

Catallaxy, Competition, and 21st Century Capitalism:
An Agenda for Economics

Steven Horwitz

Professor of Economics

Associate Dean of the First Year

Whitman Hall

St. Lawrence University

Canton, NY 13617

Prepared for International Confederation for the Advancement of Pluralism in Economics
Annual Conference Volume, Ann Arbor: University of Michigan Press, 2005.

June 2004 version

It is important that there be an Austrian voice in the conversations that surround methodological and theoretical pluralism in economics. Though it is too often not recognized by many within the heterodox schools of economics, the Austrian visions of both the market and economics are far from that held by the neoclassical orthodoxy. It is surely true that, like many members of the mainstream (though not as many as many heterodox economists seem to imagine), Austrians end up in a place that strongly defends the institutions of the market economy, and that is highly critical of political intervention into those institutions and processes. For many heterodox economists, the fact that Austrians are both strident defenders of the market and heterodox in their approach to economics presents a puzzle. I would instead suggest it is an opportunity for mutual gains from intellectual exchange.

This paper hopes to sketch out an Austrian vision of the market and how that translates into a vision for what a 21st century economics might look like. Specifically, I hope to show that modern Austrian economics has two key features that make it an important part of the heterodox conversation. First, the way in which Austrians understand human choice, the importance of knowledge, and the centrality of institutions are all at odds with orthodoxy. Austrians share many of the criticisms of the mainstream raised by heterodox economists from a variety of approaches. Second, Austrians believe that their understanding of markets and social institutions lead to significant skepticism about the ability of the state to improve upon outcomes generated by properly functioning markets. The Austrian defense of the market is a voice that needs to be heard within heterodoxy, given that heterodox economics lies generally to the political left of the rest of the profession. The inclusion of the Austrian perspective can defuse the criticism that

heterodox concerns are, at base, ideological rather than theoretical or methodological. Rhetorical strategy aside, if heterodox economics is committed to methodological and theoretical pluralism in economics, then it should also be committed to political pluralism within its own ranks, and should welcome the sorts of pro-market challenges that Austrians raise.

Choice and Mind

For Austrians, the analysis of economic activity begins with recognizing that humans are active choosers. Mises titled his magnum opus *Human Action* (1966 [1949]) to emphasize the active, choosing human as opposed to the passive, mechanistic vision of humanity that was becoming increasingly embedded in economic models with the rise of general equilibrium theory earlier in the 20th century. For Mises, and for Menger before him and surely for modern Austrian economics since Mises, human action always takes place in world of uncertainty. The notion of homo economicus with his full information and perfect rationality has never been part of the Austrian vision. Rather it is Mengerian man, stumbling and bumbling his way through the complex array of possibilities that comprise modernity, who is at the center of the Austrian vision.

In Menger's (1981 [1871]) *Principles*, he sketched out an understanding of human choice that left a great deal of room for ignorance and error. From the beginning, his discussion of "economic goods" was concerned with both our ability to know "human needs" and the ability of various objects to satisfy those needs. He did not assume that we know both, rather he argued that we might be wrong about what we need and how particular objects might meet our needs. More generally, Menger saw growth in our

knowledge of both as a consequence of economic interaction that begins in ignorance. In themes that would be echoed by Hayek 75 years later, Menger's *Principles* is as much a study in the dispersion and growth of knowledge as in something more narrowly economic.

Menger's inclusion of the element of time in a serious way also differentiates the Austrian approach from that of orthodoxy. Menger distinguished among goods of the various "orders," with "lower-order" goods being those closest to final consumption, while "higher-order" goods are those more distant in the production process, i.e., capital. In a formulation that remains part of standard economics today, Menger introduced the notion of derived demand to explain how the value of the higher-order goods derives from that of the lower-order goods, which in turn are the product of the subjective evaluations of human actors. However, given that production processes take real time, our evaluation of the value of the higher-order goods today is always premised on our expectations of the *future* value of the yet-to-be-produced output. When that output is actually produced, any number of intervening events could upset those expectations, leaving us mistaken in our value calculations. Because the future is the (unintended) result of human choices made today, the success of any human action will depend upon the accuracy of our expectations of others' behavior, and the accuracy of their expectations of us.¹ The reciprocal expectations in play create structural uncertainty for all human choice, making largely irrelevant models where we are assumed to know all that we need to know.

