in his normal want, in his habit, or in his caprice. The economic man seeks the maximum of satisfaction with the least effort (Croce 1967, p. 367).

Croce here poses a very difficult problem that later literature both in Austrian and non-Austrian versions did not address satisfactorily: how to reconcile the concept of marginal utility with the concept of economizing choices? Marginal utility as a demonstrated fact of human action would mean un-economic behavior, the failure to maximize utility, and hence would seem to contradict the basic assumptions of economics.

The most important corollary of this is that there is no a homogeneous class of “goods” (bottles of water, mouthfuls of bread and so on) that have a diminishing marginal utility. It is not that the satisfaction from consuming an additional unit of a homogeneous good does not decrease over time, but the problem is that it is impossible to demonstrate consumption of a homogeneous good in action! A mouthful of bread, a can of Pepsi are never the identical or ‘equally serviceable’ units of consumption the preference for which is demonstrated through action; they are just one element in an entire complex of different components of choice consumed in the same moment: the atmosphere, the feeling of the moment, the delicate balance of different tastes and so on. This finely grained architecture of choice is full of trade-offs that prevent any confident assignment of value to any one individual component of choice in isolation from the others. The only thing we can say for certain is that in so far as a man is economizing at all, the sum of all those subjective factors has to be maximized at any given point of time. But we cannot model in economics the particular mathematical behavior of any individual component of this composite called “overall utility gained by consuming an additional unit of bread”: the reason being that an additional unit of bread is never consumed in isolation from dozens of other factors that influence its increasing or decreasing utility. The second and third mouthfuls of bread are not the same goods with diminishing marginal utility, but different goods with incommensurable utilities! In economics we cannot speculate about the psychological dispositions of people vis a vis different classes or different quantities of arbitrarily defined “goods” (i.e. arbitrarily abstracted features of the decision-making environment). We can only observe their demonstrated preference in subsequent moments of time. We can see that a person demonstrated her preference for a can of Coke over a can of Pepsi by choosing one over the other. But, we cannot say that an additional can of Coke would have for that person a lower marginal utility, because this is impossible to demonstrate in action in time.

Hence, Marginal analysis is a necessary abstraction in economics, but Croce’s analysis demonstrates how narrow and almost non-existent its value is for predictive purposes; how essentially complex and irreducible human action is. Croce does this in a much more consistent fashion than any other Austrian economist. We can say that Croce’s theory of utility and choice poses a difficult question for (any type of) economics: if an act of choice is the only material of eco-
Economic theory and if marginal valuations could not be demonstrated in an act of choice, is there any practical value of marginal analysis? What is the difference between marginal valuation and cardinal utility in this regard?

A good practical application of this type of reasoning is Walter Block’s critique of the prevailing (Mises-Kirzner) theory of monopoly in Austrian economics. Block argues against the Kirzner’s view that although the conditions of a true market monopoly tend to be very rare on the free market they could occur if a single supplier monopolizes the entire supply of a good. Kirzner argues that if a single producer monopolizes all the oranges in the world (very unlikely but possible event) then that monopolist of oranges would become a monopoly supplier of the orange juice. This situation would require government action.

Block’s objection is an interesting one: he says basically that the oranges are not some isolated homogenous goods that satisfy some homogenous market need called “demand for orange juice”. No, orange juice is just one of the possible products that can satisfy demand for a certain type of drinks; for example for the soft drinks. If a monopoly supplier increases price of the orange juice, the orange juice consumers would turn to the substitutes, such as the apple juice, or peach juice, or even the carbonated drinks or beer. The main point is that the demand for orange juice is not infinitely inelastic, or to put it differently, the relevant market in which the orange juice producers are selling is not the market for orange juice, but rather the market for soft drinks, or in some cases maybe even the market for all drinks. Dixit Block:

Professor Kirzner, in attempting to show that market monopoly implies exclusive control over a resource, states, “Without access to oranges, entry into the production of orange juice is blocked”. But, in the real world, consumers distinguish between biologically and chemically identical things: Chiquita bananas and Perdue chickens being the most famous cases in point. Now, the Chiquita banana company by no means controls all bananas, but it is the complete and full monopolist of the resource known as “Chiquita bananas”. Is the company a monopolist in the Mises-Kirzner view (assuming the demand elasticities necessary for monopoly price)? If yes, then there is an awful lot of monopoly running loose on the free market. Consumers’ sovereign desires are being balked at almost every turn, and perhaps we will soon be faced with the specter of an Austrian supported government anti-trust policy. If not, it can only be because the non-Chiquita bananas are substitutes for Chiquita’s bananas. But if this is so, then how can mere ownership of all the oranges confer a monopoly? For, are not grapefruits, watermelons, tangerines and other fruits substitutes for oranges? (Block 1977, p. 275).

So monopolization of the supply of oranges does not mean monopolization of market in any relevant economic sense, since the unit of satisfaction or utility is not the unit of homogenous good called a can of orange juice, but rather a can of some drink capable of satisfying in a similar manner the needs the orange juice is satisfying.

However, the Crocean argument here would have been: why stop at grapefruits, watermelons or tangerines? What about the other non-tangible components of every single choice? How about the satisfaction of consuming oranges, instead of watermelons? Or of consuming any kind of juice as long as it is provided by an unhampered market, irrespective of how this affects the narrower physiological reaction of our body to the different kinds of juice? Or drinking juice provided by domestic manufacturers? Or foreign ones, if a consumer is a free-trade zealot who enjoys rewarding foreign suppliers and fostering free-trade, irrespective of price? Are we supposed to attach a higher utility to the bodily reactions over the emotional or intellectual satisfactions accompanying the enjoyment of differently produced and marketed kinds of juice? If a monopolist of orange juice “withholds” the supply or charge higher price, and the quantity sold drops, the only praxeological conclusion we are allowed to draw from this is that one component of the typical pattern of satisfying the need for drinking increased in price and decreased in quantity sold. Nothing more. People changed their preferences for buying a given quantity of orange juice. That does not imply anything about the juice’s contribution to their subjective utility today, in two, four days or in a month.

CONCLUSION

Benedetto Croce developed many essential features of the high theory of Austrian economics, especially theory of value, cost and method of economic science. He anticipated and in some respects maybe offered a superior formulation than Mises, Robbins, Rothbard, Kirzner and other authors who were written, to various degrees, in the Mengerian causal-realistic tradition of economics. This is particularly the case with Croce’s theory of utility and demonstrat-
ed preference, with their radical and perhaps even nihilistically subjectivist undertones, whereas in the domains of *apriori* character of economics, the theory of cost and praxeology his contribution was primarily in anticipating the works of classical “Austrians” of the 20th century. In both cases Croce’s contribution was ignored for two separate reasons: first, because of highly unsystematic and fragmentary character of his economic writings, consisting mostly in a couple of letters to Pareto and in some offhand comments in *Philosophy of the Practical*, and second in the professional prejudice of academic economists against a philosopher who wants to say anything of value in economics. However, the significance, astuteness and even originality of Croce’s economic writing, forces a historian of ideas to rectify this injustice and recognize his contribution to economic theory.

**NOTES**

1. See for example Croce 1917 and 1922.
2. Croce’s principal thoughts in economic theory are contained in two letters to Wilfredo Pareto (Croce 1966; 1967).
3. For a defense of Robbinsian method against the Kirzner’s critique see Salerno 2009.
4. This pragmatist stance is shared by Mises’ pupil Rothbard, especially 1976.
5. For an excellent defense of the hard-core Misesian praxeology and criticism of Hayek, Shackle and Lachmann’s “nihilist” attacks on it, see Selgin 1987.
6. For a classic philosophical exposition of this idea of irreducibility of an individual experience of consciousness see Nagel 1974.
7. The difference between ice in the winter and ice in the summer invoked by Rothbard 2009, 15f-16f.

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The Method of Antinomies: Oakeshott and Others

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Abstract: Michael Oakeshott employed a device of argument and analysis that appears in a number of other thinkers, where it is given the name “antinomies.” These differ from binary oppositions or contradictories in that the two poles are bound together. In this discussion, the nature of this binding is explored in detail, in large part in relation to Oakeshott’s own usages, such as his discussion of the relation of faith and skepticism, between collective goal-oriented associations and those based on contract, and between a legal regime based on neutral rules and one oriented to policy goals. Other examples might include Weber’s distinction between the politics of intention and the politics of responsibility. Moreover, such ambiguous concepts as “rights,” have antinomic interpretations. In each of these cases, the full realization of one ideal led, in practice, to consequences associated with the other: in political practice, neither polar ideal was realizable without concessions to the other. But these features are rooted in the deep history of institutions. They are contingent, not philosophical. They nevertheless preclude conventional approaches to political theory.

Keywords: Michael Oakeshott, antinomies, meta-politics, democratic theory, Max Weber, Hans Morgenthau, genealogy

Several of Michael Oakeshott’s writings, including On Human Conduct ([1975] 1991), employ an argumentative device that is shared with several other twentieth century thinkers, but which has not received much attention on its own terms. The device involves antinomies—the most famous of Oakeshott’s being the antinomy between the state understood as a civil association and as an enterprise association. The antinomies between the politics of faith and the politics of skepticism, individualist and collectivist thinking, rationalist and pragmatic politics, and, in the essay “The Rule of Law” (1983), between the pure neutral rule of law and policy, work in the same way. These uses compare to some other prominent cases: Max Weber’s antinomic distinction between the politics of conviction and the politics of responsibility; Carl Schmitt’s claims about the ultimate incompatibility of liberalism and democracy; Hans J. Morgenthau’s antinomy of love and power; in Edward Shils, who explicitly addresses antinomies in “The Antinomies of Liberalism” ([1978] 1997) and in The Torment of Secrecy (1956), and more recently in Chantal Mouffe’s The Democratic Paradox (2000).1

These thinkers exemplify a core project of de-mythification and de-ideologization which can be understood as a liberal counter project to ideological liberalism and to ideology generally. A naïve reading of these thinkers treats them as relativists. But this is a misreading. The antinomic vision of politics is different from relativism in any simple sense of this term. It is specifically distinct from, and opposed to, the idea that there can be an ideological “solution” to the antinomies in question. This is not relativism: it is not relativistic about the ideologies in question. It denies that they can be correct doctrines. For these thinkers, ideological thinking is an error: a false escape from the irreducibly antinomic character of political life and political choice. From the point of view of antinomists, projects like “democratic theory” presume, in contrast, that the relevant antinomies can be reconciled in theory: that the antinomies are, in the end, false ones.

In this paper I will examine the use and meaning of these antinomies, and disentangle their use from misinterpretations, as well as show how their recognition represents a critique of and alternative to standard modes of political philosophy. In doing so I will cover some familiar ground. My aim, however, will be different: to explicate the form of reasoning itself. Oakeshott says a good deal about the antinomic character of the specific antinomies he explores, and their conditions, though he uses a different terminology. But he does not discuss antinomies as a class, or, so to speak, from the outside. He does not say, for example, that freedom and equality are not antinomic in the sense of the antinomies he does explore, though this, and the antinomies of the term freedom, in the famous case of Isaiah

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Berlin’s *Two Concepts of Liberty* (1958), formed a large part of the intellectual landscape in which he wrote. Nor does he distinguish the cases he focuses on from other binary oppositions—life and death, good and evil, eros and thanatos, yin and yang, and so forth. In what follows I will attempt to distinguish the genuine antinomies from the mere oppositions, and explain what makes these antinomies work, and what is implied by their existence. In doing so I will draw from Oakeshott, especially from works such as *The Politics of Faith and Scepticism* (1996), where he is especially open and plain-spoken about their sources and nature. Oakeshott was famously disinclined to talk about method. As Kenneth Minogue says, “Oakeshott’s inclination was to reject methodological formulae and to rely upon a philosophical self-consciousness about the precise relevance of the questions being asked and answered” (Minogue 1993, p. viii). But he often did speak about the conditions for and the goals of understanding political ideas, if not in a way that readily answers the questions I have raised here, so there are resources in addition to the analyses themselves with which to answer them.

**PRINCIPLISM AND ITS METHOD**

We can begin by describing a methodological contrast, which may itself have the character of an antinomy, between antinomism understood as a method or meta-theory of the political, and what we might call principlism. This ugly term will be discarded, however, once the implications of the “antinomist” alternative become clear. The contrast can be seen in a simple recent case, Eric Beerbohm’s *In Our Name: The Ethics of Democracy* (2012). The core of his argument is that citizens are responsible for actions taken in their name. As the argument was recently summarized, Beerbohm takes on the important question of citizen responsibility for policy decisions, and demonstrates that it should be the primary lens through which we should view the problem of self-government. He convincingly shows why many of our assumptions about representative government and institutional design are mistaken. He argues that democracies should make transparent the responsibility that each citizen bears for policies as a result of participating in elections. Current institutions often mask that responsibility and require redesign. They should be constructed to ensure transparency and so that citizen responsibility might be realized (Brettschneider 2015, np).

This is a simple example of the procedure. It tries to identify the underlying and grounding principle of democracy, “the primary lens,” and derives a normative lesson from it, making this into a critical or standard-setting theory by which democracies can be judged, and also reformed, in accordance with the principle.

In this case, and indeed in principlism generally, principles are held to be in some sense both derived from “current institutions” and superior to them. In this particular case, and indeed for “democratic theory” generally, antipathy to actual democratic institutions is at the heart of the argument. Here the argument is that the ordinary machinery of government, and indeed elections themselves, fail to make transparent the responsibilities each citizen bears, and need to be given an institutional redesign in accordance with the principle. It is only a slight irony that this kind of democratic theory is itself anti-democratic: the procedures and institutions which are being challenged by the theory were themselves arrived at through democratic procedures, and may rightly represent enduring preferences of the people who are governed by them. Democratic decisions about the nature of the democracy under which people live are not, however, sufficient for “democratic theory.” The theory tells us that the mode of democratic approval was itself not properly democratic, and therefore the actual untutored will of the people is to be ignored in favor of the design that follows the principle, which in turn is derived not from the will of the people but from some other source.

Interestingly, there is an antinomy produced by the unrealism of this principle. The creation and execution of policy requires leaders—decision-making is normally concentrated. And it is difficult to see how a model with no leadership and no special concentration of responsibility in leaders would work, at least in many of the situations faced by democracies. This points to a question and provides a suggested answer. What, if anything, then, is the antinomy of “citizen responsibility”? Presumably it would be something like leadership—or responsible leadership, the ideal promoted by Morgenthau and before him by Weber. The point of responsible leadership is that the leader takes responsibility—for persuading the citizens, if necessary by deception, to support him or her in acting in the national interest. And with this simple example one can begin to see what the issue between the antinomist and the principlist is. In its pure form, “citizen responsibility” is not possible: deci-
visions need to be made on behalf of others, by people who take responsibility for these decisions—this is the essence not only of leadership, but of government itself. One might want to minimize these kinds of decisions, and maximize “citizen responsibility for policy decisions” by such means as feeding information about the consequences of policies back to the citizens in a transparent fashion, but in practice some decision-making will always be made on behalf of citizens: it would be impractical for every citizen to know everything about policies. The ideal is an unrealizable ideal-type. Dictatorship, in contrast, in which leaders take all the responsibility for decisions, is not an unrealizable type. But even dictators need legitimacy, and are in this sense at least accountable, and their followers “responsible.”

The principlist deals with objections and obstacles, especially with incompatible ideals, in various ways. In the literature on Weber, which is also concerned with the problem of legitimacy and leadership and the antinomies it produces, the standard “democratic theory” strategy is to impute to Weber a “democratic theory” which makes democratic legitimacy a ground and principle (Breiner 1996; Kalyvas 2008) or alternatively to criticize him for having the wrong theory of this sort (Maley 2011). Much of the effort of recent democratic theory has been focused on the troublesome idea of freedom: democracy is supposed to be the font of all good things, but of course it is also a form of rule, and engaged in coercion. So these raw facts need to be reconciled with the ideal of rule by the people. One way is to redefine freedom, as for example Phillip Pettit does (1997), in terms of non-domination, and then to define domination as that which the people regard as cases of domination. This salvages an idea of democracy by making freedom depend on what the people say, but indirectly: we are no longer talking about freedom in even the ordinary sense of the term.

Another method is to reconcile justice and freedom by putting them in different categories: freedom can be seen as a good which must be distributed according to the principles of justice. Yet another way is to claim that there is a real, or at least possibly real, embodiment of the democratic idea in certain circumstances in which there is no state, and no machinery of democracy, in a revolutionary event in which all contradictions disappear: in which a kind of collective mental fusion occurs in which the people’s will is simultaneously formed and expressed, without the impediments of procedures and authority, and therefore both freely and democratically at once.

The procedure of reconciling conflicts by subsuming them under a principle is particularly fertile in one respect: it provides the basis for academic writing which applies, refines, or generates alternatives to the principles proposed by others. Much of this reasoning depends on definitions and the refinement of definitions, redefinitions which are supposed, as Pettit’s replacement of freedom in the sense of non-interference with “non-domination” does, to allow conflicts to be eliminated. It was an ironic consequence of neo-Kantianism that it aspired to identify the transcendental conditions of knowledge, its necessary and therefore unique presuppositions, but produced, rather than a unique list, a proliferation of competing and conflicting systems, all of which claimed to have identified the “necessary” conditions in question. Principlism in political philosophy has the same effect; after a long period in which Rawlsian principles and philosophical methods and their application held sway, only to become passé, the same goal of finding a single unifying principle rooted in a special philosophical method has lived on. The only lesson learned from the Rawlsian project was that system building grounded in a single principle is a good thing.

What we are dealing with in the case of antinomies are conflicts or incompatibilities in the domain of principles. The temptation to resolve the incompatibility at the level of principles is thus not surprising. From the point of view of logic, in any case, there is nothing inconsistent about choosing freedom over equality, or the reverse. So why is there an issue about making them compatible in the first place? From a principlist point of view, it might be seen to be better to have a theory that can not only explain more than its rivals but also explain its rivals. So there are clear motives for an argument that eliminates many apparently conflicting claims by redefining them and reducing them to a more fundamental principle.

What is the antinomist’s motive? Without falling into principlism, she cannot simply be proving another principle by the same means. Nor can the antinomist provide principled reasons for the claim that a resolution in principle between the antinomic sides is impossible. But antinomic arguments nevertheless are about the relation between principles. The relation, however, is not philosophical: the antinomist assumes that the principles or ideas in question are, on the one hand, “ideal,” and on the other that they cannot both be realized fully without conflict with the other: one cannot in the actual political world, for example, maximize freedom without producing as a by product some inequality. Nor can one reduce inequality, at least in the radical manner envisioned by equality understood as an ideal, without depriving people of some of their freedom.
These are banalities. Some of the ideals may be impossible to realize, but can be realized partially. But the antinomist makes a more interesting point: that the achievement of the ideal requires, as a condition, in some sense, things associated with its apparent contrary. This is not a philosophical requirement, though in some cases it comes close to being one, but a practical requirement, that holds in the particular world governed by a large set of particular or local contingencies, such as the world of modern European politics rather than in all possible worlds, as a genuine relation of entailment would. It involves factual conditions rather than logical ones. It is therefore a method, so to say, of political theory rooted in real political possibilities, rather than political philosophy rooted in ethical or other principles. But the factual conditions in question become apparent and relevant only through the lens of the conflict of ideals.

The obvious alternative conclusion—that there is a plurality of irreducibly competing and conflicting principles each of which has some attraction—cannot be addressed with the methods of redefinition and assimilating to a foundational principle. But there is a problem with this conclusion that the principlist will instantly recognize. Even acknowledging the fact of irreducible conflict turns into a discussion of the grounding principle of this acknowledgement. The principlist will immediately assimilate this acknowledgement to relativism, and conclude that relativism is self-refuting and consequently this conclusion cannot be genuinely rational. And one can see that the antinomist can easily fall into this trap by providing non-relativist “grounds” for their position, for example as Chantal Mouffe does, by in effect proposing a new doctrine of agonistic liberalism, in which the recognition of irreconcilable conflicts is given an implicit teleological justification, to stand alongside the teleological ends of principled, reductionist political philosophies. This creates its own antinomy—with the kind of politics represented by Jürgen Habermas, in which there is a teleological pull toward the elimination of disagreement. But Mouffe falls into the temptation of justifying agnostic liberalism as “progressive”. Oakeshott famously denies that politics has a teleology, other than his comment on seeking coherence, to which we will return.

But what if principlism as a style of philosophizing is, as neo-Kantianism was, defective and inherently unable to achieve its goal of identifying the underlying true normative principles of politics? A plausible reason for thinking this to be the case would be that there are antinomies—that there are conflicting and incompatible ideas which have some sort of attraction or intellectual compulsion, but which cannot be reduced to a framework based on either of the ideas. This is the core thought of the antinomists. But it depends on a number of other ways of thinking about these issues which have never been fully articulated, and which may seem obvious, but which are perhaps worth making explicit, if only to clarify how antinomism both differs from principlism, and what principlism looks like if we accept the existence of irreducible antinomies.

