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**Austrian Economics and the
Political Economy of Freedom**

**by
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March 2000

**The Works are Submitted in Partial Fulfillment of the Requirements for
the Degree of PhD by Published Works.**

Table of Contents

Abstract

1. Context Statement

2. How Economics Became the Dismal Science, published in Richard M. Ebeling, ed., *Economic Education: What Should We Learn About the Free Market?* Hillsdale: Hillsdale College Press, 1994.

3. The Significance of Austrian Economics in Twentieth-Century Economic Thought, published in Richard M. Ebeling, ed., *Austrian Economics: Perspectives on the Past and Prospects for the Future*. Hillsdale: Hillsdale College Press, 1991.

4. Austrian Subjectivism and Phenomenological Foundations, published in Peter J. Boettke and Mario J. Rizzo, eds., *Advances in Austrian Economics*, Vol. 2, (Part A). Greenwich, Conn.: JAI Press, Inc, 1995.

5. Expectations and Expectations-Formation in Mises' Theory of the Market Process, published in Peter J. Boettke and David L. Prychitko, eds., *The Market Process: Essays in Contemporary Austrian Economics*. Brookfield, Vt.: Edward Elgar, [1988] 1994.

6. Human Action, Ideal Types, and the Market Process: Alfred Schutz and the Austrian Economists, published in Lester Embree, ed., *Schutzian Social Science*. Norwell, Mass.: Kluwer Academic Publishers, 1999.

7. Toward a Hermeneutical Economics: Expectations, Prices, and the Role of Interpretation in a Theory of the Market Process, published in David L. Prychitko, ed., *Individuals, Institutions, Interpretations: Hermeneutics Applied to Economics*. Brookfield, Vt.: Avebury, [1986] 1995.

8. Cooperation in Anonymity, in David L. Prychitko, ed., *Individuals, Institutions, Interpretations: Hermeneutics Applied to Economics*. Brookfield, Vt.: Avebury, [1987] 1995.

9. Economic Calculation Under Socialism: Ludwig von Mises and His Predecessors, in Jeffrey M. Herberner, ed., *The Meaning of Ludwig von Mises*. Norwell, Mass.: Kluwer Academic Publishers, 1993.

10. The Free Market and the Interventionist State, in Richard M. Ebeling, ed., *Between Power and the Liberty: Economics and the Law*. Hillsdale, Mich.: Hillsdale College Press, 1998.

11. The Limits of Economic Policy: The Austrian Economists and the German ORDO Liberals, in Richard M. Ebeling, ed., *The Age of Economists: From Adam Smith to Milton Friedman*. Hillsdale, Mich.: Hillsdale College Press, 1999.

ABSTRACT

The following articles submitted in partial fulfillment of the requirements for the degree of PhD by published works attempt to restate, refine and extend various themes in the tradition of the Austrian School of Economics and their relationship to selected topics in political economy.

It is argued that two traditions developed out of the "marginal revolution" in economic theory, beginning in the 1870s: the Neo-Classical and Austrian approaches. In the Neo-Classical tradition, a theory of economic equilibrium is formulated on the basis of a "static" view of man and the market, in which actors are assumed to have a "given" ends-means framework in which agents narrowly maximize to attain "optimal" results within their respective decisions and across individuals for determination of interpersonal equilibrium. The Austrians, on the other hand, developed a more dynamic process theory of market activities based on a conception of man as an intentional being who creates his ends-means framework and initiates actions to improve his circumstances. The Austrian framework emphasized the role of time, uncertainty and imperfect knowledge, with a focus on the temporal-sequence of market interactions that may tend to bring about a pattern of interpersonal coordination of individual plans. It is also explained how the Classical Economists' concept of man and the market was much closer to the Austrian perspective than to that of the Neo-Classical Economists.

The Austrian approach is extended by showing a "phenomenological foundation" to Austrian Economics in the writings of Edmund Husserl and its influence on the methodological works of Ludwig von Mises. The sociological contributions of Max Weber are shown to be the starting point for Mises' theory of "action," and how Weber's conception of the Ideal Type was adopted by Mises as a tool for understanding the process of expectations-formation in the market. The writings of Austrian sociologist, Alfred Schutz, are used to explain the reasoning behind the Austrian theory of action and the mental processes through which the social actors creatively imagine what becomes the ends-means framework, which the Neo-Classical Economists assume are "given." Schutz's refinement of Weber's Ideal Typification schema is reformulated to explain the process through which individuals in the social and market arenas construct situational and personal ideal types that create the structures of intersubjective meaning enabling expectations-formation and the potential for interpersonal plan coordination.

Lastly, the Austrian theme of acting man and the market process are applied to the issues of economic calculation under socialism, problems with Neo-Classical assumptions concerning government intervention in the market economy and the limits of economic policy within the market order.

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CONTEXT STATEMENT

The Unifying Theme: The Market Process, Expectations-Formation and the Free Economy in the Neo-Classical and Austrian Economic Traditions

Two traditions have developed in economics out of the Marginalist Revolution of the late nineteenth century. One variation emerged out of the early contributions of William Stanley Jevons and Leon Walras. The emphasis in this tradition has been on a rigorous formalization of general equilibrium through the applications of mathematical and quantitative methods. A central construct in this approach has been a formal model of “perfect competition” on the assumption of perfect and objectivized knowledge. In this model the human actor is reduced to the status of a reactor to given constraints: his tastes and preferences and the trade-offs at which alternatives are available to him. The “ends” of the individual are assumed to be “given” and ranked in order of relative importance. The “means” at his disposal are assumed to be known in terms of their quantities and qualities. A set of “prices” or terms-of trade are assumed to be given to each individual actor, who then determines on the basis of his given means and ends the relative amounts of goods he is willing to supply and demand at those alternative prices. Equilibrium is then determined at those prices at which the respective demands and supplies of the market participants are in balance across all markets simultaneously.

In perfect competition, the actors are assumed to possess “perfect” or sufficient knowledge of all market circumstances in which they find themselves. They can never err. They are presumed to know their objective technological possibilities in terms of transforming resources into finished consumer goods. They are, likewise, presumed to know the objective prices at which resources, capital and labor may be purchased or hired on the market. With these two

sources of "data" the actor can determine the monetary outlays that will be required to be paid out to produce any desired level of output. At the same time, they are presumed to know the price at which they may sell any chosen quantity of output to buyers on the market. The actor's "task" in this framework is to select that level of production at which he maximizes his net revenue, given his known costs of production and known selling price to the consuming public.

Since every agent possesses equivalent knowledge of his market circumstances, neither profit nor loss can exist in any market. Such perfect or sufficient knowledge necessarily includes information about all future changes in market conditions. This must imply that any change in future supply or demand that would otherwise generate a positive or negative discrepancy between price and costs must be fully anticipated by those same market actors. This assures that all necessary adjustments in the use of resources, the production of different goods and services, and movements in cost-prices and sale-prices that are required to reflect any changes as they materialized on the market are synchronized to occur at just the right moments. Indeed, taken strictly, in the perfect competition model there is no room for unexpected change, because by definition this would be inconsistent with the perfect knowledge assumption. As a result, no matter the frequency or magnitude of any objective changes, all markets can never be in anything other than continual perfect general equilibrium.

During the last four decades two modifications have been introduced to this model. The first was the economics of information and search. It was posited that actors do not necessarily begin with full information about market opportunities. Instead, they undertake processes of search to acquire knowledge about the objective distribution of, say, prices at which desired goods may be bought on the market. Each actor continues his search for as long as he believes that the marginal benefit of one more unit of price information exceeds the marginal cost of the time incurred in pursuing the search and the forgone purchase opportunities by not consummating one of the exchange options already discovered. The optimal amount of information each actor chooses to obtain, therefore, may leave him with a level of information

that will be less than “perfect.” But the amount of information that he chooses to buy through the costs of search is an equilibrium amount, since it represents that amount of information at which his marginal cost equals his marginal benefit. Thus, the chosen amount of less-than-full information is one that represents “rational ignorance.” Any additional information just would not be worth the extra expense to acquire.

The second modification has been in the form of the Rational Expectations hypothesis. It is postulated that in the pursuit of utility maximization, no actor would rationally make a mistake that he could have avoided and which if made reduces his level of satisfaction. Actors have an incentive to discover causal relationships between variables in the market to more correctly anticipate the likely trends of market outcomes. Thus, they attempt to determine the theoretical model that most correctly captures the actual working of the economy in which they make their decisions and choices. At the same time, these outcomes can only be specified in terms of their frequency in probabilistic terms. As a consequence, the actor can at most only hope to establish a subjective probability distribution of outcomes that is the same as the objective probability of their likely occurrence. The “error term” in the Rational Expectations equations can at best have a mean value of zero.

The other Marginalist tradition emerged out of the writings of the Austrian Economists, Carl Menger and Eugen von Böhm-Bawerk. The Austrian tradition placed a greater, in fact, a central emphasis on the causal processes of the market. The essential concepts have been human intentionality and “subjective meaning,” as understood in Max Weber’s use of the idea of “purposeful action.” Especially following the writings of Ludwig von Mises, the Austrian Economists have argued that a theory of human action should be constructed on the basis of the qualities and characteristics that common-sense reflection suggest are the natural conditions under which the human actor chooses and acts. Thus, the Austrians have emphasized imperfect knowledge, decision-making under uncertainty, and the possibility of error. Furthermore, they have argued that “choice” should not be viewed as fully predetermined or predictable from some prior “data” of the “given” situation. Instead, choice emerges out of mental processes in which the actor, in a

fundamental sense, creates the “ends” and “means” and the terms-of-trade in the context of which a choice will be made. Hence, the “givens” of Neo-Classical theory in which choices are made are, in fact, not given to either actor or analyst prior to the actual choice-making process itself.

The Austrian Economists also have assigned crucial importance to understanding the role of the entrepreneur as initiator and coordinator of enterprising activities, and the processes through which multitudes of human plans in the market may or may not be successfully coordinated through the institutions of market competition and the price system. Their emphasis has been less on the final state of any general equilibrium and more on the processes of creation, adjustment and change in temporal sequences of market interaction. A hypothetical equilibrium state has served more as a conceptual reference point to explain the circumstances under which there would no longer be incentives or opportunities for further profitable actions by either demanders or suppliers. The task of market theory, in the view of most Austrians, has been to logically explain and trace out the implications and consequences of the process by which market actors discover potential gains-from-trade at particular moments in time and through time.

