Mind, Society, and Human Action: A Theory of Social-Economy

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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 in 2004, for four years I taught the first semester of a year-long graduate sequence titled “Austrian Theory of the Market Process.” This book emerged out of that teaching challenge.

While I have always had sympathy for Austrian-style economic theory, I have never identified myself as an Austrian-style theorist. Among the triumvirate of Carl Menger, William Stanley Jevons, and Léon Walras who collectively are widely credited with transforming economic theory in the late-19\(^{th}\) century, I regard Menger as the most fecund. Menger was a theorist of open systems characterized by on-going processes of development where people have limited and individually specific knowledge. He was not a theorist of closed systems of equilibrium relationships that reduced economic analysis to exercises in maximization and comparative statics. What might be called a Mengerian orientation toward a theory of social-economy is the antithesis of a Walrasian
orientation toward economic theory, though it should also be noted that Walras might not have identified himself as a Walrasian, just as Keynes might not have identified himself as a Keynesian.

Unfortunately in my judgment, many Austrian formulations after Menger melded in significant respects into Walrasian-style formulations, as Sandye Gloria-Palermo explains in her 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. Ludwig von Mises and Friedrich Hayek 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 an increase in the supply of credit, and generates a sequence of boom-and-bust through an exercise in comparative statics. Israel Kirzner’s treatment of entrepreneurship is largely an effort to make the postulate of general equilibrium seem less far-fetched than it actually is.

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 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 theory from within an orientation that is similar to Menger’s. That orientation, however, did not originate with Menger; it can be found as well in Adam Smith. Within this orientation, human action is to a significant extent creative and open, and thus is not conveyed adequately by closed models of constrained maximization. Furthermore, the primary object of economic theory is societal interaction and the social configurations that emerge, and with economic phenomena appearing as emergent reflections of continuing development and not as states of equilibrium. Almost nothing corresponds to the exogenous shocks that are so widely used in economic theory, 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.
While these alternative orientations as antithetical, they are not contradictory. After the fashion of yin-and-yang, these contrary orientations are complementary, much as Neils Bohr recognized that “contraries are complementary.” Each orientation can be employed to yield valid insight in its appropriate domain. They cannot, however, be unified into one encompassing orientation. The Smith-Menger orientation seeks to illuminate the operation of actual social-economic processes in historical time; the Ricardo-Walras orientation seeks to portray what a social configuration would look like if history ended and people stopped experimenting, learning, and creating.

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 Smith-Menger themes and intuitions are joined to various types of contemporarly 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, political economy, and
evolutionary economics. Other of that material is methodological, including some 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.

My subtitle describes this book as conveying a theory of social-economy and not a theory of economics. I do this in explicit recognition of my affinity with the late-19th century tradition of sozialökonomik. This tradition of social-economics treats both individual minds and society as ontologically real, and with causation running in both directions. This analytical orientation stands in sharp contrast to the predominant orientation of contemporary economic theory wherein society is reduced to mind, either directly or indirectly. This reduction is accomplished directly through the employment of representative agent modeling where social observations are explained by modeling the choices made by some presumptively representative individual. This reduction is accomplished indirectly through a style of theoretical exposition that looks to societal averages and not to entire populations and their structures as the pertinent objects of explanation.

Put differently, I treat economics and sociology as complementary domains of inquiry even as I recognize that there will always exist regions of contestation along some of the boundaries. Regardless of the location and extent of those regions, I do not seek to reduce one to the other through some act of imperialistic subjugation. In this respect, my focus on emergent processes
of mind-society interaction fits comfortably within the 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 the Germanic scholarship, of the time, even dedicating the book to Wilhelm Roscher. While the book’s reception by some of the major German figures was not as warm as Menger had hoped, he nonetheless saw his work as fitting within that general stream of scholarship; his subsequent 1883 *Untersuchungen* did nothing to reverse this impression. In my judgment the complementarities between the orientations strongly 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** examines some matters of scope and method, both as these pertain to the contrast between the Smith-Menger and the Ricardo-Walras orientations toward economic theory and as they relate to the relation between mind and society. **Chapter 2** explores the bidirectional relationship between mind and society, using property-based relationships as the grammar for constructing the analytical effort. It provides a theory of economizing action without the usual paraphernalia of maximization.
Together, Chapters 1-2 set the scene methodologically for the remainder of the book.

Chapters 3-4 treat human action as open and creative, as against treating human choice as closed and habitual. These chapters treat a stylized Robinson Crusoe, though one who exists and operates within society. **Chapter 3** locates the primary object of economic theory not as emanating from individual choices but as residing within the interaction of multiple persons, and with that interaction being the vehicle for the generation of conventions and institutions. In particular, monetary calculation is the base upon which economic order rests; money is not a veil but rather provides the language and grammar of economizing action. **Chapter 4** 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.

Where Chapters 3-4 treat human action, Chapters 5-8 treat human interaction. Interaction among people is the domain of emergent phenomena and spontaneously generated ordering. It is also the domain of property rights, conventions, institutions, and organizations. **Chapter 5** focuses on the continual generation of market formations as the primary feature of the competitive process. Economic theory traditionally has been more a theory of exchange than of markets, and this chapter locates exchange within a theory of markets. **Chapter 6** continues the previous chapter by examining how the social organization of the competition that is ubiquitous and inescapable in society
influences the progressive character of a society. Chapter 7 explores the bridge between micro and macro levels of theorizing by elaborating on the notion of an emergent ecology of enterprises, and of explaining that it is just as sensible to speak of macro foundations for micro theory as it is to speak of micro foundations for macro theory. Chapter 8 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.
Table of Contents

Preface

1. Social-Economics: Some Preliminaries on Scope and Method

2. Society, Property, and Human Action

3. Calculation, Economizing, and Purposive Action

4. Planning, Production, and Entrepreneurial Action

5. Markets and Prices as Emergent Patterns of Human Interaction

6. Competition and Its Social Organization

7. From Micro to Macro through an Emergent Ecology of Enterprises

8. Politics and Markets: Parasitical Pricing and Economic Calculation