In the last decade or two, Austrians have refined their understanding of human action by returning to some of the neuro-psychological themes Hayek introduced in his

book on theoretical psychology, *The Sensory Order* (1952).² Although there is debate among Austrians as to what Hayek's intentions were in writing that book at that time, the argument he makes there anticipates much of the recent work in neuroscience, and the implications of that work provide evidence from the natural sciences for two central Austrian points about human choice.

The core of Hayek's argument was that the mind is a spontaneous order that emerges from the biological processes of the brain. In the sense that he believed that mind is produced by, and is not separate from, the biological processes of the brain, Hayek falls into the "materialist" camp. However, he did not believe that mind can be *reduced* to those material processes because we do not, and perhaps can never, understand exactly how those processes operate. Mind is an emergent complex phenomenon that is based in, but not reducible to, the biology of the brain. The two points this raises for Austrian economics are related to the limits of our knowledge and to the importance of subjectivism in the social sciences.

Hayek's work on the mind and other complex phenomena suggests that faced with complexity, the best we can do is offer "explanations of the principle." That is, we cannot explain the processes by which complex phenomena operate in detail, but we can offer generalized principles by which they function. Although this clearly has applications in economic theory, as Austrians tend to see economies as complex phenomena, suggesting real limits to what economic theory can do and predict, it is also important for recognizing the limits to our knowledge of our minds. Hayek (1952: 185) argued at one point that a phenomenon of a particular degree of complexity cannot explain another of equal or greater complexity. This implies limits to what humans can

know, and limits to our ability to articulate all that we do know. Our minds operate in ways we cannot ever understand. An economics that takes knowledge seriously will then have to incorporate limits to the human mind into its understanding of human choice. These limits will have to be more than just “it is too costly to acquire information,” because Hayek’s point was that some information is beyond our ability to acquire at any cost.

Hayek’s work on the mind also provides a scientific rationale for a distinctly subjectivist approach to the social sciences. As Caldwell (2003) argues, much of Hayek’s work on methodology in the 1940s and 50s was an attack on behaviorism and other forms of scientism that naively attempted to apply what they believed to be the methods of the natural sciences to the study of human society. In the final chapter of *The Sensory Order*, Hayek traces out the methodological implications of his argument, and the core conclusion is that we simply cannot banish talk of “intentions” and “purpose” when we study human beings. Even though we know that we are ultimately physical entities, the limits to our knowledge of the working of the brain, and emergence of mind, mean that moving “beyond” purpose and intentions is not possible for us. The only way we can make sense of human action is by starting from the subjective perceptions of the world held by actors. This is where Menger, and Mises, anchored the Austrian approach, and Hayek’s work on mind, as does later work in neuroscience, provides it with scientific underpinnings. In Caldwell’s eyes, this is Hayek’s attempt to show that scientism was unscientific.

Markets as Catallaxy

Within this vision of human choice, economics more narrowly focuses on those institutional contexts where exchange, particularly monetary exchange, comes to the forefront. It is really in Hayek's work that the conception of the market economy as a "catallaxy" begins to dominate Austrian discourse. Human actors find themselves in situations where they suffer from what Mises called "felt uneasiness," and one way to remove their subjectively understood uneasiness is to exchange with others to get what they want. The desire to improve one's satisfaction with one's state of the world leads to exchange. The centrality of exchange led to the use of the word "catallactics" to describe economics and "catallaxy" to describe the network of market institutions. This focus on exchange, it is important to note, was always about the *process* of exchange, rather than the *results* of exchange, which would more naturally lead to the neoclassical focus on equilibrium situations.