**WHAT ARE ANTINOMIES?**

One point about such principles should be already apparent: for each principle there is not only an alternative, but something more: a kind of counter-principle which trades on the absences, qualifications, or deficiencies of the principle in question. Put a little differently, one situation of argumentation involving “alternatives” would be this: we agree on certain premises, perhaps many, and disagree on a few—opening up the possibility that these disagreements, once isolated, may be open to being resolved. Antinomism makes a different point: that there are attractions, independent of one another, of each pole of the antinomy. They are in tension. The tension is a result not of some sort of conceptual error, but of the real presence of attraction, either the attraction of an ideal or the attraction of practical necessities which cannot in the end be denied. Nevertheless, the two poles are bound to one another.

This binding is difficult to explain, in part because, as we will see, it is not a binding at the level of principle, but of contingent fact. But there are also other relations, which are important for historical interpretation, and therefore of understanding the principles and disentangling them from their counterfeits. One of these involves the ambiguity of political terms and their malleability, which gives an illusion of commonality and continuity as well as feeds the hope that a further principle can resolve the ambiguities. Oakeshott makes the point that the term *salus populi* has been appropriated for a vast range of political purposes and thus been given a variety of meanings. “Democracy” is not merely ambiguous but deeply ambiguous—the home of its own antinomic interpretations. Similarly for “a right”:

The word “right” when preceded by the indefinite article enjoys a scale of meanings which ranges from one extreme to another, the extremes of meaning being, I contend, the meanings respectively appropriate to our two styles of politics (Oakeshott 1996, p. 42).
These terms have a traceable genealogy, which can reveal how the antinomic interpretations arise and how they change.

But Oakeshott makes the further point that resolving these conflicts and ambiguities is not in principle impossible, because the conflicts are contingent in the first place.

Confucius, when he was asked what he would do first were he appointed governor, replied: “the one thing necessary is the rectification of names.” He meant that “things” could never be “straightened out” while words remained equivocal. The observation was, of course, immediately appropriate to the politics of his situation, where government was not distracted between two opposed directions of activity (Oakeshott 1996, p. 95).

This was not an isolated comment. Oakeshott makes the more general point that certain kinds of societies may not experience these antinomies.

In a community whose members, engaged in few activities and those of the simplest character, are not drawn in a variety of directions, the politics of faith will have some appropriateness. Indeed, a monolithic society may be expected to have a monolithic politics (Oakeshott 1996, p. 95).

These remarks raise a number of important questions. The contingency of these antinomic conflicts distinguishes them from disagreements, dichotomies, taxonomies, and mere alternatives. But what are the contingencies? Are they escapable, or deep? And the contingent character of the conflicts raises the question of whether the political approach to them should be to alter the contingencies themselves through revolutionary means.

Understanding the contingent character of the antinomies, in general and specifically those discussed by Oakeshott, may be helped by comparison to Weber’s distinction between the ethics of intention or conviction and the ethics of responsibility. Weber’s point about these “ethics,” which of course are abstractions from commonplace ethical thinking conditioned by Christianity, is not that they are always and everywhere in conflict. In general good things follow from well-intended actions: we would find it difficult to understand them as well-intended if the intender foresaw harms from them. But there are situations in which this is not the case, and for Weber, as for Oakeshott, it is in politics—or as Oakeshott puts it, in the activity of governance—that the antinomies reveal themselves.

The way the conflicts appear in politics, in the activity of governance, however, differs from the general case. In one sense, there is a categorical distinction between an ethic of consequences and one of intentions. Intentions in the Christian tradition from which Weber came were visible only to God, and sin was intending in a way contrary to His will. Fiat justitia et percat mundus is a slogan that makes sense in this tradition, because the “world” which is allowed to perish is inferior to the other-world promised by God. But the relation between this-worldly and other-worldly is not an antinomic choice: it is merely a choice—the choice Weber underlines by quoting Machiavelli on the Florentines who put their city above their soul in the war with the Pope (1996, p. 126). In the realm of the political itself, however, matters are different. Politics is a this-worldly affair. There, the extremes of the ethics of intention are barely intelligible. Weber’s example is the bomb-throwing anarchist who has no hope for, or care about, the realization of the this-worldly political goal of anarchism. This person can only be understood in other-worldly, which is to say non-political, terms. Similarly for the extremes of the ethic of consequences: without intending to realize some ideal good, but seeking only power, the career of the power-politician “leads nowhere and is senseless.”

Within politics it is a contingent fact that the two ethics conflict, and they conflict only over specific instances of political decision: a politician may never be faced with this conflict. To be sure, there is such a thing as an other-worldly politics: this is the politics of the Grand Inquisitor, as described by Carl Schmitt, who places the salvation of his subjects’ souls above any earthly goal (Taubes 1987, p. 7). But there is nothing antinomic about this choice: the Grand Inquisitor is not an impossible figure, limited by a nemesis that arises from his own actions; neither is the politician with this-worldly goals. Nor is there any de facto requirement that each partake in the character of the other. In the case of Weber’s distinction, it is different: when Weber quotes Luther in his comment that “here I stand I can do no other” (1946, p. 127) he is pointing to the limits of the politics of responsibility, its nemesis, the need for an element of conviction that saves it from the senselessness of the power politician. And when he discusses the Christian in politics motivated by the law of love and the belief that only good comes out of good acts, he is pointing to the nemesis of either failure or morally compromising action, the moral compromise resulting from the fact that
politics is an activity in which the morally dangerous and unpredictable means of violence is characteristic, because it is characteristic of states.

So we have here a complex set of distinctions, including both antinomies and non-antinomic classifications. This-worldly and other-worldly, theory and practice, political ideals and the governance—these are all categorical distinctions, rather than antinomies. Their use enables us to isolate and identify genuine antinomies. But antinomies are not, so to speak, in the Platonic eternal. They are contingent, and contingent in more than one way. One way is revealed by the phenomenon of nemesis, to which we will now turn. Another is the way pointed to by Oakeshott’s references to Confucius and to primitive societies. Antinomies are antinomies for us—people with a particular background and history which is present in the attractions we have for particular ideals, which is itself a contingent fact. This contingency, which we may call a deep contingency, because it is not resolvable or alterable by short term or political means, needs some explanation, for understanding this kind of contingency is central to understanding what binds the antinomic pairs together.

BINDING AND NEMESIS

As we have noted, Oakeshott makes an the observation that many of the key terms of political discourse are ambiguous, and have developed conflicting meanings, or changed meanings, over time. The fact that the terms are the same binds these usages without our having to discover that they are bound. “Ambiguity,” however, while it is a useful term for understanding the history of a concept, is not precise enough. There is the ambiguity of the term bachelor, applied to unmarried men and also to graduates. There is no antinomic conflict here—merely multiple meanings. In the case of “democracy,” however, the different meanings not only conflict, but stand in a relation to one another that is not extricable by redefinition: the two meanings, are bound to one another in a distinctive non-accidental way. So what we need is an answer to the question “How are antinomic pairs bound to one another?” whether or not they are multiple meanings of the same term.

What makes them antinomic rather than merely typological? One answer is this: the practical exceptions one must make to the principle refer to the antinomic partner. Schmitt turns this into a methodological principle: that, as he quotes Kierkegaard, “the exception explains the general and itself. And if one wants to study the general correctly, one only needs to look around for a true exception” (2005, p. 15). This part of the idea is simple: the nature of the general claim is revealed by the exception. A simple example of this might be taken from Karl Polanyi’s The Great Transformation ([1944] 2001). The general principle he invokes is that capitalism dehumanized people by substituting the cash nexus for genuine social relations, and that only socialism can restore them. The “exception” he acknowledges is this: some people will not accede to these genuine relations voluntarily, and must be taken care of separately, as misfits. As Polanyi says, the “objector” should be offered a niche into which he can retire, the choice of a “second-best,” that leaves him a life to live. Thus will be secured the right to non-conformity that is the hallmark of a free society. The general principle is revealed by this exception to the principle of socialist solidarity, which is belied by the existence of “objectors” (Polanyi [1944] 2001, p. 255). Both the character of the antinomic principle and its antinomic pair are revealed by this strategy. The demand of conformism is concealed in the idea of solidarity; the need to punish or corral the non-conforming is revealed by the exigencies of the application of the idea.

Leo Strauss, commenting on Weber, dismissed his examples with the comment that the political conflicts could easily be resolved by considerations of prudence and the like. His thought was that issues of conflict in general could be resolved by a suitable Aristotelian hierarchy of ends in which these considerations could be balanced ([1953] 1965, pp. 68-9). But Strauss’s appeal to prudential considerations has the effect of conceding Oakeshott’s point: there are contingent situations in which an appeal to prudential considerations is necessary to resolve a conflict between principles. The question is whether these situations are central to actual political life, to the activity of governance, or are exceptions which can be ignored in favor of an otherwise applicable hierarchy of the good.

For Oakeshott, in practice conflicting ideals can be and are reconciled, though not definitively: this indeed is the essence of politics. But how do these antinomies work? Why are they not just alternative value choices? This requires some analysis. They are ideal-types, neither of which is fully realizable because it is dependent in some manner on its antinomic pair. The pairs are thus linked, but in conflict. One can suppress one side of the pair, but not obliterate it. Even the state oriented fully to substantive rather than procedural justice, for example, cannot operate without procedures—Cadi justice requires the appointment of a Cadi, for example; the state which aspires to neutrality, similar-
ly, must be legitimate, and seen to be effective in achieving some substantive goods for its participants. These are not hard analytic truths, but lessons that result from putting ideals into practice, as Oakeshott himself says.

Strauss, however, has a point: the argument depends on the identification of conflicts at the level of political ideals that may not be apparent in the ordinary course of politics. The use of extreme “conceivable but not realistic” examples to bring out these conflicts is worth examining. It appears repeatedly in Oakeshott’s own writings. Take a simple example from Oakeshott:

What we are seeking is an alleged mode of association in which the associates are expressly and exclusively related in terms of the recognition of rules of conduct of a certain kind, namely “laws.” And what we have here is associates related expressly and exclusively in terms of seeking to satisfy substantive wants (1983, p. 124).

The “expressly and exclusively” phrase signals the unreality of these extreme cases. In practice, as Oakeshott himself says, the extreme case of a rule of law regime is not realizable. The alternative extreme is perhaps possible, though as we will see, the possibility depends on contingencies.

So what is their function in the argument? As Walter Benjamin puts it:

The general is the idea. The empirical, on the other hand, can be all the more profoundly understood the more clearly it is seen as an extreme. The concept has its roots in the extreme. Just as a mother is seen to begin to live in the fullness of her power only when the circle of her children, inspired by the feeling of her proximity, closes around her, so do ideas come to life only when extremes are assembled around them (Benjamin [1928] 2003, p. 35).

Bloodless abstraction, the grey of theory, is a realm in which antinomies can be reconciled. Much of the time, as noted, they can be reconciled in practice. It is in the extremes of the empirical that they become recognizable.

Maxims of the sort quoted by Benjamin sound systematic, but they are not. This one is already in the form of a paradox, since the general has, by definition, no exceptions. To understand it we need to see how it works in these arguments. Oakeshott, in Politics of Faith, uses the term “nemesis,” which is closer to the point: which is that in practice a given tendency to realize an idea is undone or limited in distinctive ways; distinctive in that they arise from considerations associated with its antinomic pair. In discussing the nemesis of the politics of faith, or perfection, he lists a number of examples:

the engagement to impose a single pattern of activity upon a community is a self-defeating engagement (Oakeshott 1996, p. 99).

The politics of skepticism, and its antinomic pair of the politics of faith or perfectibility, each have their own nemesis that points to the other in the pair:

The disposition of scepticism to underestimate the occasion is another facet of this defeat. Faith recognizes every occasion as an emergency, and in the name of the “public interest” or the “public advantage” maintains its antinomian rule by calling upon the vast power at its command, which (because it is always insufficient) is always in process of being enlarged (Oakeshott 1996, p. 108).

The nemesis of the politics of perfectibility is that political power is always insufficient to achieve it—precisely the confession that Polanyi makes, justifying the “necessary” practices which he was well aware were characteristic of Stalinism, when he admits that solidarism will never be complete.

But skepticism has its own nemesis.

It is liable to confuse a genuine emergency with the counterfeit emergencies of faith, and to discount it. But in doing so it displays an insufficiency which puts it on the road to the other manner of self-defeat to which it is liable (Oakeshott 1996, p. 109).

This failure and the inadequacies it reveals is part of the “real” to which Oakeshott and antinomists more generally attend. But we can ask about other parts of the real as well: the nature of deep contingency, and the relation between ideals and the stuff from which they are, as Oakeshott puts it, “extricated.”
DEEP CONTINGENCY, IDEAL-TYPES, AND THE DATA OF HISTORY

Ideals need to be formulated for their antinomic character to be revealed. They are not necessarily apparent in the flux of ordinary political talk. The abstraction in question, because it is an imaginative enterprise, is not mechanical or scientific. The material with which it works is our way of talking about political things, and the way that they were talked of in the past. They reveal themselves in our manner of speaking, and they are cogent formulations only in so far as they make intelligible the current and historic distraction of our politics (Oakeshott 1996, p. 44).

Our talk about politics is not merely a mass of unconnected habits of speaking and acting, but a complex web underlain with purposes and with connected and conflicting purposes. We can find different coherences or ideal-characters at the surface of this web.

As Oakeshott says, “The uninhibited character of each of these two styles of politics has, then, to be extricated.” Formulating them provides a kind of coherence to ordinary talk, but “to elicit this is an imaginative rather than a logical exercise; not a purely logical exercise” (1996, p. 92). But the formulation is not merely a matter of providing a definition identifying a family of notions that correspond roughly to what is in effect a kind of ideal-type, and indicating what the pull or attraction of these ideals (or rather the underlying purposes and aspirations which they articulate) is. It also requires revealing their character by identifying their nemesis or the exceptions that appear as they are put into practice. As Oakeshott explains,

Whenever the politics of modern Europe have moved decisively in the direction of either of these extremes, the shadow of the nemesis has appeared: our task is to reconstruct from these shadowy intimations the hidden character, or at least the hidden characteristics which they signify (ibid.).

So finding the coherence of an ideal, or constructing it imaginatively out of the raw material of political speech, is more than a matter of logic in a variety of ways. It relates to the pushback of the real world in the form of nemesis, exception, and unintended consequences. But it also, because the antinomic relations depend on contingencies, relates to the contingencies of the real world as well.

This relationship is difficult to explain, for epistemic reasons that will become obvious. The principlist regards such contingencies as mere conditions to be altered in pursuit of the ideal and the elimination of the antinomy: as bumps in the road, or eggs needing to be scrambled to make a revolutionary omelet. But the failure to realize the ideals points to the difficulty of knowing what the relevant contingencies are. The topic is a theme of Oakeshott in the “On Being Conservative” (1962) where a contrast is identified between those who think that large scale change can be planned with predictable outcomes and those who believe the world is complex in ways that belie our ability to predict the consequences of our actions, especially those involving large scale change.

Some of the contingent facts that bear on antinomies, and which form their conditions, are what we might call “shallow”: altering them is possible, and there are predictable risks, costs, and benefits from doing so. Deep contingencies, however, are those which we cannot readily alter, or predict the outcome of altering, and typically are unable to conceptualize clearly in the first place. They exist in the longue durée. It is this kind of contingency that Oakeshott has in mind when he says that

Political activity in the conditions of modern Europe is movement within a certain field of historic possibilities. During this half-millennium these possibilities have expanded in some directions and contracted in others: what may be contemplated now is in some respects a smaller and in others a larger range of activity than it was five hundred years ago. But these contractions and expansions are relatively insignificant. The range of internal movement is fundamentally unchanged (Oakeshott 1996, p. 117).

This is not to say that rapid change is not possible: he also adds that “modern history may be said to have been inaugurated by a peculiarly large and rapid expansion of political possibilities, and its course, from this point of view, has been the more and more thorough exploitation of a range of movement then opened up” (ibid.). This was not the aim of the people who produced this change: their aims were not even political. Oakeshott locates a major component of the changes that allowed for the expansion of state power as the rise of individualism which eventuates in the Reformation (Oakeshott 1993, p. 22).
This is very murky territory. The deep contingencies that may become salient in the future, as conditions for previously unrealized or unconceived antinomies, may already be present in the deep history of a culture, or even more deeply rooted. Morgenthau, under the influence late in life of psychoanalysis, argued that the antinomy of love and power was fundamental. But because the salience of antinomies comes and goes, we need to avoid the temptation to ascribe these antinomies to human nature, without denying the possibility that they are indeed that deeply rooted.

ANTINOMISM VS. PRINCIPLISM: IS THIS A METHODOLOGICAL ANTINOMY?

In passing, I earlier commented that the relation between principlism and antinomism might itself be an antinomy. There is something to be said for this: the two approaches are in some important respects kindred. Both are abstractions from political experience and ordinary political speech; both aim at clarifying it or giving it greater coherence. Principle-seeking is, in any case, part of the political life the antinomist is concerned to study.

To abridge conduct into general principles is … a supremely important level of political thinking. And even at first sight it is obvious that some of these generalizations refer to the constitutions of government and others to the office or conduct of government (Oakeshott 1993, p. 14).

But the motives we might have for this kind of reconstruction will vary. One is “to understand what forms of behavior they represent or are intended to represent, and to recognize the part that they play” (ibid.). Oakeshott himself acknowledges that this is a hazardous affair. But more hazardous is the attempt to ground these principles in something more fundamental—to make them more than articulations of our practices, and into fundamental truths, beyond the contingencies that gives rise to antinomies.

An asymmetry between principlism and antinomism prevents them from being true antinomies. What the existence of contingent antinomies shows is that there are circumstances, contingencies, under which principles cannot resolve antinomies. Antinomism acknowledges that there are situations in which principlism, in the form of the Confucian rectification of names, which might be the same as the articulation of a new concept of citizenship to match what has become the practice of citizenship, as Marshall did, might be appropriate and successful. But principlism cannot acknowledge that its own truths are contingent, or that its exceptions undermine its principles: they must be placed in a category below truth itself.

NOTES

1. The pairing of Weber and Oakeshott might at first glance seem odd, but there is an important and somewhat startling textual basis for this connection. Oakeshott reviewed Morgenthau’s Scientific Man versus Power Politics (1946) shortly before writing “Rationalism in Politics” ([1947-48]/1962). The review, which comments that “This is a book good enough to wish it were better, and profound enough to wish it were more lucid” ([1947]/1993, p. 97), reads like a draft of Oakeshott’s classic paper, which provides exactly this lucidity. Morgenthau’s text does not mention Weber, but is the most overtly Weberian of his writings (see Turner and Factor 1984). It was based on lectures at the New School which were part of a special emigré genre, in which Americanizing German scholars presented their views by eliminating German sources and substituting Anglo-American ones. This had a distorting effect, but was also the source of novel connections, for example Morgenthau’s appropriation of Lincoln as the exemplary great leader.

2. Let justice be done though the world perish.

3. Oakeshott discusses this impulse to enforced conformism at length under the heading of solidarism (1993, pp. 89-99).

4. Strauss exempts the conflict between ethics of intention and ethics of consequences from his reduction to the prudential, but on ground familiar for Schmitt: Strauss interprets the conflict in its theological sense, as one between other-worldly and this worldly, or between the human and the divine, or theology and philosophy. These are non-antinomic, categorical distinctions.

5. The term “pairs” is important, but should not be misinterpreted. Nothing excludes an antinomic trilemma, or indeed any number of antinomic elements. To be antinomic, however, the elements must be antinomic to each of the other elements, that is to say form a pairwise antinomic relation with each of the other elements.
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Democracy in America is, Tocqueville informs his readers, “a book [that] is not precisely in anyone’s camp; in writing it, I did not mean to serve or to contest any party” (Tocqueville 2000, p. 15). Something of this independent spirit can be gleaned in Matthew Slaboch’s laudable book, A Road to Nowhere: The Idea of Progress and its Critics. An estimable spirit to possess in any age, it is especially so in times that are rent by inimical dogmatisms, such as the present. People across the political spectrum stand to profit from the perusal of this work, as it will impel them to reflect on a topic that these days is afforded far too little reflection: the directionality of history.

The general consensus has been that history flows forward or upward or whatever adverbial qualifier one wishes to apply, so long as it is directional and positive. That consensus has been compromised a bit of late, which seems to be, in part, the impetus for Slaboch’s work. Slaboch adduces data that suggest that people on both sides of the proverbial pond think the adverbial qualifier should be negative, not positive. For example, “a 2016 survey showed that more than 60 percent of citizens in the UK, nearly 70 percent of Germans, more than 80 percent of Spaniards, Italians, and Hungarians, and almost 90 percent of Frenchmen felt that their countries were on the wrong track” (p. 3). Meanwhile, a 2015 Bloomberg poll found that “72 percent of Americans think their country isn’t as great as it once was” (p. 111).

