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**Some Thoughts on Price Deflation\***

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**Abstract:** Price deflation has long been a bugaboo of economics; cordially hated, reviled and feared by practically everyone. There is some justice in these sentiments when the price deflation comes about as a result of government action. However, there is no warrant for them when they stem from the freely made economic decisions of the masses of economic actors. Then, price deflation is not only not problematic, it is a positive virtue.

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## 1 Introduction

Price deflation<sup>1</sup> has long been a bugaboo of economics; cordially hated, reviled and feared by practically everyone. There is some justice in these sentiments when the price deflation comes about as a result of government action. However, there is no warrant for them when they stem from the freely made economic decisions of the masses of economic actors. Then, price deflation is not only not problematic, it is a positive virtue. In Section 2 of this paper we discuss money as a productive capital good, and demonstrate that this quality can be enhanced by deflation. Section 3 is devoted to an analysis of deflation, looking at it on the basis of three (3) different assumptions: 1. Full free enterprise in money; 2. Quasi free enterprise: free banking; and 3. Fiat currency. We conclude in Section 4.

Money is a capital good (Barnett and Block, 2005). It is a commonplace in economics that the more productive is a capital good the better it is. As the essence of money is that it is a generally accepted medium of exchange and means of final payment,<sup>3</sup> the more productive a money is in terms of this function, the better the capital good it is. This leads us to the issue of the productivity of money.

“Productivity” is used in four different senses: subjective value productivity, pecuniary value productivity, and productivity with respect to the quantity and quality of output. Consider, first, subjective value productivity. The actions that are relevant to money qua money are exchanges. The purpose of every voluntary exchange is to improve the expected well-being of each party thereto relative to what he thinks it would have been if he were to have done something else.<sup>4</sup> That is, the purpose is to create subjective value or utility. However, as all we can do is ordinally rank alternatives, there is no way to measure value productivity; i.e., all the actor may say is: “I prefer A to B.” He may not say: “I prefer A twice (or any other multiple) as much as B.” Therefore, in terms of productivity all that may be said is that action A is more productive than action B, and there is no way to say that A is twice (or some other multiple) as productive as B. This concept is irrelevant for our discussion.

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The running of the Reichsbank’s note-printing organization, which has become absolutely enormous, is making the most extreme demands upon our personnel” (Ringer, 1969, 96; cited in Rothbard, 1983, 73).

<sup>3</sup> Most economists usually define money in terms of its essential function as a generally accepted medium of exchange. Because they are guaranteed by financial institutions, a very large number of individuals’ personal notes are more or less generally accepted in exchange for goods and services. It is therefore necessary to include a second essential function of money – as a means of final payment – in order to distinguish it from such notes. We realize that because money is a medium of exchange, some maintain that when an economic actor gives up goods in return for money, in an important sense the exchange is not final, and therefore the money does not constitute final payment, because the money is intended to later be exchanged for other goods. Nevertheless, though that may be the intent of the seller of goods who receives money in exchange therefore, the buyer who pays in money has completed his part of the exchange, and the seller has no recourse against him; to wit: if immediately after the sale, the exchange value of the money fell to zero because, for whatever reason, no one wanted it anymore, the seller would have no recourse against the buyer, or, for that matter, anyone else. This is most easily seen, when money is a commodity; e.g., gold. It is obvious that no one accepting gold coins in an exchange for goods would have any recourse against the buyer should, for whatever reason, the value of gold coins fall to zero immediately thereafter (for the claim that property rights can only apply to things themselves, and not their value, see Hoppe and Block, 2002).

<sup>4</sup> Every involuntary exchange creates subjective value in the ex ante sense for every coercing party thereto, and destroys subjective value for every coerced party, not relative to the coerced options, but relative to those that would have existed absent coercion. See on this Rothbard (1997).

Pecuniary value productivity is the ratio of the pecuniary value of the output to that of the relevant inputs. For money, this is the ratio of the pecuniary value of the non-money goods whose exchange is mediated in a given period of time to the amount of money stock involved in those transactions.<sup>5</sup> Note that a change in pecuniary value productivity could be the result of a changes in prices not completely offset by changes in transactions. Because of this, the concept of value productivity is also unsatisfactory for our purposes.

Quality of output productivity is the quality of a given output relative to the inputs used to produce it. This concept is also unsatisfactory for our purposes, in that, in addition to being subjective<sup>6</sup> (similar to subjective value productivity), it also has the same defect as pecuniary value productivity. Note that a change in quality productivity could be the result of changes in quality not completely offset by changes in transactions. Moreover, changes in quality as they affect productivity do so by affecting prices. Because of this, the concept of quality productivity is unsatisfactory for our purposes.