One key implication of the catallactic perspective is that it suggests that markets are, in Hayek's phrase, "ends-independent."³ Markets are processes available for whatever purposes humans bring to them. We can agree on markets as processes for engaging in certain forms of behavior without having to agree on what our ends or goals are. What holds markets together as institutions is agreement on the means that can be used to attempt to achieve certain ends, and the term catallaxy denotes the means as the use of exchange. For Austrians, or at least those strongly influenced by Hayek, markets are the set of institutions that surround the use of exchange, specifically monetary exchange, as a means to the achievement of human ends.

A further implication of viewing the economy as a catallaxy is that, for Austrians, the economy has no goal or purpose of its own. Orthodox arguments about efficiency and maximization are not applicable to the economy as a whole because it has no end of its own, or no maximand against which a maximization problem could even be set up. Even speaking in terms of the economy as a whole being “efficient” begs the question of “efficient at what?” From an Austrian perspective, there is no answer to the question of “at what.” Markets have no purpose of their own, other than to serve as a process by which individuals and organizations pursue their own purposes. This creates a theoretical challenge for Austrians as it appears to leave them without a “welfare standard.” How would Austrians know when the economy is doing better or worse if it has no purpose of its own?

A good deal of ink has been spilled on this question in the post-revival years of Austrian economics. Coming out of Hayek’s work on knowledge in the 1930s and 40s, Austrians frequently talk about “coordination” as being the standard of economic success.⁴ The idea is that markets are to be judged by the degree to which they coordinate the various plans of individuals and organizations. Like other social institutions, such as language and the law, markets facilitate social coordination by providing rules and signals that guide actors making choices in a world of uncertainty. Prices, in particular, play this crucial communicative role by serving as surrogates for the underlying knowledge of individuals, firms, and households. As small-scale social institutions in their own right, competitively determined market prices enable actors to adjust to the knowledge and preferences of other actors, so as to best achieve each one’s goals. Finding an empirical counterpart to “coordinatedness” is extraordinarily difficult.

Measures such as GDP certainly do not do the trick, as they measure gross economic activity without attention to whether it furthers coordination, furthers discoordination, or simply attempts to re-coordinate after discoordination (e.g., fixing a broken window). Some Austrians look to the complexity of the capital structure and the fineness of the division of labor as a proxy for “coordinatedness,” but these arguments are largely preliminary. A catallactic approach to economics renders standard macroeconomic measures of well-being problematic, but does not offer an obvious substitute.

Finally, as Hayek (1977: 108) noted, the Greek root of “catallaxy” had two meanings other than those associated with exchange. It also meant “to change from an enemy to a friend” and “to admit into the community.” Historically, exchange was a way of broadening the network of people with whom a given person or community would interact. There is a reciprocal relationship between exchange and social trust; the former creates the latter, and the latter enhances the former. Exchange thus becomes a way to create beneficial mutual interdependencies. Those who we trade with become dependent on us, and we on them. The extension of market exchange beyond the very local to the regional, national and international level need not be viewed as an empire-building colonization, but as a widening of the social network of trust and interdependency.

The parallels to language are instructive here. As far back as Smith (1976 [1776]: 18), economics has noted the analogy between language and exchange. The widening of language usage is also a way to broaden social networks and create mutually beneficial relationships. No doubt it comes with costs, as some languages may indeed fall by the wayside. Still, there are clear and consistent benefits here. The same is true of the extension of exchange. Perhaps more important, exchange enables us to go beyond what

language can. After all, one need not speak the same language as someone in order to engage in mutually beneficial exchange. The globalization of economic activity surely makes that an obvious truth. But more deeply, the depths of the interconnections in modern production might involve persons who speak various languages from various cultures. The number of people involved in making and transporting a dress shirt is enormous, and all of them (especially if one buys it online) are anonymous. Exchange extends human community beyond the limits of language.