Dismaying though such evidence may be, one should guard against inferring from it that faith in progress has been abandoned. As time has shown, it is a faith of astonishing vitality. Having weathered wars, genocides, pandemics, famines, and countless disasters (of both the natural and manmade varieties), one safely can predict that the present unease will not wind up being the straw that broke the progressive camel’s back. On the face of it, it may seem preposterous that this faith should have survived the previous century with horrors the likes of which had never been witnessed before—at least in degree, if not in kind. But it survived because humanity survived; and not just survived, but flourished. Population increased; prosperity accrued; technology advanced; comfort(s) spread. In the aggregate, the twenty-first century has not been characterized by a re-crudescence of barbarism and societal collapse, but by developments never before seen nor, for that matter, imagined.

This merely raises the question, how does one measure or qualify progress? Oddly, this book on progress does little to answer it. Characterizing the term as “protean,” Slaboch declines to define it (p. 116). To be sure, the meaning of progress is protean, but a term’s proteanism need not preclude its definition. In the absence of one, it is not altogether clear what is being disputed. Nor is it clear how Slaboch can bring together a group of discrete thinkers and label them critics of an idea that brooks no definition, however provisional. What idea? Are they critics of the same idea? Is it even an idea? Fortunately, earlier investigators of progress were less averse to defining it; for guidance on this score, one could do worse than turn to Arthur C. Lovejoy and George Boas, as Ludwig Edelstein did at the outset of his classic work, The Idea of Progress in Classical Antiquity.

[The] general and necessary law of progress [is] a tendency inherent in nature or in man to pass through a regular sequence of stages of development in past, present and future, the later stages being—with perhaps occasional retardations and minor retrogressions—superior to the earlier (Boas and Lovejoy 1997, p. 6).
In this politically correct age, when a reckoning of cultures in terms of higher and lower is reflexively and inflexibly frowned upon, the words inferior and superior are apt to raise hackles. It is worth noting that those hackles have no place on a person who believes in progress, for that belief entails necessarily that today's world is better—higher, more advanced, further developed—than yesterday's. Some may pine for the simpler times of the previous generation, but rare is the chap who pines for the simpler times of the centuries, to say nothing of the millennia, of yore. Yet even those who insist, however inconsistently, that judgment be suspended when surveying cultures past and present cannot fail to appreciate why a broad consensus would be reached on the question of progress. In myriad ways—materially, intellectually, ethically—the evidence suggests rather forcefully that we are superior to our antecedents. It is hardly any wonder then that an underlying faith in progress endures—even in times of uncertainty; nor is it any wonder, when all signs point to progress, that, as Slaboch notes, "the canon of political theory… is filled with historical optimists; skeptics, pessimists, and theorists of decline are exceptional" (p. 3).

Slaboch is of the view that the skeptics and their ilk have been done a disservice; or rather, he thinks that by not hearing these thinkers out, we do ourselves a disservice, for there is much to be learned from them. Slaboch's approach is not that of, say, Robert Nisbet in his History of the Idea of Progress or Frank and Fritzie Manuel in their monumental Utopian Thought in the Western World; he does not array the prominent and not-so-prominent thinkers who have challenged the accepted wisdom on history's movement and give each his or her due. Rather, his approach is comparative—predominately cross-cultural, though, to a lesser extent, cross-centurial as well.

Bookended by an introduction and conclusion, the four chapters of this slim volume (about 200 pages, 60% of which is text proper) are devoted to a number of prominent skeptics from three countries—Germany, Russia, and America—who belonged predominantly to a single century—the nineteenth. The fourth chapter ventures into the twentieth century, though the three thinkers covered in it—Spengler, Solzhenitsyn, and Lasch—not coincidentally (we may presume) hail from the aforementioned countries respectively.

It is a novel approach, one that has a number of virtues, to which Slaboch draws attention. For one, it invites the reader to ponder the degree to which progress and criticisms of it are culturally determined. Is progress universal? Are there universal grounds for denouncing progress? Or is there a Russian progress and a German progress and an American progress and correspondingly Russian, German and American critiques of progress? Similarly, in what ways are criticisms governed by the social and political arrangements under which those criticisms are leveled? What do the animadversions that emerge from autocratic Russia have in common with those that come from democratic America? Moreover, by focusing on the nineteenth century, one is able to consider arguments that were fashioned during a period of relative stability as opposed to those that were devised in the twentieth century—a time of global upheaval. It is one thing to criticize progress from the Gulag. It is something else to criticize it from a 2,000-plus-acre estate that includes more than 200 souls (i.e., serfs) over which you reign.

Such strengths may inhere in Slaboch's comparative approach, but it is not clear that he ever capitalizes on them. Or perhaps in the end, these strengths are more nominal than veritable. That appears to be the very conclusion Slaboch himself reaches. "One of my aims [in the preceding chapters] was to determine whether political and national context shapes critics' proposals for action" (p. 111). In brief, it does not. It would be going too far to proclaim that political and national context is immaterial, but such context is—based on Slaboch's own findings—of tangential import. This is not to aver that the comparative approach is for naught: by virtue of it, the reader is introduced to a number of interesting figures and learns about the intellectual climates and controversies that permeated these countries in the nineteenth century. Nevertheless, one wonders if a different approach to this study would have yielded more and riper fruit. The question might be moot but for the fact that the framework is needlessly limiting and self-defeating, insofar as it prevents Slaboch from giving due attention to thinkers who do not fit his centurial or nationalistic criteria e.g. Rousseau and 'Toqueville. But lest I put the steam engine before the horse-drawn cart, let us return to the beginning.

In this work about critics of progress, "pride of place" (p. 7) is given, appropriately enough, to Schopenhauer, that incorrigible pessimist who espied aimlessness and futility in the interminable succession of events that constitutes history, the very succession in which his progressive forbears and contemporaries (from Herder to Hegel) perceived directionality and purpose. (Slaboch, in each of the chapters on the nineteenth century, thoughtfully gauges the swelling currents against which the critics of prog...
ress swam. These intellective overviews, at once enlightening and engaging, constitute some of the finest parts of his book.) Schopenhauer’s progressivist opponents maintained that history signified the flowering of reason and hypostatization of freedom, but, according to Schopenhauer, they failed to espy what really animates history’s movement: the Will. That is the essence of life—the thing-in-itself that Kant could not fathom—and the Will has no aim. If life fundamentally is aimless, whatever purpose man ascribes to it must be, like man himself, arbitrary and ephemeral.¹

In addition, not only is the Will aimless, it is insatiable. What Hobbes understood to be the “general inclination of all mankind, a perpetual and restless desire of power after power that ceaseth only in death” (Hobbes 1997, p. 70), could be said of Schopenhauer’s Will, minus the bit about power, which is precisely what Nietzsche added to Schopenhauer’s equation. To contend that we are moving toward a state of happiness or fulfillment or completion is misguided, because man essentially is restless. People have desires that they strive to sate and do in fact sate, but in its nature desire is like the mythological Hydra: indulge one, and two new ones arise in its stead. Thus, while the species has gone on to satisfy so many of its past wants—no age has enjoyed more widespread comfort, security, and privilege—people remain discontent. (Proliferation in the use of anti-depressants, the loneliness epidemic that plagues many developed countries, and the unending grievances of the average millennial all bear testimony to this.) Indeed, the argument could be made that in the midst of unprecedented plenty, people today are less content than their ancestors who were mired in perpetual penury. Progress is an illusion, if not a delusion.

Schopenhauer’s influence crossed continents and oceans—one of Slaboch’s reasons for giving him pride of place—and there is no question that the other two nineteenth century critics on whom Slaboch focuses were profoundly affected by the Philosopher of Pessimism. (Tolstoy’s spartan study included an engraved portrait of Schopenhauer and Henry Adam’s understanding of history was decisively shaped by Schopenhauer, as made plain in his A Letter to American Teachers of History.) Both Tolstoy and Adams shared Schopenhauer’s bleak view of history. To varying degrees, all three were, to borrow from Nietzsche, “suprahistorical men.” For such individuals, “there is no salvation in the [historical] process.” Instead, “the world is complete and reaches its finality at each and every moment” (Nietzsche 1997, p. 66). Mankind does not become more enlightened or ascend to higher stages of development. Or if it does, life pays no notice. The fundamental needs of man remain unchanging. Responding to critics who charged that War and Peace did not sufficiently portray the brutal character of the age (with respect to “the horrors of serfdom, the immuring of wives, the whipping of sons... and so on”), Tolstoy noted that there was nothing particularly brutal about it, at least compared with other ages. The inhabitants of the nineteenth century “loved, envied, sought truth and virtue, and were carried away by passions” (Tolstoy 2010, p. 1309), which is what the inhabitants of every century do more or less.

From a suprahistorical vantage point, there is nothing unique about, say, the twentieth century. If it appears incomparably murderous, it is because the means of execution had been incomparably improved and because there were so many more persons to execute. Human beings did what they always have done. It is folly to suppose that beings whose entire existence has been characterized by strife and struggle are approaching an age that will be devoid of strife and struggle. What could the next century change that the past millennia could not? “This is,” Slaboch writes, “the position of Schopenhauer, who suggests that only a fool would expect something new to emerge in the history of human activity, given that ‘we yet always have before us only the same, identical, unchangeable essence’” (p. 57). Adams might contest the immutability of history, but only so as to yield an understanding that is even more bleak: history as inevitable and irreversible decline.

At the risk of stating the obvious, the suprahistorical view predisposes to detachment and resignation those who harbor it. This is illustrated well by Slaboch and the cast of characters he assembled. For Schopenhauer, salvation—to the extent that there can be any—is attained through “a life of compassion and asceticism” (p. 23). Only by denying the will can one escape the torments of it. Such a life Tolstoy led, particularly in his later years, though Jesus more than Schopenhauer seems to have shown him the way. Wanting to become spiritually rich, Tolstoy renounced his material wealth. The progress of the species may be an illusion, but that of the individual is not. “The law of progress, or perfectibility, is written in the soul of each man, and is transferred to history only through error. As long as it remains personal, this law is fruitful.” The path to moral perfection is paved with the words of Jesus—“about forgiveness, humility, renunciation, and love of all men, of our neighbors and enemies” (p. 60). Adams, who characterized himself as a “conservative, Christian anarchist” (at least two of those labels could be applied to Tolstoy), divorced himself from...
what so many of his forefathers ardently devoted themselves to: politics. Convinced that America’s decline was ineluctable and Washington’s rot ineradicable, Adams preferred to mind his own affairs rather than tend to the affairs of others. He chose, as Slaboch puts it, “flight over fight” (p. 88).

All of this points to one of the central teachings of this work: there is no political panacea for the ills of life. It is an invaluable lesson, one that, if more widely heeded, likely would forestall many calamitous misadventures of the sort that littered the previous century. Indeed, given the unfolding of the twentieth century and the staggering toll that the nostrums peddled by political theorists and actors took, it is surprising and disconcerting that the lesson is not more widely heeded. But invaluable though it is, one closes this volume with the nagging suspicion that critics of progress should have more to offer. If the enduring wisdom of these critics boils down to “cultivate your own garden,” is it any wonder that they do not occupy a more prominent place in the canon of political theory? There is a reason why there are no tomes on Epicurus’s political philosophy, namely because he did not have one.

It is true that not all the critics covered in this book fit the dissociative mold. Slaboch makes an interesting distinction between critics who view history as being cyclical and those who view it as a “road to nowhere (or worse, to hell).” The latter sort tend to be dismissive and disdainful of politics while the former “are receptive to grand political projects” (p. 111). Interesting though this distinction is, it is virtually irrelevant in the context of this study. Slaboch identifies only three cyclical theorists, that is, critics of progress who have a political teaching or at least who do not counsel a withdrawal from politics, and only one of those—Oswald Spengler—is given sustained consideration in this work. Brooks Adams is overshadowed in this book as in life by his older brother, and Nikolai Danilevsky is afforded two plus pages in an addendum to the third chapter, a sort of afterthought that is not given much thought.

Even when one allows that a book of this length cannot but be limited, this seems a significant shortcoming. The increased awareness of and engagement with critics of progress that this book encourages could do much to meliorate the pestiferous atmosphere that infuses and inflames the political arena today, but if political discourse is to be improved, those who are concerned with their own moral improvement will have to be actively engaged in the effort. There is a danger to disengagement, one that Slaboch briefly acknowledges toward the end of the book. A divorce from politics may conduce to the betterment of one’s soul, but it also—because man is a political animal and not an angel—entails leaving politics to the wolves, whether they be of the left or right. How different the unfolding of the nineteenth and twentieth centuries would have been had Lincoln and Churchill, like the Turk in Candide and so many of the critics covered in this work, sought an “out” (p. 24).

This shortcoming could have been overcome without greatly expanding the work or altering its nature. It would suffice to assay different characters or give greater weight to ones Slaboch assigns ancillary roles. For example, if not pride of place, there is a case to be made that Nietzsche deserves a more prominent place than his educator, as Nietzsche’s impact on the character and one might say destiny of the modern (or postmodern) age is far more profound than Schopenhauer’s. If, as Slaboch asserts, the comparative framework he erected is “particularly illustrative because these countries would become synonymous with the twentieth century’s three leading ideologies” (p. 6), certainly Nietzsche, whose impress on fascism is conspicuous and indelible, would be the more fruitful critic to consider. What is more, Nietzsche has an overt political teaching. It is elliptical, as are so many of his teachings, but his teaching does not amount to the denial of the will and renunciation of the political. Slaboch is right to note that Nietzsche rejects the very idea of a goal in history (p. 31)—that there is a historical process of the sort Hegel and Marx purported to descry—but what Slaboch overlooks is that for Nietzsche, man is an animal that needs a goal. Before man killed God, he had a goal. In the shadow of God’s death, it will be necessary to create one. That is the work of philosophy, but the business of organizing human beings in pursuit of this goal is the work of politics. Yet Nietzsche, like so many thinkers who call progress into question, is no statist. The modern state is, in the words of his godless prophet Zarathustra, “the coldest of all cold monsters” (Nietzsche 1982, p. 160). Does Nietzsche illumine an alternate way forward, a road to somewhere, one distinct from the progressives’ path that leads to the end or consummation of history and the way out to which Schopenhauer and his epigones point? Lastly (because space, not reasons, runs out), progress for Nietzsche is not simply an illusion because there is no rhyme or reason to man’s existence; rather, what all good progressivists presume to be good—mastering and possessing nature; conquering chance; eradicating suffering; spreading equality—is in fact bad. The more we progress, the worse we become. However baleful one may find Nietzsche’s philosophy to be, he still compels a grappling with the gospels of modernity, the gospel of progress not least among them. To ignore or
dismiss him is not to confute him; rather doing so intimates that modern man is much more a creature of faith than he is inclined to concede.

This is a missed opportunity, not to give Nietzsche his due, but to provide a deeper reflection on what is problematic about progress. The comparative approach, while inventive and intriguing, ultimately proves inconsequential, and that it would ought to have been evident from the start. Schopenhauer does not philosophize about the German will, but about the Will simply; the moral perfection that Tolstoy espouses is not within reach for Russian souls, but for all souls; in Adams’s understanding, history is entropic not just for Americans, but for all who are swept up—or down—in it. This is not to say that the political and historical circumstances in which these thinkers found themselves have no place in a study of this sort; it is simply to say that they are not determinative. It was for this reason that Solzhenitsyn was critical not just of the regime that had sent him to the Gulag, but of the one that welcomed him in exile. Both regimes, in their relentless pursuits to secure dominion over the earth through technological advances, did more to debase and despoil man than elevate and enrich him. The increase of material wealth, a standard metric used to measure progress, entails—“inevitably?” one wonders—man’s spiritual impoverishment. There is fundamental criticism of progress, one that unites many critics, and one that merits a deeper exploration. Unfortunately, one will not find it in *A Road to Nowhere*. While Slaboch’s approach is admirably broad in its scope, a principal concern of his appears to be the current state of American politics. This much is suggested by the manner in which his argument is conceived or at least commenced. The hope and change of 2008 devolved into the extensive frustration and discontent that resulted in Trump’s election a mere eight years later. Optimism and progress have their limits and at a time of such pandemic disaffection and despair, it might behoove people who are afflicted thus to weigh the words of those who meditated on and cautioned about such limits. In view of this, it is especially lamentable that Slaboch does not include a critic of progress who arguably remains America’s most perspicacious observer: Alexis de Tocqueville.

The Frenchman is not altogether absent from this work. He makes a fleeting appearance in the chapter devoted to the Adamses, where he is acknowledged as being an augural critic of democracy and then summarily dismissed for not being critical enough. In the words of Alan Kahan (whom Slaboch quotes), “In *Democracy in America*, [Tocqueville] is, on the whole, an optimist.” (p. 77). The charge is woefully misplaced. (Slaboch qualifies this charge in an endnote, but it still stands in the text.) Suffice it to remark that a book that “was written under the pressure of a sort of religious terror in the author’s soul” is not likely to be the work of an optimist (Tocqueville 2000, p. 6). What is particularly unfortunate about the omission of Tocqueville is that he is critical and constructive. Furthermore, he addresses many of the social and political dysfunctions that beset America today, an abiding testament to his considerable and occasionally uncanny prescience. Thus, he writes about the loss of connection and meaning in a society wherein individualism and materialism run rampant; the dangers of an aggrandizing state that solicitously manages and micro-manages more and more of the lives of its citizens; the perniciousness of majority tyranny so alarmingly reflected in the inexorable political correctness that holds sway today. But he also proffers antidotes to these problems: the importance of the family, where the mores that redound to the health of civil society are inculcated; religion, which encourages people to devote themselves to something larger than themselves; and America’s unique federalist system, which allows people to do the very thing the non-cyclical critics counseled against—engage in politics. Not the disavowal of government, but self-government is the remedy Tocqueville prescribes. By means of it, liberty would be preserved and a bulwark against the mild despotism that menaces peoples in democratic ages would be erected. In sum, for America’s current ailments, Tocqueville has much more to offer than Adams.

Notwithstanding these quibbles, which may be too substantial to be characterized thus, this remains a rewarding book—stimulating, lucid, and unmistakably timely. One hopes it secures the wide readership it deserves and that its author returns to the problem of progress in the future, for readers have much to gain and Slaboch—one feels confident after putting down *A Road to Nowhere*—has much more to offer.
NOTES

1 This is not to say that when you perform some action, it has no purpose. If you drink a glass of water on a hot summer day, presumably you do so to slake your thirst. But the thirst you consumed the water to slake you did not give yourself. And it would be inane to contend that life gave you thirst so that you may slake it. That is, the desires we purposefully act to fulfill we do not bestow upon ourselves. This has not prevented us from fancying that we are in control. As Schopenhauer wrote, “Spinoza (Epist. 62) says that if a stone projected through the air had consciousness, it would imagine it was flying of its own will. I add merely that the stone would be right” (Schopenhauer 1969, p. 126). And so too with us. We imagine that we are progressing of our own will, but we have not propelled ourselves; like the stone, we too are thrown.

REFERENCES

Erwin Dekker’s new book is the latest volume in the series “Historical Perspectives on Modern Economics,” and that is exactly what Dekker delivers. Nevertheless, there are myriad prisms through which to frame an interpretation, and Dekker’s approach is particularly engaging. The Austrian school views market outcomes as emergent orders, but this only rarely translates into a distinctive methodological approach to the intellectual history of the school itself. *The Viennese Students of Civilization* is both a critical analysis and a cultural history offering a deeper understanding of the Austrian school and its context. The historical record will be broadly familiar to many readers, however, Dekker consistently offers new insights into how the Austrian school arose, how it was influenced by Vienna’s cultural and intellectual environment, and why this matters for us today.

Dekker’s thesis is that the Austrian school was the unique product of an intellectual community consisting not merely of economists or social scientists in a narrow technical sense, but who were generalists first and specialists second. Continental intellectual life of this period exhibited a cosmopolitan breadth which can seem intimidating to contemporary hyper-specialized academics—particularly to Americans. In addition, Vienna’s role as the capital of a diverse multinational empire practically guaranteed a less insular perspective for its intellectuals.

Dekker focuses on Ludwig von Mises’s circle or kreis, which was active in Vienna between the two World Wars, and which was fundamental in developing and transmitting the Austrian school’s doctrines and traditions. The Austrian students of civilization were committed to a distinctively agnostic world-view characterized by an approach Dekker calls “therapeutic nihilism,” a term borrowed from medicine. The comparable approach in medical practice focuses on understanding the processes of disease and healing, but avoiding active intervention and allowing the body to heal itself to the extent possible. Similarly, the first- and second-generation Austrian economists saw their role as understanding and describing the evolution of the emergent social orders of markets, law, government, social norms, and civilization itself—they might critique and analyze public policy, but generally would not advocate for particular policy measures beyond laissez faire.