But as Austrian economist, Ludwig M. Lachmann, once observed, “Unfortunately, they [the Austrians] never were able to show, with the cogency their case required, the incompatibility between the idea of planned action, the very core of Austrian economic thought, and an analytical model which knows no action, but only reaction” (Lachmann, 1969, 164). The Neo-Classical perspective has been that the Austrian emphasis on methodological subjectivism has been incorporated in mainstream economics in the form of the “data” of the subjective tastes and preferences of the individual market participants. And the additional problem that decision-making only occurs under conditions of some degree of uncertainty has been incorporated into mainstream economics through the application of statistical probability theory for explaining the process of expectations-formation. For the Austrians this has seemed in some essential way to have failed to grasp what they actually have meant by “subjectivism” and “uncertainty,” as well as certain unique qualities

of the process by which actors form expectations about the future in the arena of market interaction.

This has spilled over into the area of economic policy-making, also. Far differently than both the Classical Economists of the nineteenth century or the Austrians in the twentieth, Neo-Classical Economists have often assumed that government has a fairly extensive ability to manage, regulate and plan the economic affairs of the society. This has almost logically followed from the type of knowledge Neo-Classical theorists have assumed actors and analysts to possess. If the benchmark of an "efficient" or "optimally" functioning market is one in which the agents are assumed to possess all "relevant" information to make error-free choices (as in the case of the perfect competition model), then any actual pricing, production and transaction mistakes must in some way demonstrate instances of "market failure."

The extreme form of this is what Friedrich Hayek has referred to as the "pretense of knowledge" (Hayek, 1975, 23-34), the confidence that it was possible for a central planning authority to comprehensively direct and coordinate the economic activities of an entire community possessing a highly developed system of division of labor. Through the early and middle decades of the twentieth century there was a general consensus among Neo-Classical economists that, even if socialist central planning could be challenged politically as a possible threat to some amount of personal freedom, from the economic point-of-view it was possible "in principle" for an economy to be centrally planned with results at least no worse than the ones produced by a private, competitive market (Knight, 1936, 255-266; Pigou, 1937; Schumpeter, 1942). And as late as the 1960s, there were even suggestions that the Soviet-style, centrally planned economy might exceed the productive possibilities of the American-type of market economy before the end of the century (Samuelson, 1967, 790-792).

At the level of economic policy, therefore, the Neo-Classical approach has tended to judge the efficiency of the market and alternative economic institutional orders by the extent to which they have appeared to more or less reflect the state of general equilibrium as captured in the perfect competition model. The Austrians, on the other hand, have argued that given the actors'

imperfect knowledge, the problem of the market coordination of large numbers of people is more likely to be successfully brought about by unregulated market forces operating within the general institutional guidelines of private property, voluntary exchange and contract enforcement, regardless of the possible achievement of some hypothetical perfect equilibrium.

In the following articles, my purpose is to more clearly delineate the unique features of the Classical Economists and most especially the Austrian Economists that serve to differentiate their approach from the Neo-Classical framework that has dominated the mainstream of economic theory and policy for most of this century. I argue that the Classical Economists of the nineteenth century generally viewed the economic process as one accentuated by active, goal-oriented individuals whose interactions in the particular institutional order of private property, voluntary exchange and division of labor would generate a free and prosperous order without political design. The Neo-Classical approach, that began to develop in the late nineteenth century, constructed a conception of man that drained him of the very features that made him the creator of a spontaneous order, as conceived by the Classical Economists. Man was reduced to a dependent variable in a series of mathematical equations designed to permit the determination of hypothetical general equilibrium states. This dehumanization of the conception of man, I argue, also influenced the mind-set with which economists came to think about economic policy and the refashioning of the social and economic order through planning and regulatory manipulation.

The Austrian School of Economics accepted a view of man that, in its general outlook, was more like the Classics who preceded them. Man, in the Austrian perspective, is an "actor" not a mere passive responder to his "given" circumstances, and I trace out their framework of man as doer of acts and entrepreneurial creator of market opportunities. The Austrians conceived of the market as an on-going process rather than in terms of any possible end-point equilibrium state. Consistent with this theme they incorporated time into their theories of production, capital-formation, and intertemporal exchange. The entire network of market transactions is integrated through prices, rivalrous competition, and the profit and loss system. The Austrians also incorporated a

theory of the unintended consequences of human action and the limits to various government policies of control and intervention within the economic order.

But several problems have never been successfully answered in the Austrian literature. First, what is the distinct method for theory formation in Austrian Economics, especially as developed in the writings of Ludwig von Mises? Second, in what way is the Austrian conception of “action” and choice-making different from the Neo-Classical view? And, third, in a world of uncertainty and the mutual interdependency of market relationships, what might be an “Austrian” theory of expectations that is different and distinct from the Rational Expectations approach of Neo-Classical Economics?

Concerning the first question, I explain that Mises’ method of theory formation is the tool of imaginary constructions through mental experiments. But I clarify for the first time that ~~the~~ the philosophical background to Mises’ method is to be found in Edmund Husserl’s phenomenological technique of “eidetic reduction” to uncover the “essence” of things. It is this “essentialist” approach that is the basis of the Misesian method of tracing out the meaning of the “essence of action” and his logical implications.

In a series of articles, I attempt to apply the ideas of the Austrian sociologist, Alfred Schutz, and integrate them with Austrian Economics to answer the second and third questions. Schutz had been a student at the University of Vienna and was in close association with many of the leading Austrian Economists in the 1920s and 1930s, so the connection between the two is not so far apart. While a number of Austrians have taken notice of Schutz’s writings and sometimes suggested their relevance to economics (Rothbard, 1973, 28-57; Machlup, 1978, 211-281), there was no real attempt to utilize them in the way I have tried to before the articles I began to write on this theme.

I show that Schutz’s theory of choosing among projects of action demonstrates not only the unique properties of the open-endedness of the choice-creating process, but also why the Neo-Classical view of the logic of choice cannot be as deterministic and predictive as the framework suggests. I also explain that Mises’ conception of “action” as intentional conduct is derived

from the earlier work of the German sociologist, Max Weber. Mises also adopted Weber's tool of the "ideal type" not only as a useful instrument for historical analysis, but for understanding how actors in the society in general and the market in particular form expectations for purposes of mutual orientation in the area of "social action." Schutz incorporated Husserl's phenomenological method and Weber's theory of action to formulate a theory of social action. Central to Schutz's work was the idea of "structures of intersubjective meaning." I clarify and apply Schutz's idea to show how these structures serve as the method through which actors in the social and market arenas form patterns of intersubjective expectations for mutual coordination of plans. I demonstrate how this method permits actors to anticipate the possible future actions of others without having to rely on the special requirements of statistical quantification and reduction of the "data" to probabilistic frequency distributions.

At the level of alternative economic systems and economic policy I discuss the practicability of socialism, the problems with economic intervention, and the contrast between the Austrian and German ORDO Liberal views of the limits of government regulation and control. In an exercise into the history of economic thought I show that there were five significant contributions before the First World War that made many of the same criticisms of socialist central planning developed by Mises and Hayek in the period between the two world wars. These five economists argued that socialism could not provide a successful substitute for market-generated prices for economic calculation, coordination of decentralized information, the competitive process for the selection of entrepreneurs and the direction of production for the rational allocation of resources including labor. In an analysis of various rationales for political intervention within the market economy I discuss the weakness of the perfect competition model, the logical and practical problems with appeals to "social justice," and the ambiguities and errors in references to the "public interest." And, finally, I contrast two groups of economists, the Austrians and the German ORDO Liberals, on the limits of economic policy. I discuss their common arguments against socialism and many forms of political interventionism, yet at the same time their different interpretations about the

development of nineteenth century capitalism and their resulting diverging conclusions concerning the proper limits of government interference in the market economy.

An Overview of Classical, Neo-Classical and Austrian Perspectives

In **How Economics Became the Dismal Science** (Ebeling, 1994, 51-81) I explain some of the fundamental premises of the Classical Economists and how their view of the economic problem and its policy implications radically differed from modern, mainstream, Neo-Classical Economics. Central to the Classical way of thinking was the discovery that economic order was possible without political design. The human actor was seen as a discoverer of gains-from-trade, the initiator of market transactions for mutual benefit, with market competition and the system of prices being the institutional framework through which the activities of all the members of the global community were brought into balance and patterned structure. They were confident in having unearthed the socio-economic regime that could provide both freedom and prosperity. Though they may have sometimes constructed one-sided conceptions of an "economic man," theirs was a common sense, everyday treatment of man and the human condition, and of the processes by which markets performed the role of coordinating economic activities. At the same time, they considered it presumptuous to believe that in most situations government regulation or control could do better than the market left to itself. Both Adam Smith and Jeremy Bentham took careful note of the fact that each man knows his own interests, his own local circumstances and has the strongest incentive to judiciously apply his knowledge for successful effect far better than any legislator, minister or regulator who presumed to manage his affairs and direct his activities.

The Classical view, I suggest, is in stark contrast to the way Neo-Classical Economics has viewed man, the economic problem and the role of government in society. Under the influence of a belief that the social sciences had to emulate the methods of the natural sciences, Neo-Classical Economics –

starting in the last decades of the nineteenth century especially under the influence of Jevons, Walras, Francis Edgeworth and Vilfredo Pareto – adopted the mathematical method as the primary technique for the formulation of economic theory. Since economics deals with quantities of supply and demand, ratios of exchange, rates of change, and quantitative minima and maxima, this made the discipline mathematical by definition.