Like the Austrian concept of coordination, this understanding of trust should be seen in the context of the anonymity of market interactions. What markets do is to promote cooperation in anonymity (Ebeling 1987), often by enabling anonymous actors to have high levels of trust in each other. The trust that actors have in each other is not the sort of personal trust that comes from a face-to-face relationship, as say with a family member or coworker. Rather, this trust is institutionally-driven, in that we trust each other to behave in certain sorts of ways because we know that existing institutional regimes generally constrain behavior in certain sorts of ways. This kind of trust is the social predictability that derives from Schutzian “ideal types.” We trust that the mail carrier will deliver our mail, that the borrower will pay back her debts and that the online store will not abuse our credit card information. It is true that all of these acts of trust are situated in non-market legal and social practices and institutions, but markets do generate this trust and cooperation in anonymity within their own institutional contexts.

Knowledge and Institutions

There is an even more profound way in which exchange moves us beyond language, and one that has more direct relevance for how economics understands its subject matter. Exchange enables us to make our local and frequently tacit knowledge socially usable for others. Neoclassical economics remains stuck in a vision of knowledge that is hopelessly “objectivist.” Setting up a lagrangian means being able to specify what it is that the agent knows. The agent himself is presumed to have perfect knowledge (at least probabilistically) about his budget constraint and indifference curves and the like. At bottom, this incorporates a vision of knowledge where the knowable is what can be put into words and numbers. It is not just that the agent has *perfect* knowledge, but that the knowledge he does have is of a particular sort.

However, we know from philosophy, psychology, and cognitive science (including the work by Hayek noted earlier) that the articulatable does not exhaust the knowable. There is much that we know that we cannot put into objective symbol systems such as language and numbers. What Michael Polanyi (1958) and others have called “tacit knowledge” plays a significant role in our day-to-day actions. Market exchanges enable us to make our tacit knowledge accessible to others by the choices we make outside of language. Buying and selling, for example, enable us to make our knowledge available to others in the form of movements in prices and profits without having to put what we know in articulable form. For Austrians, particularly those strongly influenced by Hayek, this view of the market as an extra-linguistic communication process is crucially important. This suggests that attempts to short-circuit market processes will undermine this, possibly irreplaceable, communication process.

An implication of this argument is that all proposals to replace unhampered markets with various institutional alternatives, whether or not we choose to attach the name socialism to them, must confront the question of the discovery and communication of knowledge. How will the proposed institutions compare to markets in their ability to provide incentives for engaging in the desired behavior, and the knowledge necessary to know what the right behavior is? Note that these are two separate questions.

Neoclassical economics has focused on the question of incentive provision, and that is a relevant concern. Such arguments frequently take for granted the ability of agents to have the knowledge necessary to engage in the appropriate action and the question is whether or not policy can align incentives in such a way as to get people to take the “right” action based on that knowledge. That is, they are assumed to know what they need to know, and the role of prices, for example, is to align incentives so that the knowledge is best used.

The Austrian point is that this takes too much for granted. Prices do not just serve to align incentives (which is true enough), they also serve as knowledge surrogates that enable people to acquire the very knowledge that neoclassical models take as given. Market prices emerge out of the buying and selling decisions of market actors, and therefore both inform and result from those decisions. The problem situation that mainstream economics sets up, one where agents with effectively perfect knowledge are assumed to maximize utility or profits based on endowments and market signals, is one step ahead of the game. In that model, prices function to determine whether or not the maxima that are produced are Pareto optimal, and it is a short step to the fiction of the auctioneer being the deus ex machina to “get prices right.” For Austrians, the question is

how actors ever come to know what they need to in order to even imagine the maximization problem. The answer is that actors do not; they are always acting with a level of structural uncertainty that prevents them from engaging in narrowly optimizing behavior. Instead, prices serve to provide them with enough information to make their “best guesses” and to see those guesses tested on the market, with future prices and profits providing feedback as to the accuracy of those guesses. On this view, markets are communicative processes of social learning, rather than an arena in which the already-known maxima flawlessly equilibrate.