Accordingly, the Mises kreis eschewed any attempt to direct markets and other emergent orders, but their agnostic humility ceded whole areas of political economy to proponents of Marxian social engineering. The Austrians argued against substituting the arbitrary design order of central economic planning for the spontaneous order of the market economy. As students of civilization, their primary aim was to articulate the ideal of a social order worth preserving. It is important to recognize that their role in defending emergent orders is essentially progressive, and contrasts sharply with a blind defense of a specific social order against the emergent forces of evolution and social development. The latter would have represented a conservative, even reactionary, principle.

The Viennese students of civilization sought a deeper understanding of the forces governing the development of civilization and other undesigned orders, in an environment where these forces wereretreating. Over time, as the rela-
tively liberal and cosmopolitan Austrian Empire began to erode from the assertion of competing nationalisms, its ability to foster liberalism declined. By the 1930s, the growth of genocidal totalitarianism led the Austrian economists to adopt increasingly normative modes of analysis and criticism. This may have resulted less from a fundamental shift in philosophy than from the proliferation of breathtakingly abominable public policy. Bad policy had always been there, but under totalitarianism there was to be no debate, no free press, and no deviation from the central plan—only mute obedience. In this worst of possible worlds, where dissent and inquiry were met with violence, the only option for the surviving liberal intellectuals was exile.

However nostalgic they may have been for the supremely cultured world they once dominated, it is quite clear that the Mises kreis were not reactionaries who wanted to restore fin-de-siècle Vienna. As students of civilization, they wanted to fight against an increasingly oppressive environment which threatened—and still threatens—to stamp out every vestige of civilization for all time. Because their scholarship focused on social cooperation, they were in a unique position to appreciate what had gone wrong. Around World War II, the Viennese students of civilization largely migrated to the United States, which may have afforded more freedom than some could fully appreciate.

The students of civilization were justly skeptical of economists’ ability to fulfill the role of savior, where economists were to act as charismatic technocrats, prescribing positive public policy to guarantee desired outcomes. Instead, the Austrians continued to contribute devastating critiques of social engineering, only to meet indifference from an intellectual atmosphere where they were asked only to perfect the pet social programs of the day. They had to combat a mentality which sees as a revelation, the assertion that human welfare can be improved if only people could be compelled to adopt more class-conscious values. Sadly, in this regard little has changed from the turn of the last century. The Austrian critics of the economist-as-savior found themselves adopting that role when faced with the overwhelming crisis of a civilization abandoning any semblance of civilized values.

I. INTRODUCTION

In his introduction Dekker introduces the Dutch painter Carel Willink’s (1900-1983) 1931 surrealist painting, “Late Visitors to Pompeii,” which is reproduced on the book’s cover. The examination of the Austrian school through the perspective of contemporary cultural and literary works recurs throughout the book, and is one of its real strengths—Dekker’s insight extends beyond the development of Austrian economics, and his interpretive chronicle of the cultural milieu is engaging in its own right. Willink called his visual style “imaginary realism,” drawing inspiration from Giorgio de Chirico’s metaphysical paintings and Picasso’s neoclassical period. Set against the background of Pompeii’s ruins, a smoldering Vesuvius rises in the distance, with four male figures in the foreground. The four are overdressed even by the standards of the time, perhaps to suggest they are cultured to the point of being inefficient—the impression is dignified but somewhat comical. Enigmatically, they have their backs to each other.

The historian Oswald Spengler (1880-1936), author of The Decline of the West (1918-1922), wears a morning coat and brandishes a cigar as he faces away from the viewer toward Pompeii’s ruins and the volcano which destroyed the city two millennia earlier—and which may erupt again without warning. Both the historian and the volcano are smoking. At left, a figure identified as the artist, looks over his shoulder at the viewer. The four figures are curiously disengaged from each other, and seem lost in thoughts of their own. Dekker sees the painting as emblematic of our quasi-Spenglerian civilizational crisis. Like the Mises kreis, cultured scholar-observers have the evidence of past—and perhaps impeding—civilizational crises at hand, but focus more on either the mundane or the internal, perhaps indicating specialists’ absorption with the technical details of their disciplines. We desire and appreciate the values of the vanished civilization and our cultural inheritance, but like the four observers, we are powerless to prevent the cycle of destruction from repeating.

Except for Spengler the historian, the other three seem particularly divorced from their environment and bear no relationship to each other, but that may be only because civilizational collapse was the focus of Spengler’s scholarship. The individuals’ differing perspectives preclude any possibility of cooperation. This becomes emblematic of the various Viennese kreise growing apart in the 1920s and 1930s.

Dekker’s historical account helps us understand Hayek’s transition from the leading business cycle theorist to a political philosopher and historian of science. This insight contributes in turn to a fuller understanding of some of Hayek’s most-read works, including “The Use of Knowledge in Society,” (1945) and “The Primacy of the Abstract” (1969). Although an extended discussion of The Sensory Order (1952) would take the reader far afield—and it would...
be difficult to have a brief discussion of that most profound and enigmatic book, because its first outline dates from about 1920, it would have been helpful to put it in context. It would also help relate, however peripherally, Hayek’s post-war work on decentralized knowledge, with the early work he conducted when the kreise were still active.

Hayek’s initial contribution to the economic calculation debate was to critique the general equilibrium theorists’ position, that economic planning merely put the solution of behavioral equations in the hands of a mathematically-literate and public-spirited elite. In “Economics and Knowledge” (1936), Hayek refuted this general equilibrium position based on its overly-ambitious assumption that all agents have perfect information, which is common to all and can be readily transferred to the central planners. In reality this knowledge is dispersed, inchoate, and inarticulable, including subjective wants and beliefs, which are inexpressible except to the extent they are revealed through market prices arrived at through the choice of consumers and producers. Hayek argued that this knowledge set is given to no one in its entirety. Hayek (1945) also recognized that market prices communicate the essentials of this information set, enabling market participants to coordinate production and consumption throughout the economy.

Not only does this price mechanism work without a central planning authority, it makes use of information which central planners cannot access. Only market prices freely chosen by market participants can reflect the interaction of free exchange or support efficient resource use. Mises and Hayek also argued that a socialist central planning agency—whether Gosplan or the Reichswirtschaftsministerium—would be unable to collect or apply this information. Not even a central bank can access the dispersed knowledge necessary to manage the money supply, nor would it be able to use this information properly.

II. CULTIVATING ECONOMIC KNOWLEDGE

Dekker’s chapter 2 discusses the relationships among Vienna’s overlapping kreise of intellectuals. In addition to the Mises kreis, which is central to the Austrian school, there was the famous Vienna circle of analytical philosophers, including Moritz Schlick, Rudolf Carnap, and Otto Neurath; the Mathematical Colloquium of Karl Menger and Kurt Gödel; and circles around Heinrich Gomperz, Hans Kelsen, Othmar Spann, Otter Bauer, and Hayek. Although certainly the Mises kreis was the most important for Austrian economics, the kreise were not insular—if an idea was discussed in one, to some extent that made it current in the others.

For example, members of the Mises kreis were well aware of the issues discussed by the Vienna circle and the Mathematical Colloquium, and vice-versa. Hayek in particular was an enthusiastic reader of his cousin Wittgenstein’s philosophical works. Though Wittgenstein was never a member of the Vienna circle, they often discussed his work, particularly the Tractatus (1921). Not only did certain individuals like Hayek participate in more than one circle, but the kreise did not limit their discussions to narrowly-delimited disciplines or ideas. It may be helpful to think of the kreise as a community of profoundly erudite amateurs in the broader intellectual sense, and only as narrowly-specialized professionals in their own disciplines—by today’s standards, many participants would qualify as polymaths.

The relationships among the kreise in the context of Vienna’s intellectual atmosphere is particularly fascinating. Beyond the Mises kreise and the better-known Vienna circle of logical positivists, comparatively little has been written about either the other kreise or their interaction. The kreise also exhibited a distinctly upper-class aspect, sometimes suffering from a social rigidity and deafness to intellectual merit in purported social inferiors, which might seem frustrating to Americans, not to mention Marxists.

III. TRAPPED BETWEEN IGNORANCE, CUSTOMS, AND SOCIAL FORCES

Dekker next discusses the progress of liberalism in Austria-Hungary before World War I, and in the Austrian Republic between the wars. By 1850, German-speaking reformers in the capital naïvely believed that all ethnic groups within the empire would embrace liberalism along with what they viewed as the superior German culture—they were political liberals, but some embraced a degree of cultural imperialism. Views among this group probably ranged from one extreme of literal insistence on German cultural superiority, to more moderate views, e.g., that German language was to be promoted merely as a lingua franca and a unifying adjunct to the empire’s other liberal institutions.

In 1861, the Austrian Empire adopted a liberal constitution which made Hungary an independent kingdom within the empire. In retrospect, it was hardly surprising that other ethnic groups subsequently desired equal status. From this point onward, the only thing which held Austria-Hungary together until its dissolution at the end of World War I, was
the relative popularity of the sovereign, not any liberal institutions or ideology, which progressively lost ground.

The Viennese students saw political liberty as partly being actualized by an absence of restraint, but also as resulting from the voluntary restraint imposed by social conventions and institutions which facilitate cooperation. Social norms constrain us from initiating violence against each other, and help protect against the imposition of socialism. The market order requires respect for private property, but enables individuals to cooperate in producing a standard of living hitherto unimaginable and unrealizable. It was easy to be optimistic about this process as long as one could envision the future abandonment of competing nationalisms, but instead the empire became progressively balkanized until its final collapse at the end of the First World War.

IV. THE MARKET: CIVILIZING OR DISCIPLINARY FORCE?

Next, Dekker contrasts the perspective of Marxian social engineering with the market order of liberalism. Social engineering aims at imposing a presumably superior, scientifically-designed order, in contrast to the natural order of the market economy. One way to explicate this distinction, is to consider the drastically oversimplified reality of any tractable economic model, which abstracts out most of the complexity on which market outcomes depend in reality. If one believes with sufficient zeal in theory to the exclusion of reality, the model’s minimal information requirements—however naïve—present no apparent obstacle to implementing central economic planning or government regulatory policy in preference to imperfect market outcomes.

Though an economic model is a limited description of reality, it is perfectly what it is. As Hayek would develop during and after World War II, the information necessary for the natural market order is dispersed among numerous participants, and chiefly includes knowledge which is unique to each individual—such as their own preferences. Since preferences are largely inarticulable, there is no way for central planners to coopt, simulate, or tease out this information—it is inherently inexpressible, except through freely arrived-at market exchanges and the price data these generate.

In the Austrian economists’ view, markets both liberate and constrain, as only adherence to social norms enables us to participate and succeed in a market economy—these are traditions which emerge and evolve spontaneously in each society. The division of labor made possible by private property and political liberty, enables us to enjoy an ever-expanding level of material well-being, which would otherwise be limited to the most pathetic subsistence. However, to participate in a market economy, we have to accept the rules of the game—we have to cultivate, through sustained and consistent behavior, reputations for honesty, fair-dealing, producing quality products, etc., to obtain the greatest benefit from social intercourse. And our focus shifts from satisfying our own wants, to satisfying the wants of others—to better fulfill our own ends.

The consumer sovereignty of free enterprise contrasts with the feigned omniscience of socialist planners, who decide what they think is best for society, and seek government force to impose their imperious designs on the mass of innocent bystanders. Where market exchange is voluntary, transactions under socialism are coerced and would not otherwise be entered into willingly. Indeed, socialists see the purported social desirability of their designs as justifying coercion to the point of genocide.

The Mises kreis extensively discussed the source of the emergent market institutions constraining human behavior within a liberal order, as well as analyzing particular institutions and behavioral norms facilitating human flourishing. Though this might have informed the design of artificial institutions, the Austrian economists generally refrained from making that leap, which would have done too much violence to their free-market weltanschauung. In the late nineteenth century, socialism held an aura of scientific respectability that made it seem a natural adjunct to liberalism. Until it was actually implemented in Soviet Russia, most intellectuals saw socialism as a panacea for all imperfections in society, if only because it promised a rationally-engineered order directed by a class of anointed intellectuals, which role they were most eager to fill, in contrast to their traditional role of constructing imaginary utopias.

Even after the fall of communism, this pathetically naïve hagiography persists, promising a nirvana free from scarcity, as long as resources can be scientifically directed toward ends chosen by someone other than the ignorant consumer, who lacks sufficient Marxian class consciousness. The only barrier to attaining this perfect society is the inability of ignorant consumers to adopt the enlightened and altruistic preferences these charismatic and omniscient—perhaps deluded or imperious are better words—social engineers are pleased to assume for us.

The same perspective is equally fast to condemn free markets for any rent-seeking permitted by poor government policy, and proposes socialism as the only solution for any perceived ill. If scarcity results from unlimited wants,
surely it can be eliminated by forcibly suppressing the greed of consumers, and of the producers who wastefully cater to them. Social engineers also assume that individuals will automatically become class-conscious once that is the only alternative they are offered. Only the most extreme versions of this position include explicit genocide—usually the final solution is left implicit.

Hayek contrasted the freedom of a solitary savage, who is answerable to no one, with the freedom social intercourse makes possible, offering numerous opportunities for beneficial interaction and profitable exchange. While the individual in nature is beholden to no one and no group, he must be occupied with subsistence and survival. The material constraints on his existence result in a short, arduous, and unfulfilling life. However, Hayek would not have argued that such hermits should have social intercourse forced on them for their own good.

The individual in society, even in a primitive society, at a minimum can enjoy the protection of numbers, and has the opportunity to achieve benefits from others by offering corresponding benefits. The price is that we obey social norms and observe our society's unwritten behavioral expectations. This is the social constraint on our freedom, which enables us to enjoy a deeper freedom—a cooperative freedom—along with enhanced material well-being.

V. INSTINCTS, CIVILIZATIONS, AND COMMUNITIES

Next, Dekker explores the extent natural instincts have to be moderated to allow individuals to participate in a market economy. Where do such constraining institutions, rules, behavioral norms come from, and what conditions are necessary for them to persist? And can this understanding contribute to the intentional design of better institutions, or perhaps more lasting ones?

A free society needs an intellectual environment which is not antagonistic toward political liberty or private property. Once the Viennese students began to explore the conditions necessary for society to flourish, it became almost inevitable that they would seek to refute and counter the prevailing Marxian ideology of the social engineers. Thus, the chroniclers of civilization would eventually become its active defenders. Only ideas can create a favorable intellectual environment for freedom, for private property, and for economic growth.

Dekker’s account of the emergence and evolution of the social order includes a discussion of Robert Musil’s (1880–1942) rambling and unfinished 1930 experimental novel, The Man without Qualities (Der Mann Ohne Eigenschaften). Musil’s mathematician-protagonist Ulrich seeks a confident morality and sense of life, but never discovers a philosophy which satisfies him. By default, he adopts an attitude of moral cynicism and opportunistically allows his character to be dictated by random encounters with others—in other words, the protagonist is a cipher, and through this structural choice Musil is able to satirize the intellectual crises of pre-World War I Europe. Although Ulrich adopts no coherent values, as a mathematician he retains an analytical rigor which repeatedly leads him to no conclusion. He never finds justification to abandon his passivity and moral cynicism.

Ulrich eventually becomes involved in a social movement to commemorate the Austrian Emperor Franz Joseph’s 70th year on the throne. A recurring theme is the movement’s ambition to outdo the Germans’ simultaneous celebration of the 30th year of Kaiser Wilhelm’s reign. The leader of the Austrian commemoration is an army general who attempts to impose rational, military approaches on the movement, but is comically frustrated by the chaotic intentions of his assorted collaborators and subordinates.

Social cooperation, though here under government sponsorship, is devastatingly satirized by Musil. Many characters seek to exploit the commemoration movement, with its grandiose and yet essentially meaningless themes, for their own agendas. Ultimately the competing celebration plans result in an arms race between Germany and Austria-Hungary, leading to war and the destruction of both empires. The movements were fatal to what they had been designed to commemorate.

Dekker then discusses cultural historian Johan Huizinga’s (1872–1945) philosophical study, Homo Ludens, published in 1938, which might be translated as “Man at Play.” Part of what Huizinga means by play includes ritual, practice, rehearsal, or ceremony—social artifacts which make up our civilization. Various forms of play or ritual create artificial social orders, which Huizinga argues are essential to developing and transmitting culture. Huizinga claims that play and culture are interrelated through a twin union, but he considers play to be more primary.

Ritualized forms of conflict, such as lawsuits and military combat, depend on norms and rules, and require specific costumes, which Huizinga sees as derived from ritual masks and other primitive artifacts. Such rules-based practices are essential for civilization to be possible as a cooperative enterprise depending on the collaboration of many
individuals. Once rituals and habitual thought-patterns are established in a culture, path-dependency may explain why they are difficult to supersede.

VI. THERAPEUTIC NIHILISM AND THE HUMILITY OF THE STUDENT

The limited sphere of inquiry appropriate to the social sciences is next contrasted with the more activist, “economist as savior” view promulgated by the social engineers. The socialist intellectuals’ conception was that social evolution requires intelligent direction by a charismatic elite—and they were delighted to fill the role of this anointed caste, chosen as much for its class-consciousness as its technical expertise. The high office they ascribed to themselves in such a social order may seem naïve, however, such is human nature seen through sufficiently flattering ideological blinders.

The Austrian school’s response to social and economic problems—study, describe, and seek deeper understanding—contrasted with that of the socialist intellectuals to authoritatively formulate a regulatory policy at the expense of freedom and liberal institutions. Austrians accept that market solutions are never perfect or final. Entrepreneurs are always free to experiment with alternative activities, where some fail and some succeed. In contrast, socialists blame all deficiencies of their social engineering on capitalism—the concentration of wealth, the unfairness of unequal incomes, traditional gender roles, the greed and lack of Marxian social consciousness of individuals in having wants and desires other than those assumed by the modeling of the omniscient and infinitely-virtuous central planning authorities, etc.

The Viennese students of civilization were repeatedly driven to critique deficient public policy, including inflation, price controls, confiscatory taxation, overregulation, predatory public finance, monopolistic rent-seeking, or simply poor, overreaching social engineering. Inevitably it was a very short and natural step to describing the preferable market outcome, and explain how the market should be freed to provide a superior outcome—normally without specifying what outcome the market would necessarily arrive at. One advantage of this approach is that the market outcome, though it may not be universally applauded—it may result in such horrifying outcomes as income inequality—will never involve coercion.

Unfortunately, any strictly positive economics cedes policy analysis to social engineers. Although therapeutic nihilism was a strong tendency among the Mises kreis, they were not completely averse to policy prescriptions—though the policy they advocated was often not sufficiently activist, or overly progressive, to viably challenge progressive social engineering. Management theorist Peter F. Drucker (1909-2005), Hans Kelsen’s nephew, was one of the first Viennese to advocate for a new political theory as a counter to fascism and socialism. He recognized both totalitarian creeds suppressed the individual, and that classical liberalism as implemented, had proven inadequate to counter these pernicious new doctrines.

Clearly, the humility of therapeutic nihilism is at odds with the hubris of the social engineers who would presume to direct the course of spontaneously-evolving orders, and improve on the organic market outcome which they generally neither understood nor sympathized with—because, not only do the social engineers know best what we should want and how it should be provided, but they are also uniquely gifted with the most progressive Marxian class-consciousness. One circumstance which has thus far preserved humanity against the depredations of competing social engineers, is that they invariably offer numerous conflicting visions of the radiant future.

The dominant social engineering scheme invariably becomes the one asserted with the greatest arrogance, which simply proxies the sheerest ignorance of economic theory and unintended consequences, or more frequently, a comparable ignorance of history, sometimes leavened also with ideological bigotry. This mask of certainty inevitably earns the reward of hubris. Unfortunately, the humility of the students of civilization was not well positioned to outcompete the charismatic and vocal advocates of social engineering, however delusional, who claimed to know best both what we should want and how we should go about obtaining it for the greater good. Reasoned silence is rarely a match for assertive bloviation.

Dekker turns next to Joseph Roth’s (1894-1939) satirical 1932 novel Radetzky March, which chronicles rise and fall of the Slovenian Trotta family. During the Second War of Italian Independence in 1859, an infantry lieutenant observes the Emperor Franz Joseph I has come under fire from an Italian sniper, and unhorses the emperor to make him less of a target. Though this assaults the emperor’s dignity, as a reward for saving his life, the grateful Franz Joseph promotes and ennobles this Lieutenant Trotta. As the Trotta family rises within Austrian society, the empire decays from within and external events further contribute to its downfall, and that of the Trottas with it. After Hitler
come to power, Roth’s 1938 sequel, *The Emperor’s Tomb*, had to be published in the Netherlands, and detailed the Trotta family’s interwar history.