But this also meant a significantly different conception of man and his place in the nexus of economic events. He is now reduced to being one of the “data” in the form of his given tastes and preferences, the quantitative aspect of which now makes its contribution to the determination of general equilibrium outcomes. As Pareto expressed it: “The individual can disappear, provided he leaves us this photograph of his tastes” (Pareto, 1927, 120). Man becomes merely one of the dependent variables in a system of interdependent equations for an economic equilibrium. Or, as the Swedish economist, Gustav Cassel, once visualized it, man is now “merely fate determined, like wind-blown shavings raised and lowered on the curves of mathematical determination” (Englund, 1943, 474). There is no place in this conception of man for acting men who know best their own interests, or who can evaluate best their own local circumstances, or who can judge how to pursue their own interests and use their local circumstances to the best effect in the face of profit opportunities as they may see them. Man becomes inanimate matter manifested in the form of relative amounts of various combinations of goods “chosen” when confronted with a “given” set of prices.

As an extension of this newer view of man, Neo-Classical Economics became more receptive to admitting the possibilities for government intervention, regulation and control than the Classical Economists, in general, had been. With man now viewed merely as a passive responder to his given circumstances, and with a misplaced confidence on the part of a growing number of economists that they had the ability not only to master qualitatively but quantitatively the interconnected relationships between all of the factors at work in the economic system, it became an easy step to conclude that men and their “choices” were capable of manipulation in the name of attaining more “optimal” outcomes than when men were left on their own in the market. This

was an attitude, I explain, that was increasingly held by economists on both the "left" and "right." The professional economist possessed the theoretical and quantitative tools to remake, or at least modify, the economic terrain, due to the higher plain from which the Neo-Classical Economist claimed to be able to see the workings of the world. Neo-Classical Economists, I conclude, have lost the modesty and more common-sensical reasonableness of their Classical predecessors.

In **The Significance of Austrian Economics in Twentieth-Century Economic Thought** (Ebeling, 1991, 1-40) I summarize the alternative conception of economic theory and method as developed by the Austrian Economists from Menger and Böhm-Bawerk to Mises and Hayek. Essential to understanding the distinction between the Austrian and Neo-Classical Economists, I explain, is the difference between ^{the} Austrian's Logic of Action and the Neo-Classical's Logic of Choice. For the Neo-Classical theorist, man is the "chooser" within a set of superimposed "given" constraints. He is assumed to already have a set of given ends which have been ranked in order of importance, an endowment of given means technologically known to be usable for certain uses and applications, and to be confronted with various terms-of-trade in the form of market prices at which he may trade-off the alternatives amongst which he must choose. Given his tastes, means and price constraints, the individual merely calculates what has to be the only rational and optimal "choice" in his objectively known circumstances. All the individual's decisions are in principle predictable, in fact, preordained, in this Logic of Choice, since any choice other than the one dictated by the "given" conditions would be by definition sub-optimal and therefore contrary to the purpose of utility maximization.

For the Austrians, however, this is beginning the analysis one step removed from its causal origin in the mental processes of the individual actors. The Austrians, in other words, ask, from whence come the "givens" the Neo-Classical approach takes as its starting point? They argue that the individual creatively imagines a future state (or states) of affairs, conceives of ways in which the objects of the world might be usable as means to attain ^{it (or} them) tries to discern causal relationships in the use of those means, and weighs the worth to

~~themselves~~^{himself} of giving up one goal possibly to achieve some other. Thus, "ends," "means" and "trade-offs" arise from and are brought into existence out of the minds of men; they do not exist independently and separately from the human minds that generate them. This is the basis for the Austrian conception of a wider notion of subjectivism than merely an agent's given tastes and preferences. These intentional activities of the mind are a reason why the Austrians often refer to their approach as a Logic of Action.

Integral parts of this Austrian approach are the ideas of uncertainty, imperfect knowledge and the passing of time. To ~~apply~~^{employ} means to attain an end implies a before and an after; to weigh alternatives and select among them implies that the future is open to being influenced by the course of action chosen by the actor and is not wholly predetermined; and the existence of an uncertain future means that the actor decides in a context of less than perfect information about the future and the consequences from his own actions and those of others; actions, therefore, undertaken with less than perfect knowledge carry within them the possibility of unintended results different from what was planned.

Future oriented actions by necessity are "speculative." Thus, from the Austrian perspective all actions contain an "entrepreneurial" element. This has led the Austrians to give particular attention to those in the market system of division of labor who specialize in performing the entrepreneurial task of conceiving future patterns of consumer demand, designing the production possibilities, hiring the factors of production and directing their use for the manufacture, supplying and sale of final goods and services. At the same time, the question then arises as to the institutional arrangement in the context of which entrepreneurship will be facilitated, exercised and directed more successfully towards that end-result of supplying the consuming public with goods they do or may desire to acquire.

Thought of as a dynamic on-going process, competition is the method through which each member in the social system of division of labor finds the line of endeavor that represents his comparative advantage; one of those specializations is the function of entrepreneur as guider and coordinator of production. Profit and loss serve as the indicators of who is best qualified for

this role. At the same time, information about the changing patterns of supply and demand is dispersed to all the members of the social system of consumption and production through the structure of market prices generated out of the rivalrous bids and offers of multitudes of participants in the exchange process.

The complexity of the structure of relative prices and integration of factor and final goods markets is made possible only due to the use and effectiveness of a medium of exchange. Money, therefore, connects the individual parts of the market into an economy-wide tapestry of the whole. But the particular Austrian “twist” to money’s macroeconomic role is an insistence on viewing the value of money not in terms of a statistically-derived average level of prices, but as the array or set of exchange ratios between money and each of the individual goods against which it trades. Through this method the Austrians construct their microeconomic foundations to economy-wide macroeconomic phenomena. Every change in the demand for or supply of a particular good not only changes the structure of relative prices, but also modifies the value or purchasing power of money as expressed in the array of exchange ratios between money and other goods as well. At the same time, any change in the supply of or demand for money can only be transmitted through the economy by a change in individuals’ willingness to offer more or less money for particular goods traded for money on the market. This changes the value or purchasing power of the monetary unit, but also in the process influences the structure of relative prices. Thus, the micro and the macro in economics are inseparably intertwined.

For the Austrians, the concept of causality carries with it an awareness of time and duration. Time pervades the Austrian schema in two ways: as something that requires valuation and something that influences the structure of plans and production. Time often makes mutually exclusive two desired courses of action; individuals then have to choose between what they prefer “sooner” and “later.” Time also pervades the processes by which means are applied to attain desired ends; each plan, therefore, contains a “period of production.” Out of differing time valuations between individuals arise potential gains-from-trade that generates an intertemporal price – the rate of interest.

And the amount of means set aside from more immediate consumption use as "savings" determines the investment time-horizons that may be undertaken with some confidence of successful completion. How the intertemporal price structure and the distribution of scarce resources among plans of production of varying duration may become out of balance with the underlying time-valuations of individuals and the actual amount of savings available to sustain attempted periods of production has been explained in the Austrian theory of the business cycle.

The Austrian emphasis on active intentionality on the part of individual decision-makers has led a number of the members of the School to give especial emphasis to the evolution and development of institutions and societal patterns that are the unintended consequences of human action. From the interactions of multitudes of individuals, each pursuing their own particular ends, Austrians such as Menger and Hayek have clarified how a complex social order emerges, forms and sustains itself, without either prior design or directed central plan. Through evolved rules and codes of interpersonal conduct, and customs and patterns of social and market interaction, individuals may retain a wide latitude of personal freedom in their actions, while, at the same time, constantly having incentives for constructing and adjusting their respective plans in ways that tend to be harmonious with and mutually beneficial for many of the other members of society.

Finally, the Austrians have drawn various economic policy conclusions from their theoretical explorations into social and market phenomena. Their fundamental argument is that a complex economic order cannot successfully function for purposes of mutual coordination of multitudes of human plans without the institutions of private property and market competition. Only in a setting in which individuals may own goods and resources and buy and sell them will they have the incentives and opportunities to evaluate and appraise their usefulness for the attainment of competing purposes for which they could be applied. Out of these valuations and appraisements emerge gains-from-trade that manifest themselves in the form of market prices in consummated transactions. And these market prices, expressed in the common denominator of money offered to buy and sell goods and resources, then serve as the device

for economic calculation which make possible the efficient use of the scarce means of production and the economizing of dispersed information for the coordinating of those multitudes of individual consumer and producer plans.

The Austrians concluded that both socialism and political intervention with the free competitive process prevent or impede effective use of people's abilities and knowledge for the greater mutual benefit of all the members of society. Traditional socialism abolishes private property, eliminates private buying and selling of goods and resources, and imposes centrally directed planning on all economic activity. By doing so, socialist central planning does away with all the mechanisms for discovering what the members of the society consider worth buying, how best to produce the goods desired by the consuming public, and how to balance the plans of production with those of consumption for a rational apportioning of men and material among their alternative uses. Political intervention in the market through regulations, controls and prohibitions does not do away with the competitive process in the same radical manner as comprehensive socialist planning. But it prevents the free choices and decisions of individuals from determining what actually gets produced, in what productive manner, at what prices and costs and for whose mutual benefit. If, as the Austrians have argued, more knowledge and information is dispersed among the various members of society than can ever be fully mastered, appreciated and integrated in a single mind or among the best of a handful of minds, then both socialism and political intervention in the market must reduce the effectiveness and efficiency of how the economic order works and its results.

A Foundation for Subjectivism and the Role of "Ideal Types" in the Coordination of the Market Process

In **Austrian Subjectivism and Phenomenological Foundations** (Ebeling, 1995, 39-53) I explain the meaning of the phenomenological method, as found in the writings of Edmund Husserl, as a foundation for the Austrian subjectivist approach. Its usefulness for this purpose was clearly stated by

Ludwig von Mises, in a passage from one of his methodological essays that seems not to have been focused upon previously: "The importance of phenomenology for the solution of the epistemological problems of praxeology has not been noticed at all" (Mises, 1944, 19).