This brings us full circle to the productivity of money – the quantity of exchanges mediated by a given stock of money, *ceteris paribus*. That is, the greater the quantity of exchanges mediated by a given stock of money, the more productive is money.

In sum, the productivity of the specific capital goods that constitute money is the quantity of transactions that are mediated in a particular period of time with a given

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<sup>5</sup> Consider the quantity equation of money:  $MV = PQ = Y$  as per mainstream economics.  $M$  is the stock of money,  $V$  is the average (transactions) velocity of the stock of money,  $P$  is the average price of a transaction,  $Q$  is the total number of transactions in a given period of time, and  $Y$  is the pecuniary value of those transactions. Then, the value productivity of money is  $V (=PQ/M)$ . Thus, an increase in value productivity would allow, in the same period of time, the same pecuniary value of transactions to be executed with a smaller amount of capital in the form of money, or the same amount of capital in the form of money to mediate a greater pecuniary value of transactions.

Austrian economists eschew the use of mathematics as unsuitable for the study of human action. However, this does not preclude them from considering the concept of the value productivity of money. Thus, an increase in value productivity would allow an individual, in the same period of time, the same pecuniary value of transactions to be executed with a smaller amount of capital in the form of money, or the same amount of capital in the form of money to mediate a greater pecuniary value of transactions.

<sup>6</sup> Although there are, depending on the specific good involved, various objective measures of the quality of an output, including even exchange, still, ultimately quality is subjective. Thus, e.g., even if we consider the quality of an exchange to be related so that there would be some objective measure of that aspect of quality, nevertheless, quality is, fully considered, subjective. Is it possible that there could be an inverse relationship in operation here? Yes. This could come about if some market participants desired to prolong the exchange process because, say, of an attraction to the other party[ies].

stock of money. The productivity of money, in that sense, changes only if during that particular time period, *ceteris paribus*: 1) individuals (or firms) change their average holding periods of money in such ways that they do not offset each other, with productivity increasing (decreasing) with decreases (increases) in the holding periods; or 2) the prices of goods change in such ways that they do not offset each other, with productivity increasing (decreasing) with decreases (increases) in prices.

Therefore, *ceteris paribus*, P-deflation increases the productivity of the capital goods that comprise money, and thus is greatly to be desired.<sup>7</sup>

### 3 Deflation in three different contexts

Milton Friedman (1992, 262) has famously said that, “[Price] inflation is always and everywhere a monetary phenomenon.”<sup>8</sup> The corollary is, “[Price] deflation, also, is everywhere a monetary phenomenon.” In fact, the very concepts of inflation and deflation are nonsensical in a barter economy. And, this is true regardless of whether inflation and deflation are taken to refer to changes in the general level of prices (or, what is the same, alterations in the purchasing power of money) or in the stock of money.<sup>9</sup>

Before proceeding, it is interesting to ask why one should be interested in monetary deflation, or for that matter, monetary inflation. Certainly in a world of perfect helicopter money<sup>10</sup> neither M-inflation nor deflation<sup>11</sup> should be of concern. The reason is that perfectly-anticipated helicopter-borne changes in the money supply would have absolutely no effects on *any* real variable, including subjective ones. Then, the only impact of monetary inflation or deflation would be to cause price inflation or deflation, respec-

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<sup>7</sup> For other defenses of deflation, see Rockwell (2003); Rothbard (1976; 1991) and, Salerno (2003, 2004).

<sup>8</sup> For Austrians, the crucial distinction is between commodity and fiat money, whereas for the mainstream it is that between real and nominal money. On the latter, see: Friedman, M. 1969, 1.

<sup>9</sup> The term “money” is used ambiguously, also, in order to avoid confusion, herein it is taken to mean a generally, though not necessarily universally, accepted medium of exchange and means of final payment.

<sup>10</sup> Of course, in the real world perfect helicopter money is impossible, if for no other reason than that real resources would have to be diverted to the production of the new paper money, or storage or destruction of withdrawn money, not to mention the real resources devoted to adjusting the records of nominal values.

<sup>11</sup> We assume, *arguendo*, that just as the helicopters can disburse money in such fashion that its effects are perfectly neutral, they can also withdraw it with the same lack of effect on real variables. For a critique of the claim that neutral money can exist in the real world, however, see Cochran (2004), Mises (1998), and Shostak (2003, 2004).

tively; i.e., only nominal variables would be affected. However, it is precisely because real-world monetary inflation and deflation do cause real effects, both distributional and with respect to the allocation of resources,<sup>12</sup> as well as causing booms with attendant crises and busts in the former cases and exacerbating busts in the latter case, that they are of interest.