Dekker also discusses Karl Kraus’s (1874-1936) satirical 1919 play about the First World War, *The Last Days of Mankind (Die letzten Tage der Menschheit)*. This play is widely considered Kraus’s masterpiece, and juxtaposes contemporary documents with allegorical fantasy and a dialectical commentary provided by two archetypes, the Grumbler and the Optimist. Kraus’s own political views evolved from an unorthodox monarchism at the war’s outset to an even more iconoclastic republicanism by its end. Because no character in *The Last Days of Mankind* holds to any consistent world-view, the play accurately mirrors the schizophrenic intellectual atmosphere of the times.

Dekker suggests that the Austrian school’s embrace of therapeutic nihilism, eschewing attempts at policy formulation (footnote on p. 127), can justify economics’ characterization as the dismal science. However, in this one trivial detail, Dekker overlooks the history and origin of this expression. Historian Thomas Carlyle (1795-1881) had disparaged economics as “the dismal science” in an infamous and inflammatory 1849 article, “Occasional Discourse on the Negro Question,” where he proposed preserving slavery as a productivity measure (Persky 1990: 167-169)—his argument is literally that shiftless workers should be coerced for their own good. Carlyle proposed that the purportedly “idle Black man in the West Indies” be “compelled to work as he was fit, and to do the Maker’s will who had constructed him,” naturally under the direction of dutiful white overseers. Contemporary intellectuals would merely reverse the race component, which might constitute progress of a sort, but retain the coercive imposition of their own unworkable schemes.

Since economic theory refuted his thesis, Carlyle resorted to name-calling, and his proposal was no less ignoble than slavery. Sadly, Carlyle’s moral imbecility remains emblematic of the arguments typically deployed by socialist politicians and intellectuals—arguments which may lurk beneath a public-spirited veneer, but which betray a failure to comprehend the simplest economic principles. It is a limitation of democratic society that policy debate rarely rises above the level of basic economic fallacies.

VII. THE STUDENT AS DEFENDER OF CIVILIZATION

Dekker next cites Thomas Mann’s (1875-1955) 1924 novel *The Magic Mountain (Der Zauberberg)*, one of the greatest works of 20th century literature. It is erudite, subtle, and ambitious, but also revels in ambiguity by mixing realism with mystic symbolism. Many characters, patients in a tuberculosis sanatorium, are ideological symbols, representing conflicting intellectual currents in interwar continental society. Two fight a particularly senseless duel, with tragic consequences for both, as the anarchist Naptha commits preemptive suicide, upstaging the enlightenment liberal Settembrini. As the winner, Settembrini survives unharmed, but goes into a decline precipitated by his guilt over his opponent’s meaningless sacrifice.

No patient recovers in this sanatorium—at best medical treatment only postpones their demise. The protagonist-narrator Hans Castorp is more a cypher-observer than an actual participant, and his physician is less interested in his patients than in their diseases—perhaps Mann was not a proponent of therapeutic nihilism. One character is involved in an international organization devoted to an ambitious intellectual project suggestive of the Vienna circle’s *International Encyclopedia of Unified Science* (1938-1969). Bizarre symbolic undertones are particularly present in a dream sequence describing the ritual sacrifice of an infant by a coven of withered crones—a hopeful future consumed by a backward-looking and unsustainable tradition. If the course of civilization can be directed against itself, only disaster can follow, and the future will be lost.

Dekker provides an especially engrossing discussion of Hermann Broch’s (1886-1951) novel *The Death of Virgil*, which finds the poet on his deathbed agonizing over the underlying truth of his epic *Aeneid*, a romanticized account of the founding of Rome by refugees from the destruction of Troy. Virgil’s propagandistic narrative parallels the official history of Lieutenant Trotta’s heroism in *Radetzky March*, which the newly-ennobled Baron Trotta knows to be exaggerated, but is preserved by imperial edict because it enhances the sovereign’s prestige. Similarly, the *Aeneid* glorifies Augustus and imperial rule.

Trotta and Virgil both know the truth, and know it is far less flattering than the appealing official falsehoods. They value truth and feel the only enduring and viable order must be freely accepted by individuals who are permitted to search out the truth for themselves, rather be force-fed
conformist platitudes. At the point of death, Virgil sees the destruction of Rome's republican institutions as analogous to the destruction of Troy he had chronicled.

As the poet laureate of the new order, Virgil feels implicated in the loss of Rome's democratic institutions and ethos, however imperfect they may have been, they were emergent institutions, and regrets his glorification of the dictatorship which supplants them. His propagandizing for the imperial regime has contributed to its popularity. Augustus prohibits its destruction of Virgil's manuscript because the emperor foresees centuries of schoolchildren learning Latin with this work glorifying his rule, a prospect Virgil finds horrifying. Interestingly, The Death of Virgil is a work of historical fiction, and it is the only literary or cultural work Dekker uses which is neither satirical nor surrealistic.

VIII. THE STUDENT OF CIVILIZATION AND HIS CULTURE

The hubris of the age of reason, extending to the belief that social organization could be scientifically planned and directed—which was the promise of Marxism—led inevitably to the nemesis of social planning, along with its overreach and abject failure wherever it was attempted. Unity of science (erkenntnis), promoted by the Vienna circle, strongly suggested that economic regulation could be scientifically designed to bring about any desired outcomes, without reference to the fact that not all outcomes are equally preferred by all members of society, nor are all outcomes equally attainable, however desirable they might be.

Proponents of public policy often fixate on proposals designed to effect the outcomes they think best, in strict preference to indeterminate market outcomes which allow individual agents to choose outcomes for themselves. Only the second alternative can be welfare maximizing. In the postwar era, Mises and Hayek recognized that the main task facing civilization would be an intellectual reconstruction, which would arrive at an enhanced and lasting liberal order. It remains to be seen, how well this reconstruction has succeeded.

Hayek alternatively adopted agnostic descriptive analysis along with institutional policy prescriptions in his analysis of design orders. An economics analyzing alternative institutional arrangements, informed by the study of historical institutions, will not only be more interesting but more persuasive, than a purely theoretical economics. Postwar Austrian economics generally retained the skeptical humility it had always had, but increasingly embraced a goal of reconstruction—primarily intellectual, but sometimes institutional.

IX. MEANING LOST, MEANING FOUND

Dekker's chapter 9 documents the Austrian school's diaspora to North America. Curiously, although the social sciences in the U.S. and Canada were similarly in thrall of a postwar scientistic movement toward formalism—characterized by so-called “physics envy,” which Hayek and Mises opposed—in North America this was arrested by a cold-war countermovement against socialism and central planning. Intellectual currents agitating for the scientific planning of scholarly research, which had made significant headway in the Soviet Union and even in the United Kingdom, had little traction in America. Postwar economics was characterized by progressively mathematical formalism, as well as Keynesian stabilization policy in macroeconomics, but in the United States, where the government provided the most research funding, there was little movement toward centrally-planned scientific research.

Increasingly, the positive economists of the Austrian school discovered more normative modes of expression and advocacy. Institutions such as the Mont Pèlerin Society were founded to advocate for positive measures to preserve civil society and civilization. It was eventually recognized that this entailed less the positive advocacy of better policy measures—meaning less-intrusive measures—but more the creation of an intellectual climate where ideas amenable to liberty, liberalism, and private property could better flourish.

Austrian economists continued to participate in mainstream debates, though after World War II, they were generally marginalized as being heterodox, outside the mainstream, and limited in numbers, and so representing a minority view. Postwar mainstream economics enshrined policy-makers, who—it was believed—could prevent recessions and deliver a high and sustained level of economic growth—potentially even challenging that of the Soviet Union! Recall that until the 1980s, it was widely believed that scientific planning in the USSR allowed significantly better economic performance than could be possible under the wasteful competition of capitalism. It is hardly surprising that in this intellectual environment, Austrians might have moved toward policy analysis.
X. WHAT IT MEANS TO BE A STUDENT OF CIVILIZATION

Finally, Dekker presents economists in the role of agents of civilization. Only economists who embrace the limits of knowledge can really appreciate the deficiencies of social engineering. In Mises’ words, “my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline (1942/1978: 115).”

Dekker argues for a broader understanding of the civilization which economics purports to study and nourish. This broader and more humane economics must be founded on an accurate and sufficiently detailed description of society. Policy founded on an understanding of the nature of the society it purports to actualize, is necessarily superior to policy implementing arbitrary ideological positions. The tacit knowledge of a civilization is embedded in institutions and behavioral norms which emerge and evolve, and can only be appreciated by critical examination and analysis.

This points to a tension, both in the interplay of dialectics among different schools of thought, but also between the descriptive approach of therapeutic nihilism and the more activist approach of policy prescription, which cannot always be ceded to the social engineers. “The strait between the Scylla of hubris and the Charybdis of deference might be narrow (p. 201).” It is not enough to make correct moral choices in the face of a decaying civilization. Though that may be sufficient on an individual level, in a broader sense the Austrian school needs to provide an intellectual legacy of advancing civilized values and civil society.

CONCLUSION

The Viennese Students of Civilization contextualizes and explores the history of the early Austrian school, particularly the interwar years. Dekker’s achievement in this regard enables readers to better appreciate the accomplishments of Mises, Hayek, and the Mises kreis, and Dekker’s book is clearly among the best and most readable histories of the Austrian school. Though espousing therapeutic nihilism, kreis members developed a keen appreciation for the deficiencies of economic policy, both as proposed and as enacted. As the interwar inflationary policy necessitated by the reparations demanded by the Treaty of Versailles paved the way for state omnipotence, the Austrian economists—along with Keynes—were among the few who could clearly see what lay ahead.

The Austrians’ primary aim, born during the halcyon years of the nineteenth century, was to better understand and articulate the ideal of a social order worth valuing and preserving. Their activity remains all the more remarkable because they explicated a philosophy of freedom and consensual exchange while witnessing their society progressively abandoning liberal institutions. Their defense of the emergent order of civilization was and remains a legitimately progressive position, in contrast with that of the avowedly—though mistakenly—progressive socialist planners. Social movements should be judged at least as much by their practical outcomes as the goals claimed by their proponents.

From our present vantage, it is easy to romanticize the past as a golden age—we tend to wax nostalgic about arbitrary positive features and gloss over shortcomings. Though skeptical of economists’ ability to deliver positive public policy, somewhat ironically, the Mises kreis were forced to focus less on pure economic theory in the face of the increasingly omnipotent state—whether socialism on the German or Russian pattern—and their focus began to include policy analysis. However, their focus also shifted even more toward basic political theory and philosophy. As our civilization faced bigger and bigger problems, the response of the Austrian School was to address the bigger questions.
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Entrepreneurship is widely thought of as a specialized secondary topic, which can somehow be divorced from the majority of economic theory and analysis. As much of Israel M. Kirzner’s work demonstrates, markets depend crucially on entrepreneurial planning, competition, experimentation, and profit-seeking speculation, in the face of the uncertainty of an unknown and unfolding future. Without entrepreneurs, markets lack precisely those characteristics which account for their ability to coordinate production and further improve on an initial optimum. Boettke and Sautet have selected some of Kirzner’s most important contributions, and through the papers collected in this volume, the reader can follow Kirzner’s developing thought on entrepreneurial competition and market process from 1974 to 2000.

The book is divided into four parts, with journal articles, prefaces, and other essays grouped by topic. Part 1 presents five papers which argue for the central place of entrepreneurial planning in the definition of competition, going beyond static-equilibrium’s emphasis on a final outcome meeting formal requirements. Kirzner emphasizes the process markets actually pursue in reality over the idealized formalism of constrained optimization. Kirzner’s development of market process economics, based on an entrepreneurial management of disequilibria, marks a major departure away from mainstream neoclassical formalism and toward greater realism. Part 2 includes seven papers exploring how recognizing the centrality of entrepreneurs in market process helps us understand how market exchange allows for the marshalling of essential information which would otherwise be useless and inaccessible. Markets subject innovations to profit-and-loss incentives which privilege innovations offering economic benefits. Part 3 consists of six articles on how market exchange processes information, and Part 4 consists of two longer and more comprehensive essays.

Part 1, The Nature of Competition, includes “Capital, Competition, and Capitalism,” “Prices, the Communication of Knowledge, and the Discovery Process,” “Competition and the Market Process: Some Doctrinal Milestones,” “The Driving Force of the Market: the Idea of ‘Competition’ in Contemporary Economic Theory and in the Austrian Theory of the Market Process,” and “The Irresistible Force of Market Competition.” These five articles not only critique the static-equilibrium model of perfect competition, but lay out its limitations, and discuss how entrepreneurship contributes to real-world competition. Following Mises and Hayek, Kirzner explores how prices transmit information, and how entrepreneurs compete to take advantage of these signals to deliver superior market outcomes, which allow both consumers and other entrepreneurs to better coordinate their plans.

knowledge problems and the socialist calculation debate. If one accepts the static-equilibrium model of perfect competition, it appears attractive to remove wasteful competition to improve efficiency. However, the standard model is not realistic. Kirzner demonstrates that market process provides outcomes which meet efficiency and welfare requirements, but only by giving us a means to act on and exploit decentralized and inarticulate information. He also shows that efficiency and welfare maximization will always be beyond the grasp of central planning which takes the welfare-maximizing and information-generating decisions out of the hands of individual actors, where they always reside in reality. The last essay in this section is available here for the first time in English.

Part 3, Information, Knowledge, and Advertising, includes “The Open-endedness of Knowledge: Its Role in the FEE Formula,” “Knowing about Knowledge: a Subjectivist View of the Role of Information,” “Information-knowledge and Action-knowledge,” “Comments on R. N. Langlois, ‘From the Knowledge of Economics to the Economics of Knowledge: Fritz Machlup on Methodology and on the ‘Knowledge Society,’” “Advertising,” and “Advertising in an Open-ended Universe.” This section presents five articles on knowledge-processing in the context of competitive market exchange, including two very interesting articles on advertising.


I. THE NATURE OF COMPETITION

“Capital, Competition, and Capitalism,” originally a lecture at Hillsdale College, critiques the claim that competition can operate without private property, and the related assertion that private ownership acts as a barrier to entry, and thus is incompatible with competition. The views Kirzner critiques here would support central planning, representing a rather extreme socialist view that competition under private ownership is wasteful and exploitative, and that central planning requires socialization of ownership, which would then permit a resource-conserving competition for the benefit of all. In fact, perfect competition assumes small firms and an undifferentiated product, but makes no assumption about who owns the means of production. Kirzner points out that market competition includes entrepreneurial competition to uncover unrealized opportunities and improve resource allocation in production. Competition for profits rewards anyone who is able to improve allocative efficiency, though this subsequently reduces profit opportunities. Kirzner also notes the literature’s general confusion among owner-shareholders, corporate managers, and entrepreneurs, pointing out that entrepreneurs need not own any capital at all—they profit from buying undervalued goods and resources and selling or using them where they are valued more highly. They can profit from this arbitrage precisely because it guarantees goods will be utilized more efficiently. Central planning would mistakenly prohibit this arbitrage as wasteful and inefficient.

“Prices, the Communication of Knowledge, and the Discovery Process,” highlights the need for market participants to anticipate the plans of others. The extent production and consumption plans are coordinated is the extent the market succeeds in efficiently satisfying our wants. High prices signal to producers which resources are most scarce or in greatest need, and low prices present entrepreneurial opportunities when those resources can be substituted for more expensive ones. Because no market participant possesses complete information, real markets never reach a neoclassical constrained optimum. It is only through competing to uncover new information, attempt innovative production and marketing methods, satisfy new wants, or for consumers to try new products, etc. that market process brings about market outcomes in reality—it should be little wonder that real-world outcomes fail to conform to theoretical descriptions of what a constrained optimum should look like.

“Competition and the Market Process: Some Doctrinal Milestones,” traces out how the perfectly competitive model was supplanted by more specialized and realistic alternatives. Edward Chamberlin (1933) and Joan Robinson (1933) introduced the monopolistically-competitive model as an advance beyond perfect competition, but only under static equilibrium conditions which assumed away the possibility of disequilibria, or any role for market process. Kirzner draws on Machovec’s (1995) account of the emergence and development of perfect competition theory, though he takes issue with some details. As Kirzner sees it, hitherto loose and non-descript conceptions of competition were gradually purged of their vestiges of process thinking, generally simplifying and formalizing the analysis at the expense of realism.
Kirzner explains the significance of Hayek’s (1948) paper “The Meaning of Competition,” and draws on Hayek’s work to critique inconsistent uses of competition by other economists. Markets are cooperative institutions which process information to set prices, allocate resources, coordinate plans, expectations, and activities, communicate future wants from consumers to producers, etc., while also providing incentives which reward participants who can improve any part of the process. Thus, market process is anything but static, and works through anything but an equilibrium.

The disequilibrium prevailing at any time and place is merely the raw material acted on by market process. The information-processing aspect of market process is a form of indirect communication—not especially amenable to central planning—generally employing unutterable knowledge which the market accommodates remarkably well, if not always flawlessly, and which provides the backbone of a sophisticated system of social cooperation we take for granted. Kirzner acknowledges John M. Clark’s (1955, 1960) efforts to promote a dynamic understanding of competition, but as he notes, this was ignored by the profession. Although criticism of the static-equilibrium understanding of perfect competition continued to proliferate after 1960, much of contemporary mainstream microeconomics continues to prefer the sterile formal elegance of competition as a state of affairs, over the messy disequilibrium reality of competition as market process.

“The Driving Force of the Market: the Idea of ‘Competition’ in Contemporary Economic Theory and in the Austrian Theory of the Market Process,” contrasts perfect competition with the Austrian school’s more subtle, less-formalized, conception of entrepreneurial competition and market process. Market process explains how entrepreneurial producers anticipate and respond to consumer demand and changing market conditions, without recourse to extreme assumptions about market organization. Entrepreneurs face profit-and-loss incentives—gaining profits when they correctly anticipate future market conditions, but suffering losses when their plans fail. Market process subjects entrepreneurs to an unrelenting discipline, because any profit-seeking innovator in this speculative environment faces the pressure of imitative arbitrage which eventually removes the original profit opportunity. Market organization—whether perfect competition, monopoly, monopolistic competition, or oligopoly—emerges from market process, as a product of speculative efforts to uncover entrepreneurial profit opportunities and preserve them as long as possible.

“The Irresistible Force of Market Competition,” starts from the observation that the perfectly-competitive model’s assumption that individual producers are price-takers unable to influence the market price, removes any role for entrepreneurial experimentation. However helpful it has been to examine this static-equilibrium result devoid of entrepreneurial action, its real-world applications are limited. Real markets feature competition among entrepreneurs, and assuming away entrepreneurs’ innovative, speculative, and profit-seeking behavior, strictly limits the ability of our economics to explain the market process of the actual economy.

Neither are formal models with such limited applicability likely to be fruitful in offering general guidance for policy or regulation, and the resulting policy has not been conspicuous by its success—often leading to demands for further intervention. Market process generates the pattern of resource allocation, creates the constellation of market prices, and results in the satisfaction of consumer wants. In contrast, the focus of mainstream neoclassical microeconomics is on whether competition is present as a formal state of affairs—in other words, whether arbitrary conditions are met, which is largely irrelevant in reality and cannot inform effective policy.

II. COORDINATION, ECONOMIC PLANNING, AND THE KNOWLEDGE PROBLEM

“Economic Planning and the Knowledge Problem,” summarizes and extends Hayek’s work on knowledge limitations facing central planners. Kirzner notes that individual-level planning is essential and goes on all around us, and that individual plans are speculative and constantly revised in the face of changing conditions and the acquisition of new knowledge. Individuals are free to make the critical choices of what plans to adopt or attempt, what information to seek or be alert to, and when to revise their plans—as individuals, they bear the cost and responsibility of implementing their own plans, and profit if their plans succeed as anticipated.

Kirzner and Hayek observe that central planning authorities lack first-hand knowledge at the level of individual consumers and producers. At best, central planners rely on crude aggregates or summaries, which average hypothesized individual measurements and proxies for subjective appraisals that cannot be quantified. The central planner does not face the same optimization problem, but substitutes a simpler, macro-optimization problem—which,
though it can be solved analytically, can never have any economic meaning.

From the neoclassical perspective of constrained optimization, the centrally-planned outcome must be misspecified for at least some consumers—if not for all. It would actually be an exceedingly rare and exceptional occurrence for a centrally-planned optimization problem to be correctly specified for anyone it purports to benefit. At best, central planners can only force substitution of a misspecified aggregate optimization problem for the myriad optimizing choices of individual agents, whose knowledge is in constant flux, both expanding and becoming dated, who face direct incentives to economize effectively, and who optimize in terms of unique, subjective, and inarticulable preferences.

“Knowledge Problems and their Solution: Some Relevant Distinctions,” introduces Kirzner’s famous Knowledge Problems A and B. Knowledge Problem A occurs when beneficial exchanges fail to occur, either due to sellers’ over-optimism in demanding a higher price than buyers are willing to pay, or buyers’ over-optimism in requiring a lower price than sellers are willing to accept. Knowledge Problem A is a problem of over-optimism, and is self-correcting—over-optimistic sellers lower their asking price to dispose of unsold inventories, or over-optimistic buyers realize the need to pay more. (Here, the buyer’s reservation price must exceed the price they had anticipated based on their reading of market conditions, but still affords them some consumer surplus, though less than they had hoped for.)