These issues were also at the core of the socialist calculation debate of the 20th century. The earliest exchanges between von Mises (1920, 1981 [1922]) and the Marxists began the emphasis on knowledge. Mises asked how it would be possible for socialist planners to know which resources should be devoted to what outputs in the absence of privately owned means of production, exchange, and market prices. The more utopian Marxians could argue that socialism would lead to changes in the very nature of humanity that would obviate concerns about the division of knowledge or the need for economic incentives to motivate behavior, but in the real world of humanity as we know it, Mises’s challenge was a devastating one. The later generation of market socialists (e.g., Lange 1936) took up the challenge by using the tools of burgeoning general equilibrium analysis to argue that the planners could simply set the prices of capital goods, watch for surpluses in demand or supply, and adjust prices accordingly. Eventually, they would “get prices right,” and given the same assumptions about agents’ knowledge made in standard theory, the planning board could generate “competitive” equilibrium.

Once Lange assumed that the relevant knowledge was given to producers and consumers the same way it was in models of capitalistic perfect competition, it was not hard at all to construct an argument for the state being able to generate the right prices that would provide the proper incentives to produce equilibrium. Lange even offered reasons why the state might be superior to the market at doing so. This focus on incentives ignored what Hayek was to later identify as the real question: how do real world actors acquire the knowledge that general equilibrium models, whether constructed in the defense of markets or some version of socialism, assume that they possess? A key part of Hayek's answer, and a path that has defined a large part of modern Austrian economics, was to focus on the way in which institutions enable the sort of processes of social learning that neoclassical models simply take as having been completed. Exploring the links between institutions and the social learning that characterizes markets distinguishes Austrians from most of orthodoxy.

For Austrian economics, many of the most important institutions of the market are the crystallized remnants of actions and practices often long since gone.⁵ They are embodied knowledge that we ignore at our own peril. As Hayek often noted, just because we cannot offer articulable reasons for why we do what we do, it does not mean that such actions do not contribute to social well-being. Many of the institutions of a market economy are the current outcome of a process of social learning that dates back to antiquity. We have private property, contract, and the rule of law because, in some broad sense, they work. Those societies that adopted such practices thrived, and those that did not, found survival more difficult. This is not to fall victim to a Nirvana fallacy and claim that all that is, is the best there could be. To the contrary. As Hayek (1978a: 19)

has also argued, the social scientist must critically examine each and every social institution, just not *all at once*. For example, the specific current structure of property rights holds no claim to being the best of all possible structures; one need only think of the contested realm of intellectual property. One of the crucial public policy applications of Austrian economics is to explore the ways in which institutions can be improved, though always on the margin and not whole cloth, to better contribute to human flourishing. However, those institutions that have survived for long periods can be assumed to have done so precisely because they have successfully solved some problem faced by human societies.

The importance of good institutions is that they coordinate human behavior. As distilled knowledge surrogates, institutions provide guidance in the face of the uncertainty inherent in human choice. From simple examples such as knowing which side of the road to drive on, or what to do when offered a hand to shake, to more complex institutions such as those associated with property, contract, and the law, the recurring practices we call institutions become part of our often inarticulate cultural knowledge. As such, they are irreplaceable in serving as knowledge surrogates to our stumbling Mengerian man.

Recognizing the role that institutions play in facilitating choice, and that in their absence effective choice would be difficult, does not mean that Austrians are blind to the ways in which institutions also constrain actors. In fact, it is through that constraint that the institutions of the market perform their most crucial epistemic functions. By limiting the options that individuals have, institutions make behavior more predictable, which enhances our ability to coordinate our behavior with that of others. This is most obvious

with large-scale institutions such as property rights, where confidence in their stability and enforcement will lead to longer-run time horizons for actors, and more chances to better coordinate choices today with those of others, both present and future. However, even smaller-scale norms, practices, and institutions enhance coordination through limiting our choices. What this suggests is that Austrians need to be careful about our use of terms like “freedom,” lest they be seen to be misunderstanding, or ignoring, the way in which institutions limit our choices.

None of this is all that unique to Austrians. What Austrians *have* emphasized is that such institutions work best when they emerge as the unintended consequences of ground-level human choices, rather than when they are imposed, as it were, from above. For institutions to be effective knowledge surrogates, they have to reflect the knowledge of those who actually make use of them, rather than of those who imagine they know what is necessary.⁶ This point also has interesting implications for transition economies and for economic development. To what degree can Western institutions be directly exported, if institutions function best when they are indigenous? Skepticism about Western plans to remake the rest of the world in its exact image, particularly through organizations such as the World Bank and IMF, is a point of common ground between Austrians and many other heterodox economists.