The uniqueness of Austrian subjectivism, in contrast to the Neo-Classical subjectivism of given tastes and preferences, is its intentionalist starting-point. Man is not merely one of the many quantitative variables the simultaneous interactions of which produce a general equilibrium solution. Man, instead, is the focal, the Achimedean, point around which the social world revolves and comes into being. Man is, in the words of the American "Austrian," Frank A. Fetter, not merely the passive evaluator of goods, but the "doer of acts." From Menger through Mises, the Austrians have seen man as the being that gives meaning, order, structure and significance to the world. Ends and means, costs and benefits, "sooner" or "later," finished consumer good and factor of production, profit and loss, friend or foe - are all ultimately concepts and relationships that are creations of the human mind. The *alpha* and *omega* of social phenomena is the subjective world of acting man. The laws of nature and the physical environment may be the limits within which human endeavors are possible of accomplishment, but it is the human actor's conceptions and perceptions of the desirable, possible and attainable that serve as the diving rod for actions initiated, productions undertaken and social relationships formed.

Such thinkers as Wilhelm Dilthey, Heinrich Ricket, Max Weber, Franz Brentano and Edmund Husserl influenced the philosophical environment in which the Austrians reflected on the foundations of the social sciences. Dilthey, Ricket and Weber, each in his own way, attempted to resist the reduction of human events to a purely quantitative law-like dimension along the lines of the positivist conception of the natural sciences. They drew attention to the historically unique as the by-product of conscious human action, to which the actors assigned subjective meaning and importance.

Brentano and Husserl focused on the deeper philosophical meanings and implications of intentionality. Man is born into a world of preexisting meanings, which he learns and absorbs through a process of acculturation from early childhood. But part of the philosophical problem, as Husserl saw it, is to step

back from the taken-for-granted and devise a technique to understand how the taken-for-granted arises and to grasp the nature and meaning of the “essence” of things. The “eidetic reduction,” as Husserl called it, is an attempt to uncover the essential principles underlying and inseparable from the concrete, actual experiences of the world. Through the process of “free imaginative variation” one takes examples from experience and tries to discern those properties in things or ideas that would be considered invariant or generic qualities in them. What it is, in other words, that distinguishes the particular concrete objects or ideas as representing examples of a general or abstract type of phenomenon? What are the essential qualities or characteristics discoverable in each of these examples and which must be present for each of these concrete examples to be then considered as belonging to a particular general or universal type?

As I explain, this Husserlian method is the basis for Mises’ statement, “The starting point of praxeology is not a choice of axioms and a decision about methods of procedure, but reflection about the essence of action” (Mises, 1966, 39). In his major treatise, *Human Action*, Mises argues that the primary method of theory formation is mental experiments through the device of “imaginary constructions.” Whether it be the basic concept of “action,” or the meanings of “ends” and “means” and “scarcity,” and “costs” and “benefits,” or the functional meaning of “entrepreneur,” or the distinctive properties of “pure market economy,” and “centrally planned economy,” or “barter economy” and “money-using economy,” Mises’ method is an application of the Husserlian philosophical technique. One tries to peel away those specific observed elements that can be separated from the core concept and then delineate those attributes, qualities and characteristics that crystallize as the essence of the idea and which must be present for any concrete manifestation of that phenomena in reality.

Yet at the same time, I show that following Husserl’s own understanding of his “essentialist” method does not imply that a final, definitive “essence” of things, in any absolutist sense, can ever be claimed to have been unearthed. Every act of “eidetic reduction” is by necessity undertaken by the analyst in the context of his own historical-temporal point in lived space and experience. Lived time transforms the perspective and orientation from which concepts and

objects are “observed” and reflected upon through the process of “imaginary construction.” The meaning of the essence of things is always open to new discovery. And, thus, whether it is in philosophy or economics the growth of knowledge and understanding is a continual process, never terminating in some definitive end-state of completely certain knowledge.

Husserl spoke of a “taken-for-granted” shared world of common meaning that the method^{of} “eidetic reduction” is supposed to get behind. But in common-sense everyday existence it is in terms of these shared meanings that men live, act and form expectations for purposes of making plans and orienting themselves towards the others with whom they share the social world. What is this shared world of intersubjective meaning? How do men orient themselves to each other through its common properties and form expectations for purposes of coordination of their interdependent plans? In several essays I have attempted to explain how the Austrians came to see this process, and at the same time extend their contributions by using the writings of the sociologist, Alfred Schutz, to understand more fully the subjectivist nature of the choice creation process and interpersonal plan coordination in the competitive processes of the market.

In Expectations and Expectations-Formation in Mises’ Theory of the Market Process (Ebeling, 1988, 83-95) I discuss the origin of his concept of action and his theory of expectations in the earlier writings of German sociologist, Max Weber. Weber defined “action” as human behavior to which “the acting individual attaches a subjective meaning to it.” And “social action” as an action by an individual in which he “takes account of the behavior of others and is thereby oriented in its course” (Weber, 1947, 88). The intersubjective meanings the actors assign to their own and the reciprocal conduct of others define social actions. Thus, an “exchange” is determined by the meaning the actors see in their mutual behavior, and “[w]ithout this ‘meaning’ we are inclined to say that an ‘exchange’ is neither empirically possible nor conceptually imaginable” (Weber, 1977, 112).

Weber’s tool for analyzing historical and contemporary social processes and relationships was the “ideal type.” He defined the ideal type as a stylized reconstruction or selection of typical traits or characteristics viewed as

representing highlighted qualities in persons, relationships or social arrangements which capture certain essential elements in the phenomena for purposes of historical interpretation of events. They are accentuated idealizations of certain attributes in the social situation under investigation that assists the interpretive process. Examples would be the imagery created by the idealized type represented by the concept of "Latin American military dictator" in the twentieth century or "Russian intelligentsia" in the nineteenth century.

Mises took Weber's concepts of "action" and "subjective meaning" as his own. They serve as the starting points for his own analysis of "purposeful behavior." But he disagreed with Weber's argument that a general or universal theory of human action would be so abstract as to be unusable in social analysis. Mises argued, instead, that while indeed general and abstract, such a universal theory of human action offered the analytical schema that could serve as the framework within which all human activity may be ordered, arranged and understood. Within such a general logic of action all specific human actions could be interpretively analyzed and given intelligibility.

The usefulness of the Weberian notion of the ideal type, in Mises' view, was its application to both historical studies and for understanding how actors form expectations about the likely conduct of others in the future, and how the social analyst may form expectations about the future course of social events as well. Mises distinguished between two types of probability estimate: (1) those constructed from a frequency distribution of quantitatively likely outcomes; and (2) those for which such a probability distribution cannot be constructed or for which such a frequency distribution is inadequate for the purpose at hand.

It was in the arena of the second type that Mises saw many of the expectations problems of social and economic events. Market events are dependent upon the actions of men, but the actions of men can only be fully understood in the context of their meanings and intentions. Thus, the "data" upon which successful expectations need to be constructed cannot be derived purely or mainly from quantitative patterns of human activity in the past, however useful such information may be in its own right. Any such quantitative patterns arise only because men have chosen singularly or in consort with others to act in certain ways with particular purposes in mind. A change in

purposes, plans or expectations can change the patterns and structures of social activity. Furthermore, many expectations concern not the likelihood of the ^{statistical} frequency of a future outcome, but the likelihood of the next specific future human event; and for this, standard probability analysis offers few answers.

In interacting with others in various social settings and situations each of us builds up a stock of knowledge about the behavioral characteristics of those whose conduct we may need to anticipate. They represent composite pictures or images of those others in our minds that contain many non-quantitative features about their personalities, their subjectively held values, beliefs and attitudes, and their “typical” ways of acting and responding to various situations and opportunities. These composite, qualitative images can be of specific individuals or of sub-groups of people with whom we have historically interacted or learned about from various indirect sources. The task of successful anticipation in the market is both to acquire a stock of knowledge about the others relevant to our own purposes and to form estimates as to the relative weight or importance of each of these behavioral characteristics for estimating how any individual or group of individuals may act or react in a particular situation.

Through the use of the “ideal type” in this way each of us attempts to be what Mises referred to as “the historian of the future” (Mises, 1957, 320). That is, the anticipator ~~who~~ projects himself into a future that is not yet, ~~and~~ estimates the likelihood of how others may act and react if they are confronted with certain situations, constraints and opportunities, and ~~the anticipator who~~ then plans his own actions accordingly. Indeed, the essence of entrepreneurship is possession of this ability above the average, so as to successfully direct and coordinate the factors of production better to satisfy various consumer ends in the pursuit of profit on the market.

In the next three articles, I argue that the key to a more developed “Austrian” theory of choice creation and expectations coordination is to be found in the writings of the Austrian sociologist, Alfred Schutz. In **Human Action, Ideal Types, and the Market Process: Alfred Schutz and the Austrian Economists** (Ebeling, 1999a, 115-134), I discuss the choice-creation process and various mutual orientations in the market in the context of the

ideal type. Alfred Schutz studied at the University of Vienna immediately after the First World War. Beginning in 1920 he began regularly attending Mises' famous *privatseminar*, that brought together a large group of economists, political scientists, philosophers, sociologists and historians who shared a common concern with the problems of the social sciences. Schutz's own interest was in formulating a phenomenology of the social world (Schutz, 1932). He attempted to integrate Husserl's phenomenological method together with Weber's conceptions of action and ideal types with elements of the Austrian Economics of his time so as to construct a general theory of social action.

I contrast the Neo-Classical theory of choice with Schutz's theory of choosing among projects of action (Schutz, 1951, 67-97), in the context of Schutz's distinction between what he calls the "because-motive" and the "in-order-to" motive. The because-motive is the retrospective analysis or explanation as to why an individual made a choice that he did or how he has come to construct the options of choice and select the one he intends to carry out. This is a "backward-looking" interpretation of a choice made or planned. From this perspective, the elements out of which a decision has been made are all given and in place, at least in the mind of the chooser. The logic of the choice and its rationality under the circumstances can all be explained. Because he came to see these as the alternative ends from which he would want to or could choose, and these were the available means and their uses, and given that these were the trade-off options as he saw the possibilities before him, the individual came to the conclusion that "this" was the only logical thing he could do under the circumstances. This "because-motive" perspective is precisely the orientation from which the Neo-Classical Logic of Choice is derived.