Although there are and have been many different monetary arrangements or systems, only three (3) are considered herein.

### **3.1 Full free enterprise in money**

Consider, first, a market, commodity money with 100% reserve requirements for demand deposits and banknotes, with no governmental intervention re money and banking, save to enforce the 100% reserve requirement and other contractual obligations, should such prove necessary. Barnett and Block (2004, 48) make the case that: “The optimum quantity of money is . . . whatever amount of gold as coins the free-market process creates.” That is, if the voluntary actions of individuals resulted in a monetary deflation, that would be optimal<sup>13</sup> as it would indicate they had chosen to divert some of the scarce monetary commodity to more valuable non-monetary uses. In such a situation, the only way the monetary commodity would not be so reallocated would be if governmental intervention prevented it. Obviously, such intrusion would lead to sub-optimality. Moreover, in such a system price deflation could result from monetary deflation, increased hoarding of money, or increased production. Assuming that neither the monetary deflation, nor

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<sup>12</sup> This is the main insight of Austrian Business Cycle Theory. On this see Rothbard (1963), Garrison (2001), Cochran (2004), Hayek, (1933, 1935, 1939).

<sup>13</sup> What is our major interest in this paper: the desirability of price deflation, or the rule for the optimal quantity of money? It might be thought that there is little or no connection between these two concepts, since the first one is dynamic, and the other static. We, however, deny the latter contention, at least under certain circumstances. That is, in our view, it all depends upon whether we are discussing free market or fiat money. If the former, then the optimal amount of money, just as in the case of the optimal amount of chalk or cheese or any other good, is dynamic, not static. The optimal amount of any good, service or item, certainly including money, is the amount desired by the consumers, and this is subject to change. On the other hand, if the latter is under discussion, then our view is that either the optimal amount of this is zero (i.e., we move to free enterprise money), or, if this is somehow precluded, arguendo, then and only then do we embrace a static state of affairs: the optimal amount of fiat currency is whatever amount is now in existence.

the increased hoarding, nor the increased production<sup>14</sup> was the result of governmental intervention, the price deflation would come about as the result of an adjustment of the structure and level of prices to accord with individuals' preferences, precisely what would be expected to occur in a free enterprise economy.

All of which is to say that, from an economic point of view, any deflation, or, for that matter, inflation, whether monetary or price, that results from the voluntary choices of individuals is optimal, and any that results from governmental interference is suboptimal (Rothbard, 1997).<sup>15</sup>

### 3.2 Quasi free enterprise: free banking

Second, posit a market commodity money with free banking<sup>16</sup> in the sense that there is no legal reserve requirement for either demand deposits or banknotes, and without any government intervention re money and banking, save for the enforcement of any contractual obligations, should that prove necessary. Assuming, *arguendo*, that competition would not eliminate any banks choosing to hold only fractional reserves, and also that people would voluntarily accept the fractionally-backed banknotes and checkable deposits as money, the only relevant difference between this situation and the previous one is the possibility of a deflation in the form of a decrease in the sum of banknotes, checkable deposits, and commodity money not held as reserves by the banks.

The same thing can be said in this case as in the previous one. From an economic point of view, any deflation, or, for that matter, inflation, whether monetary or price,

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<sup>14</sup> It might seem strange to think that deflation consequent on any increase in production might be sub-optimal; however, if the production were the result of governmental intervention, say taxation on leisure and direct subsidization of production, output of goods might be sub-optimally high, leisure sub-optimally low.

<sup>15</sup> Let us consider an objection to the foregoing. We are offering two criteria that seem to be incompatible: on the one hand "productivity of money as a capital asset", and on the other Rothbard's (1977) assertion that any transaction not-forced by the government is beneficial, while anything forced by it is not. The use of multiple criteria is not *per se* problematical. Certainly one could establish two criteria with respect to the solution of a mathematical problem: 1) it must be correct; and 2) it must use the least possible number of steps. If there is a problem it must be because the criteria lead to disparate results. However, re deflation that is not the case with our criteria. Rather, as we show they yield consistent results. Therefore, unless one disagrees with both of our criteria our results hold.

<sup>16</sup> We assume, *arguendo*, that such free banking is non-fraudulent by virtue of fully informed parties. On this, see Selgin and White (1996, 85-92). For a critique of this position, see Hoppe, et al. (1998).

that results from the voluntary choices of individuals is optimal, and any that results from governmental intervention is suboptimal.