In contrast, the more interesting Knowledge Problem B is a problem of over-pessimism. Here, beneficial exchanges never occur, either because of sellers’ over-pessimistic belief that buyers are not willing to pay as much as they actually are, leading sellers to produce or acquire less of the product, or because of buyers’ over-pessimistic belief that the sellers’ price is higher than sellers will actually accept. In either case of over-pessimism, there is no unsold inventory to be marked down for disposal—it was mistakenly never produced.

Knowledge Problem B is not self-correcting, because it is not visible to either the producers or consumers. Knowledge Problem B calls for, and rewards, entrepreneurial awareness to identify these opportunities for beneficial exchanges. It is the ubiquity of unobserved instances of Knowledge Problem B which entrepreneurs compete to uncover and remedy. They produce products no one else would, to satisfy demand other producers failed to perceive or anticipate. Until others imitate them, entrepreneurs who identify such opportunities enjoy short-term monopolies, but the greater the advantage they take of their temporary market power, the more obvious are the price incentives which attract imitative competitors. In the absence of favorable government regulation, there is generally no mechanism for the first entrepreneur in these cases to maintain their monopoly indefinitely by creating entry barriers, but a sufficiently gifted and alert entrepreneur will already have moved on in search of the next arbitrage opportunity.

In “The Economic Calculation Debate: Lessons for Austrians,” Kirzner shows how the socialist calculation debate contributed to the refinement of market process theory and enhanced our understanding of the role of entrepreneurship in maintaining competition. How markets process information is as crucial to understanding market process, as it is to appreciating the futility of directing similar activities on a command basis—the basis of supposedly “rational” economic planning, which purports to avoid the “wastefulness” of profit and competition.

Hayek further argued that perfect competition was a caricature of real markets, simply glossing over the most interesting features of market process—e.g., product differentiation, entrepreneurial alertness and innovation, market organization, etc. The central planning argument was that planners could crudely approximate a perfectly-competitive outcome, but failed to address the extent this falls short of recognizing or accommodating real-world conditions.

“Hedgehog or Fox? Hayek and the Idea of Plan-coordination,” is an exceptionally ambitious attempt to address the extent Hayek might have come to view all economic problems as coordination problems. The hedgehog or fox dichotomy comes from the Greek poet Archilochus (c. 680 BC–c. 645 BC), “the fox knows many things, but the hedgehog knows one important thing” (Berlin 1953, Shackle c. 666, ch. 12). In other words, Shackle contrasts an approach to knowledge which unifies and systematizes many disparate facts or aspects of reality within a single over-arching theory (the hedgehog), with the approach of taking the world as it comes, without trying to impose too arbitrary a straitjacket on our understanding (the fox). Kirzner concludes that Hayek has elements of both, but for Hayek the overarching theory is coordination through market process rather than constrained optimization.

Mises and Hayek presented Austrian business cycle theory in terms which O’Driscoll (1977), Garrison (1985, 1989, 2000), and Ionnides (1992) reframed in terms of plan coordination and information transmission. Hayek’s view of general equilibrium was as a compatibility or dovetailing
among the otherwise independent plans of different actors. Capital markets coordinate speculative anticipations of future consumer wants with physical production through time. Without government interference, entrepreneurs compete to improve this intertemporal coordination among production plans, resulting in an absence of systematic discoordination. Expansionary government policy, however, makes the market order’s natural plan-compatibility unsustainable, increasing production activity, financing additional resource use including labor employment, but bidding up the cost of scarce resources. Initially, everything looks good, as output, employment, and nominal incomes all rise.

Unfortunately, as the compatibility and coordination among entrepreneurial plans become critically unsustainable, half-completed production plans, with goods-in-process of limited substitutability, can no longer be completed. These partially-completed plans were predicated on the plans of others, which are already being adjusted or abandoned. Expansionary policy provides misleading signals and provides more investible resources than can be justified by individuals’ savings. At this point, many production plans must be liquidated, and resource prices collapse as gluts of unneeded resources, partially-processed resources, and goods-in-process are offered for sale.

Although Austrian business cycle theory is still not well recognized as being well-integrated with market-process microeconomics, Kirzner shows that Hayek brought them far closer together than is widely realized, even among the Austrian school. Mises had made major contributions to business cycle theory and in criticizing central economic planning, but Hayek built on Mises’ accomplishments, as Kirzner argues, by coming much closer to addressing both the calculation debate and Austrian business cycle theory with information theory.

“Calculation, Competition, and Entrepreneurship,” presents an appreciation of Don Lavoie’s (1985) doctoral dissertation, and builds on Lavoie’s analysis of socialist proposals to implement central economic planning, improve allocative efficiency, eliminate wasteful competition, abolish profits, increase aggregate welfare, etc. Buchanan’s (1969) critique of central planning was based less on its inability to process a prohibitive volume of information, but focused on the need to offer some mechanism, hopefully more humane than brute force, to motivate individuals to seek preferences other than their own, namely, those of the planning authority. Lavoie argued that Mises’ information argument against central planning, was more fundamental, and thus trumped Buchanan’s motivation argument.

Kirzner emphasizes Buchanan’s related argument that because interpersonal welfare comparisons are meaningless, there can be no meaningful social welfare function to maximize, and thus no formal optimum for a central economic planner to target. He then brings in Hayek’s argument that the single market price, arrived at through the cooperation and interaction of everyone who participates—or voluntarily refrains from participating—in market exchange, is the freely and spontaneously-attained goal of central planning—the “correct” price. This is equally true for the whole constellation of market prices, and for the market-wide allocation of resources.

This social allocation, far from being amenable to improvement or further optimization through coercion and purportedly “scientific” planning, crucially depends for its validity on free choice at the individual level, where actual choice occurs and preferences reside. Government intervention, including central planning, can only impair allocative efficiency. At the same time, allocation can be improved through entrepreneurial experimentation, but this is only possible in a free market. Entrepreneurs face the discipline of profit-and-loss, and they pay the price when their speculative experiments fail. The economy progresses, as uncoordinated entrepreneurial failures are swamped by successful experiments which the market rewards, and which predominate over time.

Discussing O’Driscoll (1977), Kirzner notes the enduring appeal of viewing economy-wide allocative efficiency as a state of affairs, which may seem amenable to management by a central planner, as opposed to the outcome of market process. Nevertheless, he concludes “our ability to treat society as an entity for which coordination-efficiency considerations are relevant, depends on the possibility of economic calculation in that society” (p. 159, emphasis in original). Because the only way agent preferences are fulfilled and coordinated is through individual choice in a market economy, the information needed to arrive at the resource allocation solution cannot be developed, arrived at, or simulated in any other way.

“Comments on the Debate between Professors Leontieff and Stein on National Economic Planning,” allows Kirzner to explain how entrepreneurs observe price divergences where identical goods are offered for sale at two different prices, and through arbitrage, correct the discrepancies—this might be considered market process’s routine housekeeping. Price divergences result from failure to coordinate entrepreneurial plans, but entrepreneurial awareness is the
only cure for them, and is rewarded, at least temporarily, with arbitrage profits.

Thus, the oft-maligned profit motive performs the indispensable function of moving the economy toward a higher state of coordination, and continues to act in the face of changing market conditions which invariably introduce new coordination failures among pre-established production plans already in operation. The market may never arrive at the optimal outcome of the neoclassical model, and if it is achieved, it may not persist long, but the market tendency is always to move closer to this ideal condition. Central planning, in contrast, cannot make this claim.

In “Hayek’s Theory of the Coordination of Markets: a Commentary to Accompany the Facsimile Edition of Hayek’s _Preise und Produktion_,” presented here for the first time in English, Kirzner lays out the significance and contribution of Hayek’s 1931 LSE lectures. Although Hayek does not yet frame his discussion in terms of agents’ information or plan coordination, much less in terms of a distinction between sustainable and unsustainable plan-compatibility, because inflation fuels unsustainable booms in investment and production, the basis for these later developments is already present. Hayek examines the ways monetary expansion degrades information, impairs prices—including interest rates—reducing their ability to communicate the plans, beliefs, and expectations, and preventing the sustainable coordination of entrepreneurial plans. Kirzner points out Hayek’s skepticism about the meaning and validity of macroeconomic aggregates, and the need for what we now call micro foundations of macroeconomics. He also explains how _Preise und Produktion_ contributed to Hayek’s later papers on knowledge, competition, and plan-coordination.

III. INFORMATION, KNOWLEDGE, AND ADVERTISING

“The Open-endedness of Knowledge: Its Role in the FEE Formula,” presents an appreciation of the work of the Foundation for Economic Education, addressing FEE’s general philosophy—openness to new economic knowledge and a skepticism for dogma, respect and desire for freedom, and a tolerant, anti-dogmatic approach to spreading economic ideas. In Hayek’s words, “Civilization rests on the fact that we all benefit from knowledge which we do not possess” (1973, p. 16).

“Knowing about Knowledge: a Subjectivist View of the Role of Information,” argues that knowledge is inherently subjective, and that knowledge can be uncovered as we gain fortuitous experience in the absence of a planned investigation—we observe our own experience through the prism of our interests, perceptual focus, past experience, cognitive development, etc. In contrast, we can also engage in entrepreneurial planning to map out an investigatory programme, aiming at uncovering facts we want to know, or answer particular questions. We can modify such a programme in light of new knowledge. Kirzner addresses the social significance of seeking this “knowledge about which nothing is known,” as well as how, through market process, disequilibrium adjustment improves the coordination among different agents’ plans. The profit motive, far from being a wasteful drain on society, motivates agents in discovering new knowledge, coordinating plans, using resources more efficiently, fulfilling wants more urgently desired by others, and improving others’ welfare.

“Information-knowledge and Action-knowledge,” distinguishes between information and knowledge. In order to act on, and confer economic significance on, information (or information-knowledge), its entrepreneurial use-value must be appreciated by an entrepreneur who will potentially act on it, transforming this information-knowledge into action-knowledge. In some sense action-knowledge is always available to be conferred on given facts, but until the need or opportunity arises—and is recognized by a potential actor—the action-knowledge remains latent in the information.

The distinction might also be expressed as book-knowledge versus street-knowledge, and can be understood by considering a set of the _Encyclopaedia Britannica_ on the shelf. Unread, the information-knowledge is contained in the volumes, but to convert it into action-knowledge, one would start by reading the volumes, and would also have to realize how the reader-actor could use some of this information. The reader would have to be alert to opportunities to use the information-knowledge and attempt some practical applications. Some trial-and-error would be evident as the reader might experiment entrepreneurially to assess the action-value of some of the information. Just as learning more information-knowledge becomes easier the more we have already acquired, learning and applying action-knowledge apparently becomes easier the more we have successfully applied related action-knowledge in the past.

“Comments on R. N. Langlois, ‘From the Knowledge of Economics to the Economics of Knowledge: Fritz Machlup on Methodology and on the ‘Knowledge Society,’” addresses Machlup’s focus on knowledge as an economic com-
modity—in his unfinished “Knowledge Project,” he did not connect market outcomes to the processes of knowledge generation or transmission. Curiously, Machlup overlooked market process as a major component of the Austrian school’s view, focusing instead on static equilibrium concepts. The Langois (1985) article Kirzner is commenting on contrasts Hayek’s broader view of the role of knowledge, including communicating inarticulate knowledge through prices, with Machlup’s narrower view of knowledge as a tradeable commodity.

Machlup deemphasized market process in favor of static-equilibrium outcomes. Kirzner suggests Machlup’s view resulted from the Austrian school’s failure to start making market process explicit until the late 1930s—and also that this handicapped the Austrians in responding to Abba Lerner’s (1934, 1936, 1937, 1938) and Oscar Lange’s (1935, 1936, 1937, 1938) arguments on the feasibility of central planning. The outcome of the socialist calculation debate might have been far more decisive if the Austrians had focused earlier on market process and information theory—the idea that prices communicate information which cannot otherwise be articulated, and that this communication allows the market to generate a spontaneous order which coordinates resource allocation and planned production.

“Advertising” and “Advertising in an Open-ended Universe” both address the function of advertising in providing information to market participants. Kirzner points out advertising’s useful functions in informing us what products are being offered for sale, and suggesting potential uses for the goods and services advertised. Various criticisms of advertising, e.g., it exploits consumers by subverting their will, it debases our culture by appealing to crass commercial interests, it influences people to buy things they do not need, etc., all neglect advertising’s entrepreneurial and communication functions.

The need for advertising would be limited in a world without new products, as hypothesized, e.g., by the neoclassical model of perfect competition. In the real world, where new products, brands, technologies, and approaches to product differentiation, are introduced all the time, not to mention new uses for established products, substitutes, complements, and the implementation of new marketing strategies, advertising makes us aware of these new opportunities to satisfy our wants, even if they are only potential opportunities until we choose and act. A given product may not satisfy our wants the way the ad campaign suggests, but this can only be uncovered through action.

IV. TWO ESSAYS ON MARKETS

The last section presents two longer essays on markets and entrepreneurial competition. “How Markets Work: Disequilibrium, Entrepreneurship, and Discovery,” starts with an historical examination of the emergence and limitations of static-equilibrium neo-classical theory. As in earlier essays, Kirzner points out various limitations and departures from reality of such an equilibrium theory of markets. Entrepreneurs are alert to the market disequilibrium the neoclassical model assumes away, and profit from removing through arbitrage. Thus, the equilibrium a free market tends toward is a moving target which is generally never reached, and if it ever is, is neither sustainable nor persistent.

Changing market conditions move markets out of equilibrium, as profit-seeking entrepreneurs experiment with new combinations aiming at better plan coordination and allocative efficiency. This creates a new disequilibrium, and new opportunities for temporary arbitrage profits. The emphasis on entrepreneurial discovery became a distinctive feature and advantage of the Austrian school, enabling the Austrians to explain why market process moves markets toward unreachable and constantly-evolving equilibria. Jevons’ law of indifference, used to justify the general equilibrium condition, is for Kirzner and the Austrians, merely a general tendency toward this unattainable and transitory equilibrium.

Kirzner also reintroduces and further discusses his distinction between Knowledge Problem A—problems of self-correcting over-optimism—and Knowledge Problem B—problems of over-pessimism, which are not self-correcting, and can only be overcome through speculative risk-taking by alert entrepreneurs. Kirzner suggests viewing advertising as a tool entrepreneurs use to leverage competition, and ends by addressing monopoly regulation, welfare economics, and economic redistribution.

“Entrepreneurial Discovery and the Competitive Market Process: an Austrian Approach” was Kirzner’s 1997 JEL article. In it Kirzner further explicates his view of the entrepreneur’s role in driving market process through disequilibrium adjustment. When confronted by Knowledge Problem A, self-correcting over-optimism, entrepreneurs adjust prices to remove the surplus or shortage, a form of autonomous housekeeping. However, Knowledge Problem B, unobservable and potentially-persistent over-pessimism, calls for entrepreneurial alertness to improve market out-
comes, exploit incentives which are invisible and generally overlooked by everyone else, and earn profits by introducing new products, improving plan coordination and resource allocation, establishing new disequilibria, etc.

By recognizing the central role of entrepreneurship in allocation, both causing and responding to evolving market conditions, market process theory both complements and extends Arrow-Debreu (1954) equilibrium theory. In Kirzner's view, general equilibrium is best understood as an abstract formal condition which need not mirror reality to add to our understanding. Market process is "a systematic process in which market participants acquire more and more accurate and complete mutual knowledge of potential demand and supply conditions" (p. 325, emphasis in original), working through entrepreneurial discovery by alert participants. Kirzner goes on to show how market process theory, with its focus on entrepreneurial discovery which moves the market from one disequilibrium to the next, can be used to critique and inform, antitrust theory, social justice, welfare economics, and central economic planning.

Many of the articles collected in this volume are well-read and familiar, some already having been collected in The Meaning of Market Process (Kirzner 1992) and The Driving Force of the Market (Kirzner 2000). Nonetheless, these are all articles which reward rereading. A number of related articles are less widely read and offer additional insight, and it is beneficial to have them all collected in one place. The volume will be especially helpful to researchers who want to apply market process insights, better explicate the role and function of entrepreneurs, or better understand the mechanisms for the emergence and communication of market information. It is also a welcome recognition of Professor Kirzner's high place in contemporary market process economics and the theory of entrepreneurship.

REFERENCES


INTRODUCTION

A widely-held view is that political affairs have become more polarised than perhaps at any other time in living memory (Pew Research Center 2014; Gentzkow 2016; Wheatley 2017). To be sure, the ability of individuals of divergent party-political affiliations and ideological dispositions to agree over contentious matters has always been bedevilled with difficulty. More recently, however, the perception is that any willingness to cross partisan divides and constructively engage people with divergent views has greatly diminished. It is even suggested that political polarisation threatens to spill over into social interaction, driven by a lack of personal esteem towards, and lack of contact with, people subscribing to alternative political beliefs (e.g. Webster and Abramowitz 2017).

Political polarisation has gained popular traction as explanans for social friction, although the true extent of polarisation is the subject of ongoing debate (Nivola 2005; Fiorina 2018; Fiorina and Abrams 2008). Putting uncertainties about polarisation extent to one side, one may wish to consider the determinants of seemingly irreconcilable attitudes within the political domain. Many observers have suggested economic problems, such as slowing macroeconomic growth and rising economic inequality, could translate into polarised political conditions. Others indicate that social media websites, such as Facebook and Twitter, may have amplified interpersonal political disagreement. Factors such as ethno-linguistic fractionalisation, globalisation and declining trust are also claimed to be impactful (Grechyna 2016).

In his book, *The Tribe: The Liberal-Left and the System of Diversity*, British political journalist and blogger Ben Cobley advances another, albeit well-rehearsed, hypothesis to explain political polarisation. The author’s notion is that fractious political discourses centred upon individual and group identities—known as “identity politics”—exacerbates polarisation. According to Cobley, the enunciation of identity-charged themes encourages people to coalesce into non-cooperative “tribes” of shared political identity-affiliation. According to Cobley the implications of such a development is significant:

the politics of identity based around largely unchosen characteristics like your skin colour and sex is now going strong in Western countries, including Britain. What is more, it is drawing most succour by linking into left-wing and liberal political organisations and movements—to the extent that the politics of identity appears to be the defining trait and core purpose of liberal-left politics nowadays (p. 2).

In *The Tribe* a polemical, and sharply critical, treatment of the identity-infused underpinnings of political polarisation is presented. According to Cobley, the British proponents of identity politics have somehow appropriated key organisations such as mainstream media outlets and, likewise, social-democratic and progressive parties (i.e. Labour, the Greens). Having acquired influential positions within such entities the identity-focussed political actors have, then, manufactured a so-called “system of diversity” reallocating privileges for “in-groups” at the expense of “out-groups.” In Cobley’s opinion the in-group members nominally include the likes of women, racial minorities, gays and people with disabilities, whereas the likes of white, able-bodied heterosexual men are seemingly now on the political outer.

We should be under no illusion that *The Tribe* adds to a now very crowded market of literature fixated upon the topic of identity politics. Within this market it is possible to identify a growth in the dissemination of “contrarian,”
but I find unconvincing, views to the effect that minorities, which have long been, and in some respects still are, the target of discrimination and ill-treatment, are supposedly now in the cultural, economic, political and social ascendency. On both counts, the book adds little to the literature already in existence.

That being said, there is no denying Cobley’s basic point that identity is a feature of politics. Under some circumstances, issues grounded in the identity of people can be diffused through discourse in non-constructive ways. This induces political polarisation and the concomitant narrowing of communicative possibilities between groups. Fair-minded individuals would, surely, share the view such tendencies need to change in the interests of resolving genuinely collective action problems, not to mention realising the array of benefits associated with living together better.

Classical liberal insights are not explicitly canvassed in *The Tribe*, but I think they could aid the development of a nuanced, and fuller, perspective about identity politics and political polarisation. The liberal view helps explain what identity is, the political parameters of identity and its normative significance, and some guidance as to how to manage the reality of diversity. It is these tasks I set myself for the remainder of this review, pointing to key agreements and disagreements with Cobley’s work along the way.

IDENTITY IN TENSION: STATIC VERSUS DYNAMIC CONCEPTIONS

Despite the lack of a unifying definition of identity, a useful conceptualisation may refer to it as sets of expectations, representations and understandings about who a person is, what kind of person they are, and how they relate to others. From an economic perspective, identity is deeply intertwined with a notion of human agency: “[a]gency is seen as a property of individuals which results from identity: identity establishes personhood and is embedded into human groups, both synchronically as confluence of population-level processes of social categorizations and diachronically as narratives that distinguish individuals relative to others” (Herrmann-Pillath 2013, p. xxvi).