Competition

The nexus among catallaxy, knowledge, and institutions lays the groundwork for the Austrian view of competition. For Austrians, market competition is a crucial and irreplaceable social learning process. The etymology is also instructive here as the root

of competition in Greek means “to search for together.” Seeing competition as a social learning process encompasses both the “search” part of that definition and the “together” part.

In Hayek’s (1978b) felicitous phrase, competition is a “discovery procedure.” Put in terms of the previous discussion of institutions, competition is a process by which we come to know together what we could not know individually. The competitive market process, driven by acts of entrepreneurship and framed by the appropriate institutions, makes possible the discovery of what would otherwise be unknown. Where individuals are placing their own wealth (directly or indirectly) at risk, and where such institutions exist, they have both the incentives and knowledge they need to guide their choices about the allocation of their resources. It is competitive buying and selling that generates the knowledge surrogates we call prices, and those prices, in turn, guide the plans of producers and consumers, for both the immediate future and the longer run. Because they are surrogates for the often inarticulate knowledge of other market actors, prices make knowable what would otherwise be truly private information. In this way, competition turns privately held individual knowledge into public, socially usable knowledge in the form of a price. Competition allows us to discover what would otherwise be unknown to us.

The Austrian notion of competition differs from neoclassical concepts of competition in a number of ways. First and foremost, this is not the “perfect competition” of the textbook. The assumptions of perfect knowledge, large numbers, and homogenous products are not in play. The competitive discovery process is dependent on the imperfection of knowledge and the heterogeneity of products, and requires only

freedom of entry and exit to be effective. Large numbers, and particularly the assumption of “price-taking,” are not necessary. In fact, Austrian actors are certainly not the passive reactor of neoclassical perfect competition. Austrian competition is defined by an entrepreneurial view of human actors, both producers and consumers. In addition, there is no assumption that competition produces equilibrium or optimality. To say that “prices convey knowledge” is not to say that they are “fully informative” in the neoclassical sense attributed to equilibrium prices. Austrians are talking about disequilibrium prices, because they are the ones that exist in the real world and inform our actions therein, albeit imperfectly. The state of the world described by perfect competition is not possible in the world inhabited by limited, fallible humans. Competition provides us with an ability to execute our plans and coordinate our behavior that its absence would not. In that sense, it produces better social outcomes than the alternatives, but Austrians make no claim to optimality of any sort.

The view of human agency implicit in the Austrian view of competition is, again, an active, entrepreneurial one, rather than the passive, mechanistic, price taker of standard models. Competition is a process of rivalry, where individuals and groups attempt to out-do each other. Rivalry also opens the possibility of error, as individuals may guess wrong in their attempts to out-do the competition. As Kirzner’s (1973) work reminds us, disequilibrium prices mean errors have been made in past periods and errors in one period are what create the opportunities for entrepreneurship in the next. If humans ever stopped making errors, the need for competition would cease.

Competition is often compared negatively to “cooperation.” One critique of markets is that it prizes competition and undermines cooperation. In some sense this is

true, but in another it misses the complementarity between the two. What competition allows us to do is to cooperate in anonymity. The production of almost any economic good requires the cooperation of a number of actors and firms. They must jointly supply inputs and/or work cooperatively to produce an output. Producing a car involves a high degree of cooperation by various economic actors. The very same market process that produces competition also makes this cooperation possible. Through competition we discover what each other needs and how best to fulfill those needs. By searching for these things together, albeit unintentionally, we produce a world of interdependency and cooperation. Market institutions allow us to cooperate in these unintended ways despite not having face-to-face relationships with but a small number of others. Markets make human cooperation possible over a larger range of both people and space, thus spreading productive and peaceful interdependency. Understanding how competition and cooperation are two sides of the same process, and now that process is framed by institutions, is part of a broader Austrian/Hayekian social philosophy.