### 3.3 Fiat currency

The third system is one of inconvertible paper money issued by the government, or by a central bank that has been given monopoly powers re the issue of banknotes, with such banknotes having the quality of legal tender, and a regulated, fractional-reserve banking system. Banks may hold reserves in the form either of banknotes or deposits at the central bank. Two versions of this latter system are considered, one in which the central bank can act as lender-of-last-resort and/or the government provides deposit insurance, and the other in which it can do neither.

Barnett and Block (2004, 40) state:

The optimal quantity of fiat money is zero (Hoppe, Hülsmann, and Block, 1998, 1-50). However, in a fiat-money-using society, the optimal quantity of fiat money is whatever is in existence, and, from an Austrian perspective, that quantity should never be changed, either increased or decreased, save for its complete elimination in shifting to a commodity money.

The reason for this position is straightforward. Any change in the stock of money involves injection and distribution effects, and attendant resource reallocations. Because such effects and reallocations are costly, fiat-money inflation is never warranted. Moreover, the only justifiable reasons for fiat-money deflation are: 1) if it is part and parcel of a process to reinstate a commodity money; or, 2) if it would rectify the injustices brought about both by the introduction of the fiat money system and by subsequent monetary inflation. However, as this last is an impossible task, if for no other reason than a lack of relevant knowledge (Hayek, 1945), only the former remains as a legitimate purpose. Fiat money deflation, merely to reduce the amount of fiat money, without eliminating it entirely, is not warranted because not only would it not remedy past injustices, it would add to them new ones in the form of injection and distribution effects, and consequent misallocations of resources. In such a system, optimal monetary policy would require that the stock of fiat money remain constant, literally in perpetuity. And, in that case, any price

deflation, or, for that matter, inflation, resulting from the otherwise voluntary actions of individuals would be optimal; and, any consequent on governmental intervention would be sub-optimal.

The importance of this distinction cannot possibly be overstated. There are two very different kinds of deflation. The first is that which ensues as the result of the decisions of the millions upon millions of people who together constitute the market. They decide, for their own reasons, to increase their demands for cash balances. Naturally, if the amount of money in circulation is fixed, they cannot all, at least initially, succeed in obtaining this goal. But as each economic actor makes this attempt, the “magic of the market” moves them in this direction. For the attempt to achieve greater cash implies that people are now more likely to sell what they own and to hold on to whatever cash they already have. If everyone does this at around the same time, prices will fall below the level that would otherwise have obtained.<sup>17</sup> At reduced prices, the real value of the extant money stock rises, thus allowing the market participants to attain their purposes.

Deflation emanating from this source is not only non objectionable, it is part and parcel of the market process. To oppose it is to oppose the free decision making on the part of the masses of people in the pursuit of their economic goals. There is nothing whatsoever to fear from general price falls occurring as a result. This is not a “market failure,” nor untoward in any manner, shape or form.

Deflation that occurs as the result of government<sup>18</sup> intervention is entirely a different matter. Here, it is not at all the case that the deflation stems from the voluntary decisions of all. Rather, it is the result of the actions of a few monetary central planners. Since this is not a result of markets, it cannot constitute a “market failure” (Cowan, 1988); rather, it is a “government failure” (DiLorenzo, 2002).

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<sup>17</sup> For the view that economic analysis is largely a matter of counterfactual reasoning, see Hülsmann (2003).

<sup>18</sup> According to Friedman and Schwartz (1965) the great depression came about after then Fed chairman Benjamin Strong died, and his successors presided over the fall of the money stock by about one third in a matter of mere months. For an alternative and correct explanation of this event see Rothbard (1963).

## 4 Conclusion

Deflation sounds horrible to most economists because it evokes the image of the Great Depression during which there was massive deflation. But we have demonstrated the case to the contrary: it enhances the value of money, and is harmless, as these matters go, under three widely differing assumptions, as long as it emanates from the private decision making of market participants, and does not stem from government intervention into the economy.

Is deflation desirable? We take no stand on this issue whatsoever. That is, we do not at all commit ourselves to the claim that deflation is desirable per se. However, it is desirable if it results from *free market activity* based on free market money. The same applies to any other economic consequences of truly free enterprise decisions.

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**The Coordination Problems, the Market and the Firm\***

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**JEL Classification:** B53, D20, P10

**Abstract:** The aim of this paper is to contribute to a better understanding of the market and the firm through an analysis of the coordination problem. An important question is to what extent the nature and process of the coordination differs in the market from that within the firm. The paper deals only with those aspects of this issue which are related to a distinction between two types of coordination proposed by Klein (1997) and Sautet (2002). The author presents three dilemmas stemming from this framework and investigates the similarities and differences between the firm and the market by providing answers to these.