The "in-order-to" motive is the forward-looking process by which an individual *creates in his mind* the elements and options out of which a future choice might arise. Out of the individual's potential fields of interest, some particular interest (desire, want, "urge," attraction) comes to be the focus of his attention. He imagines some future moment when this interest would be satisfied, fulfilled, or completed if he were to act to bring it about. He pictures in his mind what such a state of satisfaction or fulfillment would look like or require. He then mentally brings himself back nearer the present and imagines

ways and means by which he can bring that desired or wanted projected future state of affairs into existence. He may undertake any number of such mental projections into the future, imagining various sets of ends and means that are then competing options vying for accomplishment, and from which he may decide to choose.

He may retrace the mental steps of some previous imagined project to incorporate things he has “learned” and thought of in fantasizing about other imaged projects, and then reshape this earlier goal and plan of action. He begins to weigh and compare the alternatives, and thinks what each is worth to him - what is the valued benefit of each and what costs in terms of forgone projects and uses of means he might be willing to pay - as the price to bring any one^{of} them to fruition. All of this is occurring in time and takes time. And each represents a purpose and a plan the actualized outcome ^{about} of which he cannot be perfectly ~~sure~~ ^{certain.}

Herein lies the inherent unpredictability of choice and decision-making in the logic of action: “The analyst, as a result, cannot know with predictive certainty what the actor’s choice will be, *ex ante*, because the actor does not even know what the alternatives are or how he shall evaluate and rank them independent of the temporal ‘fantasizing’ process out of which a choice may be made. . . .In this sense, our future choices are not only hidden from the social and economic analyst, but from ourselves as well. We can never really know our own choices until we make them. Thus knowledge about our own choices always awaits us in our own future, whether that future is a moment from now or decades away” (125-126).

Schutz also developed a theory of the “structures of intersubjective meaning and orientation.” Each of us is born into a world of shared intersubjective meanings, in the context of which we come to understand what are the meanings of objects and actions: this is a “coffee cup” or a “TV remote,” this is an act of “heroism” or of “treachery,” while this man in this type of activity is a “college professor” or this a man in this type of activity is an “auto mechanic.”

Such typifications of action, Schutz said, could be placed on a spectrum from extreme generality to detailed specificity. I suggest that one can take this

idea of Schutz's and apply it to various categories and situations in economics for clarification of market relationships. Thus, the most general typification of man would be the most abstract: man as imaginer of ends, conceiver of means, weigher of alternatives, chooser among ends and doer of acts. Here is any man and every man, the universal in man and the human condition, the economist's isolated "Robinson Crusoe," in whose doings can be found all the elements of action and choice.

At the other end of Schutz's spectrum is the "face-to-face" relationship. Here we are confronted not with any man but a specific other. This other can be typified in terms of his unique and particular characteristics as a unique man among many men. Knowledge can be gained and expectations formed about the detailed behavioral qualities in this specific person: "he can't resist a chocolate," "he always stutters in the company of a woman," "he'll never give in, not even under torture." This is the economist's case of bilateral monopoly, where two transactors are face-to-face, sizing each other up, calculating the other's minimum supply price or maximum demand price, trying to push the bargaining process as far as possible to their own respective advantage without pushing it so far that one of them decides to pass up the trading opportunity all together.

Somewhere in the middle of Schutz's spectrum is the economist's representation of "perfect competition." Here it is not all men or just one other man, but a large number of specific, though anonymous others in the form of "many buyers and sellers," each of whom views themselves as a "price taker." But they are price takers, regardless of how many "many" means in this case, because of the way they typify others and themselves in regard to their ability to influence the market price through the amount they may offer to buy or sell. If actors act like price-takers in a particular market it is not because of any "objective" conditions, *per se*, but because of the way they perceive theirs and the other's capacity to modify the market price through their individual actions. It is the subjective meanings they see in their own actions and the actions of others that make their behavior that of either price-takers or price-makers.

Central to the market process, as the Austrians have long emphasized, is the role of the entrepreneur. The special task of the entrepreneur is to be able

to “read the market.” But reading the market means the ability to form expectational judgments about future consumer demand, the least costly ways in which factors of production may be combined for manufacturing the goods those consumers may want to buy, and anticipating the plans and strategies of one’s supply-side rivals so as to do better than one expects they are planning to do. Crucial to the entrepreneur’s talent is his ability to be that “historian of the future,” to which Mises referred. He must successfully form ideal typifications of subgroups of consumers and anticipate, for example, how they will respond to a five percent reduction in the price, or a shift in the style or variety of the product offered, or how they might react to a particular advertising campaign to make those consumers aware of what is available and where. The competition of the market, in which profits are earned or losses suffered, is, therefore, a competition among Schutsonian projected fantasies in the minds of rival entrepreneurs over imagined and attempted designs to influence the shape-of-things-to-come.

All of the actions by entrepreneurs and others in the social system of division of labor occur in the foreground of a background that includes shared ideal typifications concerning such things as the stability of the political order, the security of property rights, the enforceability of contracts, and the general social rules of honesty and trust.

In Toward a Hermeneutical Economics: Expectations, Prices and the Role of Interpretation in the a Theory of the Market Process (Ebeling, 1986, 138-153) I utilize Schutz’s conception of structures of intersubjective meaning as an alternative to both Rational Expectations theory and Hayek’s theory of the price system as the market’s mechanism for the dissemination of information. Rational Expectations theory grew out of the Monetarist critique of Keynesian Economics. The Keynesians argued that members of the work force suffer from “money illusion,” i.e., a systemic failure to distinguish between nominal wages earned and the real value of that money wage as influenced by changes in the purchasing power of the monetary unit. Monetarists argued that workers are ultimately concerned with their real wage, i.e., the purchasing power over goods and services their earned money wage will buy in the market. Incomplete information concerning the actual rate of price inflation (or deflation) may result

in money wage adjustments lagging behind the rate of change in the general level of final goods prices. But changes in the general level of money wages will in the longer run reflect the observed change in the value of the monetary unit.

Rational Expectations theorists took the Monetarist perspective and argued that individuals will learn from their past mistakes in anticipating changes in the value of money. Market agents will incorporate within their expectations models of how the economy works and the quantitative relationships they have statistically observed between, for example, monetary changes and resulting general price level effects. The strong version of the Rational Expectations approach argued that agents would learn enough to have in their minds the “correct” model of how the economy actually works, and the statistical correlations between the variables that generate the quantitative patterns of market outcomes. The only elements that would be unpredictable, in the statistical probabilistic sense, would be random events for which no quantitative correlations over time could be discerned. I suggest that this is merely the Neo-Classical perfect competition assumption of perfect knowledge, reintroduced through the backdoor dressed up in statistical probabilistic attire, in which the only thing left unpredictable is the unpredictable random event.

Hayek formulated in the 1930s a particular notion of equilibrium that has become widely used in Austrian Economics. Equilibrium, in the Hayekian perspective, refers to a coordination among the multitude of human plans in the market in which the actors have mutually consistent expectations concerning the planned conduct of all others whose decisions are relevant to the success of their own respective activities (Hayek, 1937, 33-56). But rather than demonstrate the market process through which the respective market actor’s plans and expectations would converge to a mutual consistency, Hayek shifted his attention to explaining, in a later famous essay (Hayek, 1945, 77-91), how the market price system economizes on the information needed by each participant in the social system of division of labor and how that price system disseminates information about changes in the demand and supply conditions that occur in any corner of the market. I argue that price changes, however, do not tell by themselves how the transactors should respond. The price has to be interpreted concerning its meaning, i.e., what is it telling the

relevant market actor how he should modify his conduct so his actions can now be made consistent with the new planned actions of others.

An Austrian theory of expectations, I argue, can be found in the “hermeneutical” tradition, broadly defined. Though originally concerned with the interpretation of written texts when time and space separate reader from writer, Dilthey had argued in the latter part of the nineteenth century that all human artifacts cry out for interpretation of their meaning in terms of an understanding of the purposes for which the actor designed and used them. Weber called this the problem of *Verstehen* or an “understanding” of the meaning in the actions of the human agent.

Applying Schutz’s idea of a spectrum of ideal typifications in human relationships, I explain that between general and anonymous “any man” and the most specific “face-to-face” relationships reside ideal types “composed of various concrete generalizations concerning behavioral motivations and patterns of action to be expected from any individual in a particular social role or situation.” Thus there develop institutionalized modes of conduct to be expected by any one performing a particular role or function in the society. Thus, there is a type of behavior institutionally expected from anyone performing the task of “mailman,” “railway conductor,” “policeman,” of “restaurant waiter,” within a social order during any historical period.

“The social standardizations of role and function in the form of typical modes of conduct serve as the foundations for the construction of expectations by agents in the social and economic arenas. They enable each to understand and anticipate to various degrees, the conduct of others in various settings and circumstances. They enable each of us to believe that others will, in turn, have an ability to understand and interpret our own purposes and meanings when we wish to achieve particular ends that require the coordination of our own actions with theirs. . . .The routinization of behavior along typical patterns introduces ranges of knowability about the possible future conduct and motivations of others. It is what makes society and economies possible in lieu of a ‘perfect knowledge’ of each separate individual and his or her unique eccentricities and differences.” (146).

Coordination in the market becomes possible, I argue, precisely because meanings are not private meanings, but shared meanings concerning the intention in an action. But besides the generally shared intersubjective meanings that we all would have in common as members of a society, "the normal process of division of labor would bring with it not only a specialization in production skills but knowledge skills as well concerning segments of activities in the market. There occurs a 'social distribution of knowledge'" (148).

To speak of "specialist" in the manufacture and marketing of wood furniture refers not only to a talent concerning production possibilities, but also to the entrepreneurial skill of knowing the conditions in his localized market in the division of labor. "A vital portion of each individual's knowledge of his unique market circumstances is a set of specific ideal types concerning the buyers and sellers, and typical causes and effects from changing conditions in his market. These specific ideal types are known to him and structured by him in his mind and are the implicit background in the foreground of which he makes his market-related decisions. . . .The entrepreneurial element is then to decide which out of this stock of typifications is the one most likely the best interpretation considering the market context as the decision maker sees it. . . .Market prices are used in conjunction with the ideal typifications in the minds of the actors in the social division of knowledge. . . .And it is the structure of prices within the structures of meanings that create the potential for market coordination" (149).