Economics in the 21st Century

The vision of Austrian economics sketched out here suggests that neoclassical economics has largely failed to understand how markets actually work, independent of whether they are even desirable. Mainstream economics can, in some broad sense, predict certain outcomes, but if the goal is to understand why those outcomes arise, and how, it is less successful. The equilibrium picture of the world was never relevant, but surely it is even less so in the dynamic, churning times we live in. The development of chaos theory and complexity theory in other disciplines, along with recent developments

in philosophy, call into question both the theory and methodology of modern orthodox economics.

An alternative agenda for economics in the 21st century is to explore the history and structure of economic and political institutions of capitalism, with an eye toward understanding how they contribute to or detract from society's ability to make use of knowledge and generate economic and social coordination. An economics that took seriously both the coordinative role of institutions and did up-close historiography of particular institutions and their effects, both good and bad, on human flourishing, would look very different from what most of what passes for economics these days. For Austrians, this is the core of their vision of a meaningful discipline of economics: one that sees human choice as involving uncertainty and error, where institutions serve an epistemic role in facilitating human choices and their resulting coordination, and where the relationship between the functioning of those institutions and human well-being is central. Fundamentally, economics needs to completely overhaul its vision of how humans learn and what is meant by "knowledge."

This endeavor needs also to be interdisciplinary. Economic imperialism needs to die a quick death. There are gains from exchange from interdisciplinary work, but we need to be open to it. Understanding economic activity means understanding a chain of events from human choice to large-scale social institutions and much in between. We need to learn from the best in psychology, cognitive science, evolutionary psychology, sociology, cultural studies, political science, etc.. And we need to use good philosophy and do good history as well.

Early in the 20th century, Mises called his work “sociology,” only to see that name become associated with what he saw as an overly “scientific” approach to studying social order. He eventually took the much misunderstood name “praxeology” for that same endeavor. Some later followers of Mises have over-emphasized the notion of praxeology being some sort of unique method of economics that Mises invented, when in fact it was Mises’ term for what *economists were already doing*. It simply referred to the sciences of human action, of which economics was one major, but not the only, branch. Mises (1966) often pointed to the study of war as a non-economic branch of praxeology, and one could equally point to various studies of other non-economic, and especially non-catalactic, institutions in a similar way (e.g., the family). The point here is that Mises saw economics’ place among the disciplines in a way that made it a contributor, albeit the best developed one, to a broader “science of society.”⁷ Economics has lost that vision and heterodox economists can help to recapture it by reminding orthodoxy of its own dicta about the benefits from free trade, both in goods and ideas.

To be effective, any substantive changes in the discipline of economics are going to have to work across ideological boundaries. The inclusion of an Austrian perspective in this volume is a very good step in the right direction. Despite the fact that Austrians come from a perspective on policy issues that is different from much of heterodoxy, we generally share heterodoxy’s commitment to liberal learning and an expansive, and ultimately humanist, vision of economics. But working across ideological differences requires assumptions of good faith on both sides.

There are some Austrians who are not convinced that allying with our radical colleagues is a good idea, and they need to shake off their prejudices against those who

do not share their view of the world and ask what is best for the discipline rather than their political causes. By the same token, those among the heterodoxy who are skeptical of whether Austrians really belong “in the club” need to avoid equating the words “heterodox” and “radical.” Just because Austrians tend to be ideologically closer to the average neoclassical economist does *not* mean they lose their claim to heterodoxy. Austrian economics poses just as fundamental a challenge to how economics is done as do post-Keynesianism, institutionalism, and Marxism. Moreover, like the radicals within heterodoxy, Austrians are interested in questions of institutional change not marginal adjustments in the dials and levers of policy. If being radical is about getting to root causes, the libertarianism of many Austrians is indeed radical.

The vision of economics and the market sketched herein has tried to make clear the Austrian challenge to orthodoxy. It is a different challenge than that offered by many heterodox economists, but it is a challenge nonetheless. If we work together in the coming years, we just might be able to open up our discipline to a multiplicity of approaches, and to let the marketplace of ideas sort out the better and the worse. On that day, economics will be all the better for our combined efforts.

