Economizing Action and Social Order: A Post-Mengerian Exposition
[Alternative subtitle: A New Austrian Exposition]

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Preface

In his *History of Economic Analysis*, Joseph Schumpeter notes that any adventure in economic analysis starts with a pre-analytical cognitive vision about the object of interest. The subsequent analytical challenge is to probe that vision and to articulate its contours, which in turn requires the creation of a sensible intellectual architecture to encompass it. In *Human Action*, Ludwig von Mises notes that people act to remove uneasiness. An author who combines Schumpeter and Mises will realize that writing starts with uneasiness and poses to the author the challenge of reducing that uneasiness within the contours of a sensible intellectual architecture.

This is what I try to do in this book. Due to a gap created by faculty attrition, I was asked for fall 2004 to start teaching a course titled “Austrian Theory of the Market Process.” I was not surprised by this request, for I have often been described as being sympathetic to Austrian formulations, though apparently never so sympathetic as to be regarded as a genuine Austrian. Among the several creative economists who transformed economic theory in the late-19th century, I regard Carl Menger as the most fecund. Indeed, this book is to a significant extent my effort to carry what I regard as Menger’s central orientation into the 21st century. Menger was not an equilibrium theorist of closed systems who reduced all analysis to exercises in maximization and comparative statics. He was a theorist of open systems characterized by on-going processes of development where knowledge is both distributed and changing. What might
be called Mengerian-style economics is the antithesis of Walrasian-style economics.

Unfortunately in my judgment, many Austrian formulations after Menger tended to meld into Walrasian-style formulations, as Sandye Gloria-Palermo explains in her wonderful treatment of *The Evolution of Austrian Economics*. Eugen von Böhm-Bawerk did this in arriving at what is generally regarded as the canonical statement of Austrian-style capital theory. Mises and Hayek likewise did this in their development of what became known as the Austrian theory of the business cycle: the theory starts from a position of Walrasian equilibrium, imposes an exogenous shock through the supply of credit, and generates a sequence of boom-and-bust through an exercise in comparative statics.

The Mengerian vision of the continual generation of knowledge and consequent turbulence does not blend with the Walrasian vision of a steady state. An analysis centered on turbulent processes of development and change cannot be merged with one centered on steady states, for what it is that propels the turbulence—an inconsistency among plans—can have no place in any framework centered on steady states—which presumes consistency among plans. The incommensurability of these analytical frameworks was recognized clearly by John Maynard Keynes in the closing paragraph of the Preface to his *General Theory of Employment, Interest, and Money* where he lamented: “The composition of this book has been for the author a long struggle of escape, and so must the reading of it be for most readers if the author’s assault upon them is to be successful—a struggle of escape from habitual modes of thought and
expression. The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify . . . into every corner of our minds (my emphasis)."

This book embraces Keynes' lament, and pursues economic theorizing from within a Mengerian orientation; however, it is concerned with contemporary economic theory and not with the history of thought. I do not seek to deal directly and expressly with Carl Menger, but to render a contemporary treatment of what I perceive to be his underlying orientation toward the material of economic theory. Most significantly, economic phenomena are treated as emergent reflections of continuing development and not as states of equilibrium. Within this setup almost nothing corresponds to the exogenous shocks that are so widely used in economic theorizing, for those so-called shocks are the misidentified recognition of the emergent and turbulent character of human societies. In large measure they are the products of conflicting plans and the working out of those conflicts, only the parade of conflicts never ends because there is no equilibrium to offer respite from life itself.

My analytical focus is on processes of motion that generate turbulence, with equilibrium being only one mental tool among many and most certainly not a representation of reality. Those processes, moreover, are characterized as partially connected chains of causation and not as simultaneously equilibrated relationships, which shifts the emphasis from a circular flow to a structure of production. Little use is made of comparative statics, which is a tool for planning
in which multiple histories are entertained in the mind; instead, choice is irreversible, with entrepreneurship supplying the energy that propels history forward. These Mengerian themes and intuitions are joined to various types of post-Mengerian material that are helpful in advancing our understanding of the political economy of generally orderly turbulence. Some of this material is substantive, as represented by the incorporation of material from such research programs as economic sociology, institutional economics, new political economy, and evolutionary economics. Other of that material is methodological, as illustrated most prominently by the use of agent-based computational modeling to illustrate and convey some of the substantive ideas concerning the emergent features of interaction in a world of widespread and deep heterogeneity among people, though a heterogeneity that is contained within the universal framework of natural law. The value of this conjunction of old and new is, of course, for readers to judge.

If this book would engender any significant objection among contemporary Austrians it would probably stem from my embrace of an ontology that treats mind and society as both real, as against reducing society to mind through a particular interpretation of methodological individualism. My position in this respect was articulated nicely by Norbert Elias in his treatment of The Society of Individuals. Elias was a German Sociologist whose analytical orientation centered on emergent processes, and he fit comfortably within the broad Germanic tradition of historically oriented scholarship that is often treated as the bête noire of Austrian thought. It should be recalled, however, that Menger
regarded his 1871 Grundsätze as falling within while advancing the general contours of Germanic scholarship, even dedicating the book to Wilhelm Roscher. While the book’s reception by some of the major German figures was not as warm as he had hoped, Menger nonetheless saw his work as fitting within the general stream of Germanic scholarship, and his subsequent 1883 book did nothing to reverse this impression. Among the post-Mengerian exemplars of this broad Germanic tradition with whom I find particularly strong sympathy are Max Weber, Georg Simmel, Lujo Brentano, Walter Eucken, Wilhelm Röpke, and Ludwig Lachmann. Lachmann, of course, is universally treated as Austrian and not German, even though his heritage is German; the complementarities between the traditions surely outweigh the differences, as Menger recognized and despite a lot of revisionist writing to the contrary that treats the so-called methodenstreit as some kind of clash among incommensurable worldviews when it was really a form of intra-family quarrel, though these types of quarrels can often be particularly intense in spite of or perhaps because of the closeness of the participants.

The book proceeds in eight chapters. **Chapter 1** presents a quick overview of some matters of scope and method, both as these pertain to the contrast between the Mengerian and the Walrasian orientations toward economic theorizing and as they relate to the relation between mind and society. While economics is a social science whose phenomena are generated through interaction among people, **Chapter 2** considers some formulations of individual choice and action that provide an alphabet or grammar to propel many of the
subsequent analytical efforts, exploring in particular economizing action without the usual paraphernalia of maximization. **Chapter 3** locates the primary object of economic theorizing as residing in the societal interaction of multiple Crusoes, and in the generation of conventions and institutional arrangements, especially property and money. **Chapter 4** explores political economy in terms of a mapping that replaces the common disjunction between economy and polity with one where a non-separable web of connections leads to a different orientation toward state activity. **Chapter 5** examines various elements regarding the creation and organization of team production processes and relationships, where present choices are based on projections about future conditions and where money is the lingua franca for articulating such projections. Economic theory has been much more concerned with exchange than with markets, and **Chapter 6** focuses on the continual generation of market formations as the primary feature of the competitive process. **Chapter 7** explores the bridge between micro and macro levels of theorizing by elaborating on the notion of an emergent ecology of enterprises, while **Chapter 8** carries forward this notion as a vehicle for exploring growth and development.
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