Demarcating identity into individual (personal) and group (social) categories represents an elemental attempt at categorisation made by most identity researchers and, for that matter, other people in most walks of life. A given person may self-reflectively hone their own sense of individual identity, which may be compared and contrasted with identities subscribed to by other persons. In addition, it is possible to discern a pervasive relation between individual and group identities. This arises from the fact people often express their self-identity with reference to certain group-memberships (e.g. age, race, gender, kinship, nationality, religion, sexual preference, ideological or political affiliation, and civic association membership). The bilateral senses in which individual and group identities relate add another dimension of complexity toward our understanding of identity.

Both individual and group identities may be based with reference to physical attributes, or objects, which are claimed to be more readily observed in situations of interpersonal engagement. Cobley puts great emphasis upon skin colour and gender-based attributes, for instance, as pivotal identity referents in contemporary British politics. Identities are also expressively attached to the application and use of different kinds of commodities, and patterns of conduct. Clothing, food, music, venues, even vocabulary and manner of speech may be stereotypically identified as being in use by certain groups of people, relatively more often than by others. Certain forms of individual and group identities may also attach to economic and non-economic roles, which map onto notions of socio-economic class—for example, manual labourers may be described in some quarters as people possessing “working class” identities.

The idea that identity is permanently etched onto certain attributes or objects is challenged by an emergentist perspective stressing that identity conceptions are neither interpersonally uniform nor immune to (intrapersonal and interpersonal) critical reflection, negotiation and change. The limitations associated with attempting to objectively enunciate identities on, say, physicalist or essentialist grounds is illustrated by the (I consider, compelling) argument that many identifiers are evolvable social constructions endowed with particular, often normative, meanings (Horwitz 2011). Some categories, such as religious belief, are arguably more readily interpretable through the emergence lens, but it is considered that other identifiers casually depicted by some as somehow “fixed,” such as race and gender, are in fact also fluid conceptions. These propositions suggest, in brief, that many aspects of identity are subject to change.

In evolutionary terms the speed and diffusion in which change occurs is indelibly shaped by context. One may generically observe identity evolution unfolding less rapidly than certain guises of economic evolution yet proceeding more quickly than, for instance, the evolution of legal and political institutions. The “relative stability” of some indi-
individual and group identity categories reflects the desire held by considerable numbers of people with keeping their identity reasonably consistent over time. Individuals and groups may wish to sustain certain identity markers to signal a reputation for trustworthiness and reliability to others, whereas the perpetuation of shared group identities may promote economic coordination and facilitate social capital development.

Following the view just described, a desire to fix identity (or at least to slow identity evolution) rests in the desire to secure legibility to others in the face of heterogeneity and uncertainty. Contraindicating such desire is an equally pressing appetite or need on the part of some to amend their identities, realising a different sense of self and toward those they affiliate with. Certain forms of identity are ascribed to individuals by their parents, relatives and community members at a relatively early age, but which are progressively subject to amendment as people mature through adulthood and socio-economically interact in different ways. The important point here is that identity is hypothesised to be largely the result of voluntary choice, rather than the consequence of some preordained, or otherwise fixed, assignment by others (Lomasky 2002). What we observe, commensurately, is a diverse set of identities with their incidences within the population waxing and waning.

For pluralist liberals, such as Wilhelm von Humboldt and John Stuart Mill, diversity is reflective of the free expression of individual personalities, enabling perspectival learnings and discoveries which are conducive to individual and societal betterment. Reflecting upon the social thought of Humboldt the historian George Smith (2013) aptly said, “[f]reedom and the diversity of situations breed individuality and individuality, in turn, generates even more freedom and diversity, which in turn promote even greater individuality—and so on, indefinitely. This mutual and reciprocal causation is the engine of cultural progress, as new talents are developed, new relationships are formed, and new ideas are discovered.” From the standpoint of classical liberalism, then, diversity is at the core of a vibrant, dynamic civil society, and is not interpreted as a terrible burden or threat to human interactions are conducted over a criss-crossing array of economic, social and political activity. From this standpoint it should come as no surprise that actors involved within the political domain are amongst those with an interest in promulgating certain senses of identity amongst the citizenry at large. Drawing upon the work of James C. Scott (1998) it is hypothesised that a perennial project of statecraft is to make the individual members of society legible for the purpose of tax collection, entitlement allocation and rent distribution. That is to say, the long-held governmental practice of administratively and legally codifying individual and group identities represents a core component of the broader quest by political agents (qua rulers) to render diverse individuals (qua subjects) legible for political purposes. In Coblentz’s words, “in a sense identity is politics, as the establishing of group boundaries. By identifying and demarcating the various groups that carry out political activity, we politicise them and the people within them—and divide them off from others” (p. 33).

Coblentz is correct to discern that the inherently relational character of identity entails interpersonal distinction. When people of diverse identities peacefully commingle with one another in the pursuit of mutually beneficial exchanges there is the prospect of gains from trade to occur. We may conceive of this potential for exchange and associated realisation of gains in the broadest sense, not only encompassing economic interactions but social and political. But there is the risk that individuals and groups may exploit differences in identity markers to foment adversarial, not cooperative, relationships, at the cost of opportunities for market-tested betterment, social cohesion and political harmony.

It is empirically observed that human beings have tended to act “groupishly” towards one another—treating members of designated out-groups (whomever and however defined) less favourably than members of in-groups. The human tendency to undermine the aspirations, interests, and values of those deemed as possessing out-group identities regrettably, and often, found historically safe harbour in the form of discriminatory government policies. In other words, the longstanding political project of promoting widespread legibility does not necessarily equate with generality of treatment of the ruled by the rulers. Indeed, political manipulation of inter-group animosities and tensions seems, on the basis of experience, to have aggravated malign social phenomena such as racism, sexism, and xenophobia.

**COMPLICATING THE NARRATIVE: MULTI-PARTISAN IDENTITY POLITICS**

The Tribe is centred upon identity-grounded political polarisation and who might be complicit in instigating such phenomena. A case in point is that, “[f]or the liberal-left and the system that it oversees … identity is central. The liberal-left as an identity group makes an issue of identity as some-
thing fixed and intrinsic in our society, prescribing whether someone is an oppressor or a victim and should therefore be favoured or disfavoured” (p. 227). As mentioned, British social-democratic and progressive parties are asserted as key culprits in attempting to compartmentalise and fix individual and social identities for the purposes of political gain. Similar criticisms are also directed at individual political figures, such as the London’s Labour Mayor Sadiq Khan, and media outlets with a perceived “left-of-centre” political bias including the British Broadcasting Corporation and The Guardian newspaper.

The prominent entities and personalities mentioned by Cobley appear to be at the veritable tip of an institutionalised framework that is, somewhat curiously, referred to as a system of diversity. This system, in economic parlance, could be interpreted as a production function of inputs (i.e. petitions for favours and protections by members of various identity groups) translating into outputs (i.e. supply of fiscal and regulatory privileges, provision of political recognition, speech-suppression activity, etc.). Production is supposedly mediated by a hierarchical apparatus of so-called “administrators” who “take on a role distributing power to the favoured groups via prominent members of those groups” (p. 4). The assistance provided by administrators then, as it were, “trickles down” from recognised group representatives toward the larger body of in-group members.

I refer to this system as a curiosity given that its features bear distinctly organisational qualities contrasting the classical liberal appreciation of human diversity as an emergent order of trialled ways of being, doing and knowing, embodying ever-increasing complexity. One could also question the robustness of the system of diversity as explicated by Cobley. As famously noted by Mancur Olson there are difficulties holding large-scale groups of people together because of the possibilities of free-riding and defection. A sharing of a certain identity marker does not necessarily guarantee coherence and stability within the group, since individuals customarily subscribe to a variety of interests, beliefs, passions and viewpoints which may generate intra-group tensions in other ways.

Any characterisation of a system of diversity of the left, by the left, and for the left, does not equip the reader with a holistic picture of identity politics embraced across the political spectrum. The claimed centrality of political-left involvement with identity politics makes some of the book’s arguments—for example, “we can see day by day how progressives achieve their progress by relentless control, by subjecting social, political and ethical spheres to their demands” (p. 221)—susceptible to interpretation as being over-dramatic. To provide a well-rounded account of the manipulation of identity the intensive efforts of conservative political figures to shore up, and entrench, certain conceptions of individual and group identity also needs due consideration.

At the risk of over-simplification, one may state that it takes two, or more, persons or groupings to polarise in a political sense. From this perspective conservative party leadership and supporters are just as culpable in the diffusion of identity norms in contemporary political affairs as their progressive counterparts. It is possible to nominate case after case example whereby non-conformity with conservatives’ preferences on identity-political grounds have led to unemployment, social banishment and, in some cases, country flight, however space limits us to consider some more generic principles.

Anecdotally, some of the identity criteria used and manipulated by the “political right” in an attempt to draw public support to their causes, and to denigrate the “political left” and its policy agendas in the process, include (but is not limited to): nationality; language; religion; age; sexual preference; gender identity; occupational and employment status; residential location; military involvement and veteran status; and political party affiliation. For the remainder of this section we consider the involvement of political conservatives in perpetuating what Alex Nowrasteh (2016) aptly describes as “patriotic correctness,” attempting to galvanise political support about a fixed national identity through laws, policies, rhetoric and symbolic gestures.

Key conservative theorists have asserted that their commitment to assert a national identity for large numbers of people, living proximately together in geographical space, is not intended as a polarising political project. Roger Scruton (2017) argues that a “national loyalty marginalizes loyalties of family, tribe and faith, and places before the citizens’ eyes, as the focus of their patriotic feeling, not a person or a religion but a place.” To realise national identity as the locus of multi-person binding, “[w]e need an identity that leads to citizenship, which is the relation between the state and the individual in which each is accountable to the other. That, for ordinary people, is what the nation provides.”

The purpose of nationalism, as told by conservatives, is not to polarise. It is, rather, to articulate a defence of large-scale, transcendent institutional and organisational structures to be shared and supported by large numbers of people. Instead of the polarisation resulting from political efforts to fix identity into “us and them” categories, the con-
servative agenda is intended to encourage (and retain, for retention is inherently conservative) mass support for more encompassing, arguably more inclusive, forms of identity. Cobley expresses a fairly similar view when suggesting that “[i]n a democratic society, the ‘us’ is different to the ‘us’ of identity politics. Democratic citizenship discriminates on the basis of who is here and of here, of who has an established connection to this place, rather than such things as skin colour, ethnicity, gender and religion” (p. 226). In the sense in which Cobley expresses it, nationalism is an identity wedded to a principle of self-government held by a population in common.

Perhaps the most obvious critical response to the conservative deployment of nationalism as binding agent for their version of identity politics is that it, all too often, has been cynically employed for exclusionary purposes. The legal, regulatory and symbolic ramifications of nationalism—invariably entwined with broader citizenship imperatives of appreciating communal tradition tied to a given locality, and the impression of a shared future in that same location—may well imply the existence of a political "us" applicable to multiple persons. The exclusionist character of nationalism has been illustrated, however, in the interpretation of the “us” as overwhelmingly a native-born in-group, whose interests and prerogatives are substantially elevated above those of an immigrant, out-group “them.”

The policy manifestations of an anti-immigration stance, depicted here as a largely (but not exclusively) conservative indulgence in contemporary identity politics, have become unnervingly apparent in recent times. These include the emergence of xenophobic political leaders and parties, the instigation of stricter policy limits against migration flows (and travel limits applied to residents of certain countries), and the prescriptive enforcement of entry conditions (including stricter visa conditions, offshore immigration processing, mandatory detention, separating families at border points, etc.). Evidence of such a backlash against mass immigration, as reflected in policy punishments against certain forms of cross-border human movement, is anecdotally evidenced in North America, Europe and elsewhere.

A basis for the tension between the ideas of nationalism and immigration, so it appears from a conservative political perspective, is that an influx of large numbers of people alters the demographic composition and cultural complex-ion of a country. Such a development is alleged to be undesirable, perhaps because immigration makes it even more difficult, at least along some margins, to render the diverse inhabitants of a country legible for policymaking purposes. Similarly, Cobley claims that “[w]ith the shape and make-up of the community constantly shifting and expanding through mass immigration, those who govern and the people they govern come to have less in common and less mutual understanding—undermining links of reciprocity and mutual responsibility between members of the political community and the government it elects, creating constant problems of legitimacy” (p. 225).

The classical liberal view is that the costs of anti-immigration are immense. Aside from an inability to expand domestic markets and forge economic networks with individuals farther afield, limiting freedom of human movement comes at a cost of epistemic deprivation of knowledge with respect to diverse experiments in living (Tebble 2016). That is to say, an anti-immigration posture prevents natives and migrants from commingling in proximate geographic space, sharing perspectives and learning from each other experimentally. These matters are canvassed by Lomasky and Tesón (2015), who critique political efforts to sediment cultural norms (and, implicitly, the identities tagged with them):

The desire to impose cultural standards is an authoritarian preference that clashes with a nonwaived individual right, the right to move about and interact with whom you please. The cultural conservationist favors using the power of the state to prevent changes in the culture. These changes, which immigration inevitably causes, are the result of spontaneous, voluntary processes: immigrants do not coerce the natives into abandoning their hamburgers and adopting Indian curries. The cultural conservative proposes to interfere with these voluntary processes and thinks that closing borders is a good way of doing it. But, … these border-closing actions coercively interfere with people’s right to personal mobility. This is true in all cases where immigrants have all sorts of commendable personal preferences, such as improving their lives by engaging in mutually advantageous transactions with natives (p. 118).

The rationale for highlighting identity politics as a practice shared by political conservatives and progressives is not to engage in partisan tit-for-tat. Our observations are intended to illustrate that certain styles of political conduct overlap party and ideological divides. More generally, the liberal process is inherently contestable in that multiple persons of differing political persuasions may fixate upon a
common theme (in this case, identity norms) to gain ascendency. In this context, supporters of the political left will expend (public and private) resources and create networks in an attempt to convince others of the merits and virtues of their position, and criticise alternative positions held by others. This conduct is replicated by figures on the political right.

In summary, multi-partisan efforts to privilege certain forms of identity over others typically generate significant, yet needless, frictions. These exertions which are prevalent within the political domain have potentially far-reaching consequences for the ability of people to surmount, or at least reconcile, identity-based differences and coordinate better together.

COMPLICATING THE NARRATIVE II: “PRO-LIBERTY” IDENTITY POLITICS

To the extent that in-group members are valorised, whereas out-groups are denigrated, widespread prejudice and discrimination may be levelled against certain people based upon their identity categorisation. A refusal to countenance the involvement of out-group members in economic and social networks risks exclusion, poverty, inequality and a lack of opportunity for sizeable numbers of people (Novak 2016). Even worse, prejudice and discrimination could descend into a destructive promulgation of dehumanising attitudes and behaviours against members of the out-groups. At least in theory the evolutionary character of identity might make it more difficult for discriminators to be definitive about the targets of their malign intentions, but the reality is that othering has been, and continues to be, an important sociological problem impacting the life opportunities of far too many people.

The account of identity politics in The Tribe is, as mentioned, reminiscent of interest group theory found in the public choice literature. Representatives of certain interests successfully lobby legislators and key bureaucrats to direct policy-generated rents and, in the case that Cobley attempts to build, to serve “protection” on behalf of minority perspectives. In the context in which Cobley writes, the interest groups appear collectively sewn together by supposed epistemological insight that:

- takes account of various forms of victimhood, which are all grounded in knowledge—in knowing how these properties of identity and the people holding them fit into the world, as victims of the world. Reality appears as a place in which one set of identity groups suffers victimhood and oppression from another, all working in one-way relationships of power (p. 21).

To its many critics much of the scale of activity falling under the heading of identity politics is interpreted as political aggrandisement. As such, it should be categorically ruled out as legitimate activity within a liberal system of politics which emphasises generality and neutrality of treatment for all persons. Even so, it is considered that not all political claims utilising identity considerations are necessarily illiberal given the particularised, group-oriented ways in which governments have differentially treated, and in some respects still differentially treat, people. In simple terms context is important when discerning the legitimacy of identity politics, raising the possibility that other long-established liberal commitments, such as justice, may validly come into argumentative play (Levy 2016).

As explained by Steven Pinker (2011) and other scholars, Western societies have largely accommodated an “emancipation sequence” of expanding rights and liberties, eradicating (though not completely in all circumstances) social blights such as racism, sexism and homophobia to the extent they were given expression through public policies. The complex, intersecting mix of (affective and intellectual) argumentation, political lobbying and social mobilisation by those people agitating for change—such as oppressed minorities and their allies—may well be interpreted as a species of identity politics, insofar as attention is centred upon group treatment. To be sure, this proposition reflects, of course, little more than the reality that certain governmental policies previously enshrined the de jure differential treatment of persons, using identity as its basis.

Regardless of the ideological dispositions of certain key activists of years past, the important point is that they persuaded governments to roll back identity-based discrimination hampering opportunities for cooperation amongst heterogeneous individuals with divergent knowledge and varied backgrounds. This represents a political stance that is unmistakably liberal in substance, with its links between economic, social and political freedoms: “the cumulative and gradual accumulation of liberties by individuals within society has historically been the path to liberty. This historical path to liberty in turn eroded political privileges based on social status, race, or creed, allowing ever-greater numbers of individuals to participate in social cooperation under the division of labor” (Boettke and Candela 2017, p. 138).
A potentially attractive feature of demands to eradicate formal discrimination is that certain activists contributed to change by instilling recognition of more generalist, non-discriminatory, notions of identity in the process. Putting this in another way, an encompassing and inclusive “meta-identity” was projected into political discourse that could help coordinate persons who affiliate with contradictory identities, in so doing eschewing “friend-enemy” political distinctions (Almeida 2014). What is this all-encompassing identity classification to which we refer? It is not nationalism, which has an unhappy tendency to invite group-laden hostilities against those lacking the preferred national status. It is, instead, the notion of a common humanity.

Jeremy Waldron (2017) suggests that legally identifying people on the basis of “what sort of person they are” creates a category labelled as “sortal status.” Various sortal status positions have been ascribed to people by the state throughout recorded history, giving rise to in-group and out-group distinctions reflected in law and public policy. Identifying the problems surrounding the morally arbitrary, and unjust, political assignment of lesser sortal status to certain people, Waldron takes the position that “there is just one sortal status: the status of being a human person” (p. 8).

Incidentally, a semantic refinement of Waldron’s propositions—viz. contemplating the existence of a common humanity rather than sub-sets of humanity divided along racial, sexist, xenophobic or other lines—maps neatly onto the classical liberal commitment to cosmopolitanism. In brief, the cosmopolitan ideal insists that all human beings are endowed with the same basic moral rights—including freedom of movement and to trade (Boettke 2017).

It is evident that Cobley yearns for societal arrangements in which people are not treated discriminatorily and prejudicially on the basis of their background characteristics and circumstances. As acknowledged by Cobley, “[m]any of the activists who practise the politics of identity are good people. Their politics has significant achievements to its name. The virtual elimination of genuine racism and sexism from our public life is a massive one. … We should seek to preserve these and other achievements” (p. 233). Nonetheless, one senses significant difference between the emancipatory potentialities of a pro-liberal identity politics, as described here, and the inter-group bargaining and jostling for fiscal and regulatory privileges which are primarily the subject of Cobley’s book.

LIBERAL POLITICAL INSTITUTIONS AS “SAFETY VALVES” TO MANAGE POLARISING POLITICS

The contribution of identity politics to contemporary life has been the subject of debate and contention. As already noted, there exists a body of evidence to the effect that attaching political value to identity has exacerbated political polarisation and, though it, impacted our collective ability to make public discourse more meaningful, inclusive and epistemically productive (Müller 2018). Any tendency to use identity as leverage to gain policy favouritism, for certain groups at the expense of others, has also been criticised, including in The Tribe, on account of the potential for such practices to aggravate political non-generality of treatment.

It seems that for Coblrey, and other critics of identity politics, the narrowness of especially ascriptive notions of identity as a mode for dispensing political privilege is the chief concern. The previous section canvasses the liberal ideal of generality in political treatment (Buchanan and Congleton [1998] 2003) as a broad reflection of political acceptance toward the meta-identity norm of a common humanity. There is no inconsistency between this position and the diagnosis, and reform, of non-generalist (including identity-grounded) legislation and public policies.

The modern classical liberal literature primarily focusses upon the desirability of generic rules for economic and social policy to alleviate policy errors. In addition to the ever-present incentive of political actors to manipulate public policy settings to accumulate political power and to generate rents, the liberal surmises that legislators and bureaucrats are unable to acquire the finely-grained, typically tacit, knowledge to promote the general public interest. The liberal outlook with respect to the political treatment of identity issues raises interesting questions about which format of public governance is likely to be more effective in channelling the implications of deep diversity into positive-sum learning and exchange opportunities.