Notes

¹ This is Alfred Schutz's (1967 [1932]: 15ff) definition of the "social," itself borrowed from Weber (1978 [1920]: 4). The line here from Weber to Schutz to Menger, Mises, and Hayek is a good reflection of the "Austrianness" of Austrian economics and the ways in which it is rooted in a very different intellectual-philosophical tradition from mainstream economics.

² A thorough treatment of the issues the book raises are beyond the scope of this paper, but see Butos and Koppl (1993), Horwitz (2000), and Caldwell (2003) for more.

³ See the discussion in Hayek (1977, ch. 10) for more.

⁴ See the essays collected in Hayek (1948).

⁵ Of course, not all institutions fit this description. Markets "contain" institutions that are of much more recent origins. However, for Austrians, institutions do share certain features, in particular the idea that they serve as "nodes of coordination" to use Lachmann's (1971) term.

⁶ This argument has implications for the internal organizations of firms. Prychitko (1991) argues the Austrian case for worker self-management.

⁷ Of course, "science" here is understood in the most general sense, and not in the more narrow sense associated with the natural sciences and what both Mises and Hayek decried as the attempt to apply their methods uncritically to the social world.

References

- Butos, William N. and Roger Koppl. 1993. "Hayekian Expectations: Theory and Empirical Applications," *Constitutional Political Economy* 4, Fall: 303-29.
- Calwell, Bruce. 2003. *Hayek's Challenge*, Chicago: University of Chicago Press.
- Ebeling, Richard. 1987. "Cooperation in Anonymity," *Critical Review*, 1 (4), Fall: 50-61.
- Hayek, F. A.. 1952. *The Sensory Order*, Chicago: University of Chicago Press.
- _____. 1977. *Law, Legislation, and Liberty*, vol. 2, Chicago: University of Chicago Press.
- _____. 1978a. "The Errors of Constructivism," in *New Studies in Politics, Philosophy, Economics and the History of Ideas*, Chicago: University of Chicago Press.
- _____. 1978b. "Competition as a Discovery Procedure," in *New Studies in Politics, Philosophy, Economics and the History of Ideas*, Chicago: University of Chicago Press.
- Horwitz, Steven. 2000. "From *The Sensory Order* to the Liberal Order: Hayek's Non-rationalist Liberalism," *Review of Austrian Economics*, 13, March: 23-40.
- Kirzner, Israel M.. 1973. *Competition and Entrepreneurship*, Chicago: The University of Chicago Press.
- Lachmann, Ludwig M. 1971. *The Legacy of Max Weber*, Berkeley: The Glendessary Press.
- Lange, Oscar. 1936. "On the Economic Theory of Socialism," in *On the Economic Theory of Socialism*, Benjamin Lippincott, ed., New York: McGraw-Hill, 1964.

- Menger, Carl. 1981 [1871]. *Principles of Economics*, New York: New York University Press.
- Mises, Ludwig von. 1920. "Economic Calculation in the Socialist Commonwealth," in *Collectivist Economic Planning*, F. A. Hayek, ed., Clifton, N.J.: Augustus M. Kelley, 1935.
- _____. 1966 [1949]. *Human Action: A Treatise on Economics*, Chicago: Henry Regnery.
- _____. 1981 [1922]. *Socialism: An Economic and Sociological Analysis*, Indianapolis: Liberty Press.
- Polanyi, Michael. 1958. *Personal Knowledge: Towards a Post-Critical Philosophy*, Chicago: University of Chicago Press.
- Prychitko, David L.. 1991. *Marxism and Workers' Self-Management*, Westport, CT: Greenwood Press.
- Schutz, Alfred. 1967 [1932]. *The Phenomenology of the Social World*, Evanston: Northwestern University Press.
- Smith, Adam. 1976 [1776]. *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. by Edwin Cannan (1904 edn.), Chicago: The University of Chicago Press.
- Weber, Max. 1978 [1920]. *Economy and Society*, Berkeley: University of California Press.