In **Cooperation in Anonymity** (Ebeling, 1987, 81-91) I develop this theme further. Rational Expectations theory, I argue, relies on two assumptions: (1) that there is sufficient repetition and constancy in social and economic events that a probability distribution of outcomes can be constructed; and (2) that agents are primarily concerned with the probabilities of classes of outcomes rather than the turn of specific events. Neither assumption can be taken as necessarily true. The presence of order does not require and does not often include regularities or patterns in the statistical meaning of the terms. Language possesses distinctly logical patterns and order but the particular forms in which those patterns will manifest themselves in verbal or written everyday usage are unpredictable statistically. The market process manifests

structured order but the configurations that it may take on following any change in circumstances cannot, necessarily, be statistically anticipated. Furthermore, in the ordinary everyday activities of the market many decisions require judgments concerning the specific next set of values of market events, not on the possible average value of a series of outcomes over time. In the success or failure of a business enterprise it is, by analogy, not sufficient to be told that the likelihood of a three coming up when a fair die is thrown is one out of six; it is frequently necessary to make an informed expectation about whether a three will or will not show up on the actual next throw of the die. And for this, standard probability theory offers no answer.

Schutz's structures of intersubjective meaning offer an alternative method for expectations formation in a world in which statistical probability theory is not always applicable. The "personal" ideal types that we construct of various individuals and groups of individuals through interaction with or information about them, and the "course-of-action" ideal types that we come to rely upon from individuals undertaking various standardized and routinized modes of conduct, assist each of us to anticipate the actions and responses of others in a wide variety of social and economic settings. Even if unique or infrequent events occur, we can call upon these ideal typifications and form an expectation about how we might expect others to respond in this concrete circumstance due to the "picture" we have constructed in our minds of them - a picture that contains qualitative elements concerning their character, motives and goals that can never be discovered or understood merely from the strictly quantitative residues of their past acts.

Another dimension to Schutz's theory is his reference to "the multiple realities of the social world." The meanings signed to objects and relationships are open to a wide variety of interpretive uses, depending upon the perspective or purpose for which they are being used. Thus, for the astronomer the moon represents a physical body possessing size and weight that due to the gravitational pull of the Earth maintains a certain distance from and follows a certain rotation around our planet; for the young lovers looking up at the sky during a clear night it may create emotions of romance. For the politician the use of the rhetoric of "national interest" may be a consciously cynical tool to

rationalize protectionist legislation for a special interest; for the citizen hearing his rhetoric it may arouse psychological feelings of collective belonging and fears of "the foreigner."

In the social sciences, the analyst who desires to understand the structures of intersubjective meaning and the ideal typifications as used by the social actors, must design his own theoretical schemas to reflect them. "The social analyst's theoretical mappings of social orders and relationships are, therefore, tracings made on a transparent overlay resting on the social world as he finds it preconstituted with the meanings of men" (87). Yet, the social analyst constructs his theoretical schematic for his own purposes. Thus, an individual's decision to purchase a larger quantity of tea this week in place of the usual amount of coffee he regularly buys becomes transposed in the economist's tracing as the consumer's shift into a less expensive substitute good when the price of a related commodity has risen in price, given the chooser's income constraint and preference orderings. But the danger is when, in performing this transformation of actual human events into the more general abstract "laws of market demand," the economist forgets the foundations of his anonymous generalizations and begins to think of these human actions solely in terms of mathematical functional relationships among the "variables" of demand, supply and price. The functionalist stylization risks becoming the reality, with the human actors reduced to quantitative manifestations of "given" tastes and preferences confronted with "given" prices to which they react.

"The 'anonymous' categories of 'supply,' 'demand,' 'market price,' and 'competitive process' are too often used by economists in a context-less setting. While invaluable shorthands for gleaning out and emphasizing the general and logical relationships underlying 'market forces' and 'incentive mechanisms,' such categories can only be effectively applied in historical interpretation, contemporary analysis, and anticipatory forecasting when enriched and complemented by insight into the 'meaning structures' within which the 'laws' of economics work themselves out" (89).

Austrian Economics and the Political Economy of Freedom

The socialist economic calculation debate was one of the momentous disputes in economic theory in the twentieth century. Ludwig von Mises has been credited with having initiated the controversy in 1920 with his article on "Economic Calculation in the Socialist Commonwealth (Mises, 1920, 3-30). It has usually been argued that before Mises' challenge to the socialists to explain how a centrally planning economy would rationally allocate resources among competing uses without private property, market competition and money prices, opponents of socialism in the nineteenth and early twentieth centuries had basically made two criticisms: (1) that government monopoly ownership and control over the means of production threatened to create a terrible tyranny; and (2) that collective production and distribution would weaken the close connection between work and reward that exists under private ownership, resulting in a falling off in productivity and efficiency.

My article, **Economic Calculation Under Socialism: Ludwig von Mises and His Predecessors**, (Ebeling, 1993, 56-101) is an exploration in the history of economic thought in which I demonstrate that there was in fact a small handful of economists who had cogently and insightfully made many of the same criticisms of socialist central planning made famous by Mises and Hayek in the middle decades of the twentieth century. The five economists who devoted the most attention to this question in the years before the First World War were: the German economist, Albert Schäffle, in *The Quintessence of Socialism* (1874); Paul Leroy Beaulieu, professor of political economy at the College of France, in *Collectivism* (1885); William Graham, professor of political economy and jurisprudence at Queens College, Belfast, Ireland, in *Socialism: Old and New* (1891); Victor Cathrein, a Jesuit priest in Germany, in *Socialism: Its Theoretical Basis and Practical Application* (1904); and American economist, Benedict Elder, in *A Study of Socialism* (1915). Each of these authors devoted one or more chapters to the very question of the problems of rational economic calculation and decision-making under socialism.

Schäffle, while sympathetic to the socialist critique of capitalist society, was aware of the difficulties that would arise once the institutions of the market

were abolished. The task confronting the "single office" responsible for directing the economic affairs of society would be immense: production, transportation, housing, distribution of goods to consumers, and multitudes of other activities, and all to be done in the right proportions and at the right times throughout an entire country. All of this would have to be done without the use of a money that assisted in determining the relative values of all goods manufactured and sold, and that facilitated the buying and selling process by serving as a medium of exchange. Trying to price goods produced according to a labor standard would be insufficient because the value of goods was based upon both costs and intensity of demand, and the latter could no longer be reflected under socialism through competitive pricing. And without demand to guide labor into alternative employments through the incentives of market-based wages there would be no method other than command to assign workers to needed tasks. And even with command, there would exist no flexible method to assure a continual balance between demands and supplies for both final goods and resources across sectors of the economy, as was fairly smoothly established through the market pricing process.

Leroy Beaulieu emphasized the socialists' complete lack of appreciation of the spontaneous order of market activities that assured that Paris got fed each and every day without central plan or coercion. Prices were the "automatic regulators" that would disappear under socialism and with it the profit signals that directed producers in applying the resources at their disposal to their most economical uses. Instead of private traders always open to market opportunities there would be "officials hamstrung by rigid regulations and a bureaucracy, slaves of red tape." Instead of the free energies of millions, each aware of his own circumstances and motivated to apply his efforts most effectively, there would be cool, indifferent administrators. Instead of the information provided by changing market prices, the administrators would have to rely upon the collection of statistics that can only be made available with delay, and which are often defective in their precision and meaning and are not free of unambiguous interpretation.

Graham also bemoaned the loss of market prices under socialist planning and the natural and automatic balancing of supplies and demands

that market prices easily assures. But Graham's central point was the unworkability of a labor standard for purposes of economic calculation to determine the relative value and most highly valued uses for labor and other resources in the various production processes. The intellectual difficulty of trying to sort out, in value terms, the relative worth of each factor's contribution to production would be impossible, and the calculation problem would become even more intractable the greater the number of stages of production through which resources and labor had to pass as they were transformed into finished goods and services. The abolition of private markets and money Graham concluded, "would be fraught with disaster and chaos."

Cathrein's main argument was that under the market economy it was unnecessary for any businessman or group of businessmen to possess and utilize all the relevant information in the market. There occurred a division of knowledge in which each businessman in each corner of the market was only required to master and utilize that fraction of knowledge in the economy as a whole that was important and useful to his particular specialized productive tasks. All these partial bits of knowledge were brought together through market prices and competition. The central planner, on the other hand, would have to acquire detailed information about each circumstance in all the corners of the market, and integrate it in a manner that would assure the precise fulfillment of every demand for producible goods for the entire population. "All of the work and care, which at present is divided among thousands of different firms, would fall to the share of the central planning government. . . .Can any human wisdom be equal to this stupendous task?" Cathrein asked.

Elder's focus was on the lack under socialism of a competitive process for market discovery of entrepreneurial talent. Who will pick the central planning leadership and by what criteria? The market tests those who desire to try their hand at entrepreneurial direction of production through the earning of profits or the suffering of losses. But such a rigorous standard would be lacking under socialism. Honest and good intentions do not an entrepreneur make. Thus, the selection of the personnel of the central planning authority would be flawed and inferior to that of the market economy.

These five economists had captured in their criticism much of the essence of the later Austrians. They looked upon competition as a process of discovery that guided production and selected entrepreneurs in the system of division of labor. The market provided an avenue for local and decentralized use of knowledge that eliminated the need for central mastery of all the information needed to plan an economy. They viewed prices as rapidly registering every change in market conditions, informing actors about the directions of consumer demand, and providing the tool for economic calculation and the allocation of resources among competing uses. All of these benefits, they argued, would be lost under socialism.

I also summarize the essential elements of Mises' own critique of socialism in contrast to these earlier writers and show the development of Mises' argument in his first formulation in 1920 and its more refined exposition in *Human Action* in 1949. In his 1920 critique Mises emphasized that, firstly, the advantage of the market over socialism is that the former, through the competitive process, enables each member of the society to make his contribution to the formation of market prices through his valuations in the form of bids and offers. Secondly, not only are prices formed through this competitive process for final goods, but for the factors of production as well. Finally, all of these prices are expressible in terms of the common denominator of money for ease of economic calculation. These market-generated prices are what enable an efficient and rational use of the scarce means of production in the service of the most highly value consumer ends as reflected in the intensity of market demand. Without private property there can be no bids and offers for goods and resources; without bids and offers there can be no agreed-upon terms of trade; without agreed-upon terms of trade there are no market-created prices; and without market-created prices there is no rational basis for the utilization of the means of production.