There is much to commend institutional diversity to accommodate the fact of difference. Political philosopher Julian Müller (2017) contends that a “polycentric democracy,” defined as “an institutional arrangement involving a multiplicity of polities acting independently but under the constraints of a democratically supervised framework designed for institutional competition” (p. 151), can help reduce tensions and, furthermore, enable society as a whole.
to tap into the benefits of diversity. The existence of large number of political jurisdictions, under a non-discriminatory “rules of the game” compact (Hutt 1966), would (i) help reduce defuse deep disagreement by offering the possibility of exit to jurisdictions inhabited by like-minded citizens, (ii) reduce shallow disagreements by testing a multitude of socio-economic practices across jurisdictions, and (iii) discover new and better ways of living or, at least, deliver more effective modus vivendi arrangements.

Similar views extolling the virtues of institutional flexibility in accounting for heterogeneity have been expressed in the form of Ryan Muldoon’s (2017) dynamised social contract theory, as well as Adam Tebble’s (2016) epistemic liberal critique of uniform national identity. In another important contribution, Aurelian Craiutu (2017) also suggests that polycentrism appears a reasonable fit for liberal ethics respectful of the reality of multiple and shiftable identities:

mildly, complicated, and not necessarily reducible to simple problem specifications or solution possibilities. By no means does The Tribe, or this review for that matter, establish the final words regarding how to respond to some of the more troubling manifestations of identity politics in North America, Europe, the Antipodes and elsewhere. But there appears a good opportunity to pick up some of the themes contained in Copley’s book, advancing the study of identity and its political deployment from the vantage point of classical liberal thinking. From there we might well find that key to overcoming political polarisation is for each and all to summon the courage and foresight to abridge identity, and other divides, and seriously engage one another on issues as natural equals sharing a common humanity.

NOTES

1. Material in the following section is largely drawn from Novak (2018).

2. In addition to sortal status there is “conditional status,” reflecting personal circumstances in ways which “do not tell us anything about the underlying personhood of the individual who has them” (Waldron 2017, p. 6). Alienage is nominated as a form of conditional status, however the status of being an alien (or migrant more generally) is often confounded, at least in political discourses, with sortal-style personal traits of “non-nationalism” or “foreignness.” In other words, nationalism is held, accurately or otherwise, to be central to the essence or being of a person. We also note under some circumstances there is overlap between alienage and other sortal categories such as race and ethnicity.
REFERENCES


I. INTRODUCTION

Each generation is converted by the saint who contradicts it most.

–G. K. Chesterton, St. Thomas Aquinas, 1933

This is good news for a pope and a book that contradicts many current trends of thought, though in quite different ways. From its genesis in 1891 with Rerum Novarum, Catholic social teaching (CST) has in fact always been a sign of contradiction. Its successive voices, building up from the shared foundation of human dignity, emphasize different aspects of the relationship between its two central principles: subsidiarity and solidarity. Subsidiarity calls for the decisions to be made as locally as possible (beginning with the individual), while solidarity points to the intrinsic equality between all members of society and celebrates their interdependence. The overarching goal of CST is always referred to as “the common good.” This concept continues to be rather nebulous, thus, individuals often interpret it with respect to the two previous principles. How are subsidiarity and solidarity balanced in practice? Does one precede the other? The way these questions are answered reveals a formidable gulf in CST thinkers. Pope Francis has assuredly staked his camp in the land of solidarity; “We require a new and universal solidarity” (2015, p. 14). In fact, the word “solidarity” appears 14 times in Laudato si’ and 19 in Evangelii Gaudium, while “subsidiarity” is used just two times in the former and once in the latter. Meanwhile, economists naturally see all of the world’s problems through the lens of subsidiarity (or to use its formal name, microeconomics). A certain school in economics that comes up in the book, the Austrian school, takes subsidiarity particularly seriously as illuminated in F. A. Hayek’s (1945) classic work “The Use of Knowledge in Society.” Pope Francis and the Caring Society makes of itself a bridge. The genius of this new text is that it breaks apart the lively complexity of Francis’s social teaching (and beyond) into manageable portions, allowing the relative expertise of authors to illuminate ways in which the pope might better understand economics, economists might better understand the pope, and champions of solidarity and subsidiarity might take steps toward one another. Its author, Robert Whaples, should count this amongst his proudest life accomplishments, for history repeatedly reveals that ideas about economics often matter more than we can foresee.

The next few sections will go into more depth by illustrating three arenas in which the authors, mostly economists, have argued that increased subsidiarity is actually the way to achieve more solidarity. Taking Francis’s end as given, they propose the most efficient means. They are as follows: level playing fields in the market, polycentric governance for natural resources, and the economic role of the family. The penultimate section covers the other four chapters of the book, which do not enter into the subsidiarity-solidarity debate so much as add much substantial context and unique insight. The conclusion covers strengths and weaknesses of the text as a whole and contains a note on promising avenues for future research. By merely opening up these discussions, the axis of the world’s caritas et veritate has been tilted favorably. While the work is far from accomplished, a surprising amount of value—some might say mutual benefit—has already emerged from the trade in ideas. The fact that the first ten pages of the book are filled with the praise of well-known scholars, archbishops, philosophers, and professors attests to this. While detailed, empirical, and technical in parts, nothing in Pope Francis and the Caring...
Society is beyond the reach of readers who want to know more about the interplay between morality and economics. In fact, the readership will no doubt find themselves edified, equipped, and welcomed into the immemorial conversation about man as profit-maximizer and political-actor (and perhaps even, God-seeker).

II. LEVEL PLAYING FIELDS

The biblical accounts of creation invite us to see each human being as a subject who can never be reduced to the status of an object… This vision of “might is right” has engendered immense inequality, injustice and acts of violence against the majority of humanity, since resources end up in the hands of the first comer or the most powerful: the winner takes all.

– Pope Francis, Laudato si’, 2015

Economic inequality has been a serious concern of politicians, religious leaders, and those living next to “the Joneses” in the past decade. Gabriel Martinez centers his contribution around the question of whether or not the global economy is home to uneven playing fields, which would mean that the pope is correct in decrying the exclusion of marginalized groups. For Martinez, the answer is in the affirmative, although the problem is not inherent to capitalism; “Rather, what Francis is addressing is our lack of concern: our indifference towards very large concentrations of economic and political resources with a limited group of powerful individuals” (p. 70). This kind of response is right in line with ancient Catholic tradition. The chapter follows Francis as he paints a picture of two societies, one that is favorably caught up in a virtuous circle of knowledge, exchange, and wealth creation, and another that is trapped in a vicious cycle of poverty, despair, and destruction. The first group of people (or nations) seems to be successfully pursuing the common good, though Francis argues that there can be no true solidarity, thus no common good, until the marginalized societies are welcomed into the market. Martinez declares that what separates the two is the lack of a level playing field.

What causes an uneven playing field? Skillfully, Martinez utilizes a range of sources (from the Psalms to an article by Charles Koch) to make his point that what Francis sees as a lack of solidarity is indeed symptomatic of unsustainable growth caused by false subsidiarity. An economy filled with political rent-seekers rather than real entrepreneurs will necessarily have people falling through the cracks. The easiest way to see the difference is that true subsidiarity would empower the decision-makers closest to the problem to seek out solutions themselves, while false subsidiarity consists of local decision-makers who capture higher levels of authority to solve their problems for them (i.e. prohibitively high industry regulations). An uneven playing field is of further concern since the growth it generates is inherently unsustainable. Political favors are unavoidably scarce; human ingenuity is not. As Julian Simon (1996) pointed out in his magnum opus, the unfathomable human mind is itself the ultimate resource. A healthy, inclusive, and flourishing economy is structured so that all human beings can make full use of their ultimate resource and thus become co-creators. In such a way, the natural inequality between each person can be a basis for mutual benefit, rather than something to be diminished. Martinez acknowledges that Francis levies a deep critique, though he locates a large portion of the problem in state rules that pick winners and losers. Rather, a thriving market structure based upon true subsidiarity will arise only when the playing field is level. As Hayek wrote in The Fatal Conceit: “The insight that general rules must prevail for spontaneity to flourish, as reaped by Hume and Kant, has never been refuted, merely neglected or forgotten” (1988, p. 73).

While both Francis and Martinez see improved (or diminished) political action as part of the solution, both agree that the center of any change will arise at the personal level. “Gradually it was disclosed to me that the line separating good and evil passes not through states, nor between classes, nor between political parties either - but right through every human heart - and through all human hearts” (Solzhenitsyn 1973, p. 615). All men, women, and children are perpetually free when it comes to that choice; the very closest level of subsidiarity is in fact the basis of our most basic solidarity.

III. POLYCENTRIC GOVERNANCE OF COMMON-POOL RESOURCES

We are all responsible for the protection and care of the environment. This responsibility knows no boundaries. In accordance with the principle of subsidiarity it is important for everyone to be committed to his or her proper level, working to overcome the prevalence of particular interests.
A pioneering chapter of the book was Phillip Booth’s essay on “Property Rights and Conservation,” culminating with a compelling argument for the symbiosis of Elinor Ostrom’s work on common-pool resources (CPR) and Catholic social teaching. Beginning with the ancient Church’s exultation of communal property and modest living, he leads the reader through Aquinas and the late Scholastics whom explicitly encourage private property rights – not as an absolute right, but for similar reasons that one would insist upon the wearing of clothes. Although religious and scholars quibble about whether personal property existed pre-Fall, our loss of innocence requires guards so that we might learn to respect one another again. Thus, clothing and private property exist as barriers to eyes that can easily slip into lust and greed. Not only do these encourage peace and proper upkeep of the goods of this earth, but the right to private property is also recognized (primarily by Leo XIII) as aligning the common good with the grain of self-interested, creative behavior.

The driving thesis of Booth’s chapter is that Laudato si’ missed a remarkable opportunity to build upon research regarding the efficacy of property rights, quasi-property rights, and polycentric governance to handle environmental dilemmas. The work of Elinor Ostrom on common-pool resources is important for researchers with concerns similar to those of the pope; her framework is not simply private vs. public, rather, it fills in the gaps between the theory of the firm and the theory of the state by producing something like a theory of civil society. Contrary to the prevailing thought of her time, Ostrom refused to believe that humans, endowed with reason and ingenuity, could be irreversibly trapped in “the tragedy of the commons.” Booth adds a fascinating historical note; the quintessential journal article on environmental protection, “The Tragedy of the Commons,” was actually about compulsory population control. Hardin’s own epigraph: “The population problem has no technical solution; it requires a fundamental extension in morality.” The tragedy of the commons was simply a metaphor for his argument in favor of governing “human breeding.” Alternatives to the tragedy of the commons seem to be of Catholic interest through and through.

In her classic text, Governing the Commons, Ostrom (1990) echoes the themes of CST. Her work begins from an integral view of human dignity, identifies how subsidiarity can build solidarity, and is oriented toward the common good:

Both centralization advocates and privatization advocates accept as a central tenet that institutional change must come from outside and be imposed on the individuals affected… Instead of basing policy on the presumption that the individuals involved are helpless, I wish to learn more from the experience of individuals in field settings. Why have some efforts to solve commons problems failed, while others have succeeded? What can we learn from experience that will help stimulate the development and use of a better theory of collective action—one that will identify the key variables that can enhance or detract from the capabilities of individuals to solve problems? (p. 14).

This is not to mention her intellectual humility, a role model for religious and lay scholars alike.

What Benedict XVI, the “Green Pope,” attributed to subsidiarity, Francis might consider as he approaches with his comparative advantage of a solidarity-focused framework. The enormous amount of case studies produced by Elinor Ostrom and her Workshop provide the perfect playing ground to unearth the ways in which these two principles may be respected in practice. Trusting local communities with the responsibility to craft and enforce the conservation of their own common resources will revive their performance and once again place human closeness at the forefront of human life. Economic necessity begets voluntary association, “closeness,” getting “dirty,” and befriending our neighbor, “with his or her familiar face, story, and personality,” to borrow the words of Francis (2015a; 2015b).

Again, a respect for subsidiarity provides fertile ground for solidarity to grow.

IV. THE ROLE OF THE FAMILY

Looking at [the family] in such a way as to reach its very roots, we must say that the essence and the role of the family are in the final analysis specified by love. Hence the family has as its mission to guard, reveal and communicate love…

– Pope John Paul II, Familiaris Consortio, 1981

Allan Carlson’s chapter, the seventh and final, takes up the concrete link the Catholic social teaching principles of hu-
man dignity, subsidiarity, solidarity and the common good. That link is Love, for which the family is the earthly, God-given sign. What has this familial love to do with economic concerns? Carlson points to three places where familial love restores right order within our economic lives: the necessary harmony between “having” and “being,” the natural harmony between labor and leisure, and the “profound harmony” between man and woman (p. 190). Through each of these relationships, familial love is portrayed as the linchpin between subsidiarity and solidarity; it channels spontaneity that it might be oriented toward the common good.

Ever-present in the rhetoric of Francis are warnings regarding inordinate consumption. John Paul II, in Centesimus Annus, was the first to articulate consumerism as this essential tension:

It is not wrong to want to live better; what is wrong is a style of life which is presumed to be better when it is directed towards ‘having’ rather than ‘being,’ and which wants to have more, not in order to be more but in order to spend life in enjoyment as an end in itself (p. 36).

Both Pope Francis and Carlson identify the family as the great antidote to the emptiness of consumerism—a rebalancing of having and being. Francis (2016) explicitly locates this power in the genesis of family life, mothers, who serve as “the strongest antidote to the spread of self-serving individualism... It is they who testify to the beauty of life” (p. 174). In fact, the cultural decay brought on by material gorging is well accounted for in the words of every pope, not to mention almost any religious leader in the last century. Subsidiarity in economic and political life empowers stable, strong families to use their time, talents, and possessions in the service of God and one another, thus increasing solidarity.

True to orthodoxy, Francis rejoices in the fact that man and woman are different and equal in dignity—each with his or her comparative advantage in contributing to the common flourishing of the family. This plays an important role in his vision of a properly functioning economy, because, like John Paul II, Francis hopes for a greater reverence to be submitted to women who desire to fully devote themselves to motherhood, rather than a society of mothers who are compelled (or culturally pressured) to work full-time. This will enable husbands and wives to wholeheartedly welcome children into their lives, who enable us “to appreciate the utterly gratuitous dimension of love... it is the beauty of being loved first: children are loved even before they arrive” (2016, p. 166). Every parent would agree that it takes an enormous amount of individual responsibility and hard work to bring a new person into the world and to help them grow (and what could be more social than that?).

Francis and Carlson also see the family as a playing a crucial part in rediscovering a more balanced life of labor and leisure. The physical structures that surround us increasingly glorify business over peace; “Neighbourhoods, even those recently built, are congested, chaotic and lacking in sufficient green space. We were not meant to be inundated by cement, asphalt, glass and metal, and deprived of physical contact with nature” (Francis 2015b). It might be good to ask, what exactly is lost when leisure is lost? Josef Pieper (1952) defines leisure in his work, Leisure, the Basis of Culture:

Against the exclusiveness of the paradigm of work as effort, leisure is the condition of considering things in a celebrating spirit.... Leisure is only possible in the assumption that man is not only in harmony with himself... but also he is in agreement with the world and its meaning. Leisure lives on affirmation. It is not the same as the absence of activity; it is not the same thing as quiet, or even as an inner quiet. It is rather like the stillness in the conversation of lovers, which is fed by their oneness (pp. 31-33).

This seems to be exactly what Francis exhorts his readers to reclaim, writing extensively about pursuing the simple life, which engenders the understanding that “everything is interconnected” (2016, p. 70). Furthermore, Carlson poses the simplified, minimalist lifestyle as a unique “response to the Malthusian challenge.” However, he argues that Francis could potentially find a great ally in the Distributists, Chesterton and Belloc, who instead “place their strongest emphasis on the widest possible distribution of property: the ownership by each family of a house, a few acres of land, and small scale tools” (pp. 193-194). Again arises the theme of greater subsidiarity making room for greater solidarity.

Interestingly, Francis writes that marriage amplifies the differences between men and women: “wherein the husband helps his wife to become ever more a woman and wherein the woman... [helps] her husband to become ever more a man” (2016, p. 221). All economists know the simple formula that specialization begets trade, which in turn begets mutual gains. We might picture this becoming “ever more” as an increase in resources available to the man and
woman, which shifts out the production possibilities frontier and creates greater value for society. Perhaps the spontaneous order of love is what helps homo economicus to become ever more human as his activities extend from hearth to city. Pope Francis and Carlson certainly believe so.

V. CONTEXT, CHARITY, AND COMMENTARY

There remain four more essays to comment upon: Andrew Yuengert’s “Pope Francis, His Predecessors, and the Market,” Samuel Gregg’s “Understanding Pope Francis: Argentina, Economic Failure, and the Teologia del Pueblo”, Lawrence McQuillan and Hayeon Carol Park’s “Pope Francis, Capitalism, and Private Charitable Giving,” and A. M. Waterman’s “Pope Francis on the Environmental Crisis.” Yuengert and Gregg complement one another well in laying the groundwork of a fuller context for Francis by displaying the consistency of his thought with past popes and the contemporary experience of Argentinians. However, it is unfortunate that Yuengert’s analysis did not reach far enough back to explore the rich economic traditions of Aquinas, the Late Scholastics, or even Pope Leo XIII.

McQuillan and Park take Francis very seriously as they lay out exactly how the reforms he is endorsing would lead to lower amounts and lower quality of charitable giving to the poor. “When politicians around the world undercut the institutions of capitalism by raising taxes or assaulting private-property rights, they attack the heart of private charity” (p. 102). They then take the opportunity to dispel many prevalent misconceptions about welfare and foreign aid by compiling an impressive line-up of evidence showing the unfortunate unintended consequences of these well-intended policies. Waterman’s essay yields a much deeper, technical understanding of Laudato si’ by analyzing Francis’s economics, biology, and theology. Though he connects Julian Simon with the optimistic and “pronatalist” Catholic belief about the creative capacity of the human mind, Waterman concludes that the message of Laudato si’ was weakened by its inability to give up its “pre-Malthusian view of nature” and to see how “in public policy human sin makes it necessary to supplement virtue by an appeal to self-interest” (pp. 144, 149). Finally, I have not yet applauded the foreword of Michael Novak, introduction of Robert Whaples, and conclusion of Robert Murphy. Their shared counsel was that economists and Pope Francis have a great amount to learn from each other, and if we are humble enough to listen, both sides will gain greater insight.

V. CONCLUSION

Before moving beyond the work, there is much low-hanging fruit to be found directly in the essays, whether as extensions or repeated testing of the hypotheses. Future avenues for research could investigate such questions: policy that causes uneven playing fields, the efficacy of different kinds of private charitable giving, polycentric governance structures for civil society, the responsibility of churches for business ethics, the impact of advertising on economic growth, theories of leisure and labor, the economic complementarity of men and women… and the list goes on. As mentioned at the genesis of this article, there is a particularly robust symbiosis between Austrian economics and Catholic social teaching. Not only do the works of Mises and Hayek still contain much to be applied through the lens of CST principles, but modern thinkers like Elinor Ostrom and Julian Simon have produced work that sheds further light on the relationship between subsidiarity and solidarity. Francis and the economists may not agree on the theory of satisfaction of present wants, but it can be safely assumed that the desire for these sorts of conversations is still unsatisfied.

Pope Francis and the Caring Economy addresses many important economic and political questions, but future arguments may need to take place on deeper levels in order to persuade Francis and those who agree with him. In a way, Pope Francis and economists are still speaking two different languages. This is not a reference to any monetary jargon or theological parlance, rather, Francis is speaking to souls and economists to economic agents. Though both are interested in a type of “utility maximization” for every individual, their analyses take place over drastically different time-horizons (i.e. eternal beatific vision). Former popes have been much more favorable in their estimation of capitalism, however, it came because they were convinced of the morality of the enterprise, not purely it’s ability to enrich the lives of so many. The point that Pope Francis continually makes is this: there is no Christ of economics. Technical knowledge is not man’s savior, it is his tool. However, a perfect starting place for this next conversation is the underlying point of the economists in this volume: it befits the dignity of man that he is allowed to freely partake in and build up the market. Their thoughtful scholarship illustrates that, in order for solidarity to flourish, society needs to be organized around subsidiarity as responsibility is the lifeblood of institutions closer to home (or home itself). They ask: Is not this the common good?
Like all good books, the reader is left resting with more questions in his head than answers in his lap. Through conversation and shared experience, we each have the invaluable opportunity to allow others to illuminate our blind-spots, and to do the same for them. As a blueprint for how multiple voices can help to bring about a more complete picture reality, Pope Francis and the Caring Society will be a handbook for those wishing to engage unique tension and symbiosis between economic and religious thought for years to come. At the end of the day, Chesterton might be exactly right in the opening quote. The most convincing contradictors are those who become saints.

REFERENCES


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