A refinement of this argument in *Human Action*, I suggest, is its more complete grounding in methodological subjectivism. Mises makes it clear that it is the entrepreneur who evaluates the meaning of market prices to anticipate the possible future direction of market demands; that the entrepreneur is the one who creatively imagines ways of organizing production and utilizing the

factors of production. Profit opportunities are, in a fundamental sense, created by the entrepreneur through his imagining future possibilities and designing cost-saving ways to manufacture potentially desired goods: "It is the entrepreneurial decision that creates either profit or loss," Mises said. "It is mental acts, the mind of the entrepreneur, from which profits ultimately originate. Profit is a product of the mind, a success in anticipating the future state of the market." Thus, I explain, in the developed Austrian analysis, prices are given meaning and used to create opportunities by the market actors. They are neither "given" nor passively responded to, as in Neo-Classical Economic theory.

In **The Free Market and the Interventionist State** (Ebeling, 1998, 9-46), I apply the Austrian approach to a critique of three rationales for government intervention in the market economy: the ideal of "perfect competition," "social justice" and the "public interest." The perfect competition model has continued to serve as the implicit benchmark according to which the actual market and its results are judged. It assumes: a multitude of buyers and sellers each too small to influence the market price; each seller manufactures a product that is identical to those produced by the other sellers in the same market; there are no technological or other barriers that prevent immediate reallocation of resources across markets in the face of any changed profit opportunity; and all participants possess perfect (or sufficient) knowledge to assure they never buy or sell at a price less attractive than the best offer objectively existing in the market.

I argue that in this conception of a perfect market "competitive" is used as a *noun* rather than a *verb*. It is explained in such a way that it defines a state of affairs in which any rivalrous meaning to competition is eliminated. It portrays a static state or situation having nothing to do with actions or activities. This is in contrast to the everyday meaning of competition in which the word is taken to refer to attempts to do better than others. To compete in this latter sense means to offer to sell at a more attractive price, to devise a differentiated improved product, to try to enter a market head of others so as to be first in serving some consumer demand, and to try to create or discover new

knowledge and information in the quest for improving supply conditions as an avenue for earning profits.

The very actions defined as "anti-competitive" in the Neo-Classical conception of competitive are viewed as the true essence of competition in the Austrian scheme of things. Any attempts to prevent competition (as a verb) through regulation must retard the movement towards better satisfaction of consumer standards of living. The most that governments can do is to be concerned with clear delineation and enforcement of the market rules of the game: the legal recognition and enforcement of rights to life, liberty and property against force and fraud. Each participant is then left free to use his own knowledge as he sees fit, and bring it to bear not only for his own improvement but also for the indirect betterment of others in society as well. Markets and competition should be considered to be properly "working" when: (1) markets are not restricted or closed by political regulation; (2) taxes do not act as barriers to work, savings and capital formation; and (3) interventions do not attempt to deflect market outcomes from the path they would follow when guided by the profit incentives of the market in the service of consumer demand.

Arguments for social justice rest upon a variety of assumptions, including the notion of exploitation under capitalism; the concern that market forces generate "unfair" inequalities of wealth and income; and the fear that competition produces unreasonable insecurities for employment and income. I argue that the first charge, of exploitation under capitalism, originates in Marx's confusions about profit and interest. Profit arises from entrepreneurial discoveries of discrepancies between the costs of factors of production and the anticipated prices at which goods may be sold with the assistance of those factors. The very nature of competition is to compete profits away, when competition is understood in the rivalrous sense; profits are transitory phenomena which competition eliminates over time. The long-run tendency of the market is for competition to equate cost-prices and selling prices. What capitalists earn, even in the long run, is interest income. But, I explain, Böhm-Bawerk demonstrated more than a century ago that the discounted value of the factors of production arises from the fact that production takes time, and

during the period of production the capitalist-entrepreneur advances income to the contracted factors of production, to save them the need to wait until the product is manufactured and ready for sale at some point in the future. Thus, the apparent "surplus" over costs earned by the capitalist-entrepreneur is in fact the price for foregoing use of some portion of his wealth until a product is ready for marketing to the consuming public.

The second rationale for a policy of social justice is the claim of unreasonable inequalities in income and wealth. Here I draw upon Hayek's argument that the market as an unplanned order of social relationships does not reward members of the society on the basis of their "merits," but pays people on the basis of the value of their services in contributing towards the manufacture of a product desired by consumers. Indeed, the market does not "distribute" income at all; it is earned through the competitive pricing process that guides individuals to integrate themselves into the social system of division of labor as a reflection of the market's estimate of their most highly valued comparative advantage. Furthermore, the degree of knowledge that would be needed concerning the attributes and "just desserts" of each member of the society to assign to each their "just" share is beyond human capacity and ultimately arbitrary.

The third rationale for social justice is based on the idea that market competition generates unreasonable instability in employment and income. Changes in the methods and direction of production by necessity result in changes in how and what is produced, as well as by whom and where. I draw upon the earlier writings of Allen G. B. Fisher, who argued that only reasonable perspective from which to look at this matter is from the interests of the society as a whole, and not the sectional interests of particular groups at a moment in time. He reasoned that without willingness on the part of each member of the society to adjust to changes in market conditions we run the risk of a loss of material progress, as well as possible dislocation and stagnation.

But I add to this that the very nature of a system of voluntary exchange is that each member must be willing to abide by the fact that his success or failure, profit or loss, increase or decrease in income is dependent upon his ability to serve his fellow men in the arena of trade, just as they serve him in

the same way. Indeed, losses, decreased income, falling profit-margins are all useful “negative feedback” informing the individual that changed circumstances necessitate his revising his plans, rearranging his productive activities and modifying where and how he participates in the system of division of labor. But this “dictation” by the market that requires him to “change his ways, or else!” neither threatens nor uses force. It merely takes the form of a change in the monetary returns he can earn from doing various tasks for others. He is left free to decide whether or not he wishes to change what he does, and if so how. He is left free to choose.

I also point out the negative consequences from resisting market-directed change. The state can only subsidize the pre-existing relative income positions of some by taxing the income of others. This weakens the incentives of the successful to be alert and responsive to market opportunities, and redistributes resources away from things consumers value more highly to those they value less highly. It also creates the incentive for individuals to divert their productive energies away from market-oriented activities for efforts to acquire favors, protections and redistributions from the state, all of which diminishes the satisfaction of consumer demands. And subsidizing unprofitable activities reinforces the resistance to change, making economic progress that much more difficult.

Finally, the argument of the “public interest” has been made against the results and activities of the market economy. First, I argue that the very notion of a “public interest” is a slippery concept impossible to define or specify in any non-arbitrary way. Indeed, a complex society has no over-arching hierarchy of agreed-upon interests. The essence of a complex society order is that every individual has his own hierarchy of values, which he pursues through mutually advantageous trades with others. In the market economy every one is both an end in himself and a means to the ends of others. As a consumer an individual chooses his own ends and others serve him in their roles as producers, and he in turn serves them in his role as a producer, to earn the financial wherewithal to reenter the market as a consumer once more.

Another area in which the claim of the public interest is raised concerns environmental protection. But I argue that most if not all environmental

problems arise from a lack of markets for the “endangered” resource. Where resources are privatized incentives are created to economize, husband, and conserve them to the extent that they have potentially valuable uses in the future. But more importantly, in the market individuals are able to decide what is worth preserving, in what quantities and in what qualitative state. Market prices and profitability function as the entrepreneurial incentives to provide and care for those things members of the consuming public value enough to pay for, including preservation of things considered of natural beauty and significance.

The case for the public interest is raised in the area of those things considered to be “public goods.” I reason that when looked at more closely many of the goods or services usually labeled as public goods – roads, highways, lighthouses, parks and other common facilities – in most instances can in fact be supplied by the private sector, if only appropriate property rights arrangements permit it. Proprietary communities can easily provide parks, roads, street lighting, schools, and shopping areas for example. Private corporations that construct shopping malls create accessible facilities “for free,” precisely to attract the consuming public.

Finally, I discuss the moral consequences of the political interventionist system. When individuals turn to the state to do things for them, the use of coercion inevitably follows. The rules of peaceful conduct soon evaporate. The more political the social and economic environment, the more force, corruption and ideological subterfuge become the means to personal survival and prosperity, at the expense of others. And, as Mises warned in the 1920s, men who begin by violating government regulations to survive may soon lose the ability to distinguish right and from wrong, and proceed to defraud others in the market place. The government regulation of trade can lead to the decay of business ethics in general.

The Austrian Economists and the German ORDO Liberals have been two of the leading groups of economists defending the market economy, and critical of both socialism and political interventionism in the twentieth century. I explain the similarities and differences between these two schools in, **The Limits of Economic Policy: The Austrian Economists and the German ORDO Liberals** (Ebeling, 1999b, 145-166). A group of liberal-oriented German

economists had opposed the growth of collectivism in central Europe in the 1920s and 1930s. In the years immediately after the Second World War, two of them, Walter Eucken and Franz Böhm, founded a yearbook for the Order of Economy and Society, or ORDO for short. It became the focal point for those economists in Germany convinced of the superiority of the market economy over all forms of socialism. They were the founders of what has become known as the “social market economy.”

Throughout the 1920s, 1930s and 1940s, the Austrians and German Liberal economists shared an opposition to certain currents in political-economic theory and policy. They both defended the idea of “laws of economics” against the anti-theoretical position of the German Historical School. And they shared an opposition to socialist central planning. Like the Austrians, these German economists argued that the entrepreneur was the creative force of market innovation and coordination, and that socialists suffered from the “hubris of the intellectual,” believing they could successfully socially engineer an entire economy. And like the Austrians, they argued that any complex social order could not function without a competitively based price system for purposes of economic calculation. The Austrians and the German Liberals also shared a common criticism of those political interventions within the market that could only disrupt and distort the relationships between supply and demand. And they both feared that collectivism meant the reducing of man to a mere cog in the wheel of state power and control.

The only system of economic order that could assure both freedom and prosperity, the Austrians and German Liberals concluded, was a private property-based market economy. But their paths began to separate over the role and limits of government activity within a market order. Their differences partly had to do with their interpretation of the industrial revolution. They agreed that industrialization had raised the standards of living of “the masses,” but the Germans, particularly Wilhelm Röpke, argued that industrialization had also reduced the people to a gray proletarian mass. Mises, on the other hand, considered industrialization as having de-proletarianized a growing number of people, and raised them to the middle class. Also, the Germans argued that industrialization threatened the creation of anti-social monopolies within the

market. The Austrians argued that monopoly was primarily a problem caused by government intervention, and would be solved by freeing markets even more from regulation and protectionism.

Beginning in the 1920s and 1930s, a number of these German economists began to develop a theory of Liberal Interventionism that after the war culminated in the policy program known as the social market economy. They argued for: anti-trust laws to regulate the size and power of large enterprises; redistributive policies for reducing inequalities of income; social insurance programs; occupational training policies by the government to prepare people for the work force; environmental regulations; and urban and rural planning for a "balanced" social life; and active monetary and fiscal policies to stabilize output and employment.

But by the early and mid-1950s, the social market economy was growing and getting beyond the confines that most of the German Liberal economists considered desirable. They began to refer to the Welfare State as the "other road" to serfdom that Hayek had warned about during the war. The dilemma for the proponents of the social market economy was that in a democratic society there was no way to prevent interest groups from using the democratic process to enlarge the interventionist-welfare state beyond the limits they believed necessary and desirable.

Beginning in the 1920s, Austrians like Mises had already warned that such interventionist and welfare policies carried within them the danger of social destruction. Every step away from the free, unhampered market economy politicized and rigidified the market process. Long before the development of public choice theory, Austrian Economist, Oskar Morgenstern, had demonstrated the dynamic process by which interventions created concentrated and powerful interests that grew in strength over those upon whom the burdens of the interventions were imposed. With each additional intervention, the political ability to reverse them became more difficult.

From the Austrian perspective, the fundamental wrong turn the German "social market" economists had made was to implicitly accept the basic socialist critique of the market economy: that the market when left to itself generated "unjust" results and that it was possible to develop clear and unambiguous

standards for “just” market conduct and income distributions. The very ambiguities in the meaning and application of “social justice” and “social” market outcomes different from those spontaneously generated by the free market meant that such political systems of intervention were inevitably open to abuse and distortion of the market order. The Austrian conclusion, that indeed there is no stable and workable “middle way” between a free market economy and the socialist planned economy, seems therefore to have been born out.

The Development of the Ideas and the Approach Taken

The underlying interest over the years during which I have written and published these articles has been the refinement, reformulation and renewed relevancy of the ideas and framework developed by the Austrian Economists in the earlier decades of the twentieth century. This led me to restate, in the articles summarized under the heading, “An Overview of Classical, Neo-Classical and Austrian Perspectives,” the distinctive qualities of the Austrian approach in contrast to the mainstream Neo-Classical theory, as well as the differences in outlook and approach between the Classical Economists and the Neo-Classical framework. This also highlighted that in their views of man and the market process, there was a greater continuity between the Classical and Austrian Schools than between the Classical Economists and the Neo-Classical variation on the Marginalist theme.

The Austrian framework, as formulated in the works of Ludwig von Mises and Friedrich A. Hayek in the middle decades of the twentieth century, still left certain unanswered questions. Foremost among these questions has been the particular meaning and significance of methodological subjectivism in Austrian Economics. Hayek had suggested in the 1950s that, “[I]t is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.” And that, “This is a development which has probably been carried out most consistently by L. von Mises and I believe that most peculiarities of his views which at first strike many readers as strange and

unacceptable are due to the fact that in the consistent development of the subjectivist approach he has for a long time moved ahead of his contemporaries" (Hayek, 1955, 31, 209-210).

The four articles summarized under the heading, "A Foundation for Subjectivism and the Role of 'Ideal Types' in the Coordination of the Market Process," had as their purpose the clarification of the subjectivist concept as used especially in the writings of Ludwig von Mises and its application to the problem of understanding how actors in the market form expectations for mutual compatibility of plans. I demonstrated the origin of Mises' concept of theory formation for grasping the meaning of "action" as intentional conduct in Edmund Husserl's phenomenological method for unearthing the "essence" of ideas and objects, which in Mises' praxeological approach was referred to as the method of imaginary constructions.

Mises' use of the "action" concept, I showed, was derived from Weber's notion of action as conduct to which the actor assigns a subjective meaning. He also adapted Weber's idea of "social action" as mutually oriented conduct. And Mises accepted Weber's conception of "ideal types" as a primary tool for historical analysis. At the same time he also viewed it as the tool through which both actors and analyst attempt to form expectations concerning the possible future actions of others in the social arena. This method for "understanding" others is also the essential method through which entrepreneurs attempt to anticipate the patterns of future market conditions and opportunities.

But neither Mises nor any other Austrian tried to develop and elaborate on this theme to any significant degree. At the same time, Neo-Classical Economics over the last three decades tried to construct a "rational expectations" approach based on statistical probability theory. But Austrians throughout the twentieth century had always been suspicious of reducing human activities, with all their subjective meanings and qualitative textures, to a purely quantitative and probabilistic dimension. In trying to devise an Austrian alternative to the problem of expectations formation I decided to take an interdisciplinary approach and draw upon the writings of the noted phenomenological sociologist, Alfred Schutz, who had in fact been closely

connected with many of the Austrian Economists in the Vienna of the 1920s and 1930s.

Schutz's contributions enabled me to reformulate the Austrian argument that "choice" is an inherently creative and not fully predictable process by more clearly explaining how the elements taken as "given" in the Neo-Classical conception of the Logic of Choice were themselves imagined and structured in the mind of the actors. This reinforced the Austrian emphasis on the Logic of Action as being the more fundamental starting point in the context of which actual choices were made. This demonstrated the subjectivist aspect to all choice-making, in that much of what the Neo-Classical theorists took as "objectively given" were the subjective creations in the actors' minds.

At the same time, each of us does not live in isolated private worlds. Rather, we share a common world of intersubjective meanings that both enables personal and mutual orientation. Schutz's notion of a spectrum of ideal typifications provided me with the framework to demonstrate how actors in the market place actually form expectations for purposes of interpersonal coordination in ways that enable the incorporation of more "facts" about actors and social circumstances than can be captured merely in statistical data and frequency distributions. I also explained that this approach, which I took from Weber, Mises and Schutz, had its origin in an older "hermeneutical" tradition in the human sciences.

Some of my writings on this theme resulted in the emergence of a sub-field in Austrian Economics that has drawn further attention to and emphasized the relevancy of a "hermeneutic" or "interpretive" aspect to coordinative activities in the market process. Don Lavoie of George Mason University, who has been leading figure in this development, has pointed out that, "Richard Ebeling alerted me to the literature of contemporary hermeneutics, for which I will be forever in his debt." And he explained that, "A distinct faction of the school has emerged which I might call the hermeneutical Austrians, who have been enthusiastically embracing the philosophy, and recommending bold revisions to traditional Austrian economics on the basis of its themes. . . .The two economists who provoked the debate by beginning to use hermeneutics to revise Austrian economics are Ebeling, who has mainly

referred to Schutz and Ricoeur, and Lavoie, who has mainly referred to Gadamer” (Lavoie, 1990, ix, 8-9, 13).

Mark Addleson highlighted that his own work on developing an interpretive process approach as an alternative to Neo-Classical general equilibrium theory can be considered to “underscore the value of the contributions of scholars like Richard Ebeling and Don Lavoie, who in spite of strictures which academia places on younger scholars, have been forerunners in recognizing the potential of hermeneutics to extend the scope of subjectivist economics and are willing to break with convention to obtain a deeper understanding of social problems” (Addleson, 1995, 233).

Steve Fleetwood has suggested that my work on this topic remedies gaps that can be discovered in Hayek’s writings on the role of the price system and the process for bringing about market coordination (Fleetwood, 1997, 173-175). Joseph Salerno has said that my writing offers “a valuable overview of Mises’ influences and method in developing his theory of expectations” (Salerno, 1995, 320). And my writings on interpretative processes, ideal types and market coordination have been referred to as a positive contribution by a number of scholars interested in Austrian Economics (Boettke, 1995, 74; Butos, 1997, 90; Foss, 1997, 195; Ionnides, 1999, 90; Lavoie, 1994, 54; Prychitko, 1994, 305, 314; Vaughn, 1994, 129; Wubben, 1995, 138), as well as being subject to some criticism (Rothbard, 1989, 293).

Finally, in the articles summarized under the heading, “Austrian Economics and the Political Economy of Freedom,” I showed the use and applicability of Austrian subjectivist and market process ideas for better understanding some of the economic policy controversies in the twentieth century. First, many of the Austrian criticisms of socialist central planning, I explained, had been articulated with a high degree of sophistication by a number of economists before the First World War. Their contributions to the socialist calculation debate had been almost entirely ignored before my article on this topic. I also brought out the similarity between the Classical and Austrian views of market prices and the competitive process. And I also related their contributions to Mises’ own critique of socialism and his more refined subjectivist arguments against central planning.

Second, I utilized the Austrian approach to critically evaluate some of the arguments often made on behalf of the Interventionist State. I pointed out the weaknesses in evaluating the market process according to the benchmark standard of Neo-Classical perfect competition, the shortcomings in various meanings of "social justice" as a guide for economic policy, and the ambiguities and limitations in the idea of the "national interest" as a basis for economic regulation and control. And, third, I contrasted two of the leading free market schools of thought in the twentieth century, the Austrians and the German ORDO Liberals on the question of the limits of economic policy.

The conclusion to which these three studies led was that the Classical Economists and the Austrians had been fundamentally correct in their insistence that neither socialism nor interventionism were satisfactory or workable alternatives to a functioning, competitive free market. The Austrian subjectivist and market process approach demonstrated the benefits from economic liberty over either the planned or regulated economy.

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