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## 1 Introduction

The issue of coordination, both from a theoretical and empirical point of view, has been of primary importance in economics since Adam Smith. The major question is how a multitude of individuals participating in a complex division of labor can successfully coordinate their actions and minimize disappointments, when each possesses different and changing knowledge and expectations about future possibilities? How do agents make the decisions necessary to fulfill their goals when the success of their own actions depends upon the decisions and actions of others (Ebeling 1987)? These questions suggest that coordination is one of the essential ingredients for the functioning of society and organizations. In a broad sense, all actions are always somehow coordinated; the important question however, is how this coordination is achieved (Hülsmann 1997), and this leads to the issue of what the arenas of coordination are and how coordination is achieved within them.

That markets provide important institutions of coordination is widely accepted in economics. Hayek (1945, 1946, 1978) contributed to a significant extent to an understanding of how coordination is achieved through a price system, and in addition, to an explanation of how the institutions of the market evolve spontaneously (Hayek 1967). “The institutional setting and the allocation of resources matter in economics precisely because behavior in a changing world is not automatically coordinated” (O’Driscoll 1977:141).<sup>1</sup> Besides the market, business institutions also arise as solutions to coordination games (Langlois and Robertson 1993). The issue of how coordination is achieved within firms is extensively discussed in the theory of the firm which developed from Coase’s (1937) seminal paper.<sup>2</sup> Nevertheless, the perspective of the theory of the firm is restricted to a view of the firm from a transaction-cost-efficiency point of view, which hampers this theory’s conception of the very essence of coordination and the nature of the coordination process (Langlois 1997).

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<sup>1</sup> Note also that the problem of economic coordination is important not simply because the decision-making is decentralized, although this is an important aspect of the problem, but because of constant change. Decentralization in an unchanging environment will not cause serious problems.

<sup>2</sup> I will not criticize here the Coasean-Williamsonian theory of the firm, it is beyond the scope of my present paper, but it is important to stress that for a better explanation of the firm “we have to show how firms are part of the market process” (Sautet 2000:69). That is, we need to explain how existence of firms is linked to the operation of the market process.

An important question is to what extent the nature and the process of the coordination differs in the market from that within the firm. In this paper I am concerned with this issue. My aim is to contribute to a better understanding of the firm and the market through an analysis of the coordination problem. I will not strive to give an all-embracing account of how coordination is achieved in the market and within firms; this is beyond the scope of this paper. Instead I will deal only with those aspects of the issue which are related to a distinction between different types of coordination proposed by Klein (1997) and Sautet (2002). That is, my starting point will be the distinction between two kinds of coordination (type I and type II), and two kinds of solutions to these (catalaxy and conventions respectively). My argument will be that this simple schema poses severe problems in several respects; the major issue amongst them concerns the role of the firm in solving the coordination problem. I will investigate the similarities and differences between the firm and the market in terms of what kind of coordination problem is solved in what way in the market and within the firm.<sup>3</sup> The major conclusion will be that both the market and the firm could be seen as particular solutions to both kinds of coordination problems.

The paper is organized as follows. Section 2 shows the two kinds of coordination and, based on certain controversial issues stemming from Sautet's (2002) and Klein's (1997) framework, draws up three dilemmas, the answers to which may help to better understand both the market and the firm. Section 3 and 4 deal with the issue of coordination in the market and within the firm respectively, while also providing answers to the dilemmas. Section 5 concludes.

## 2 Two kinds of coordination

According to Sautet (2002) and Klein (1997) there are two kinds of coordination<sup>4</sup>. Although there is a slight difference in their views, basically they take the same position.<sup>5</sup> Type I coordination is a process through which mutual awareness of individuals becomes

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<sup>3</sup> The issue of whether firms and markets are essentially different or similar things is an important question, on which views differ largely. For an overview, see Cowen and Parker (1997).

<sup>4</sup> The word coordination comes from the Latin words *co* (meaning together) and *ordinare* (to arrange).

<sup>5</sup> I use Sautet's labels, i.e. type I and type II coordination, while Klein calls these metacoordination and coordination, respectively.

gradually greater. Here coordination happens without individuals being aware of it and without their ever knowing each other. Type I coordination means that a concatenation of activities is arranged so as to produce good results. As opposed to this, type II coordination refers to situations where one coordinates one's actions with those of others in a purposeful way. Here coordination is understood as something one hopes to achieve in one's interaction with others, i.e., it is defined as the achievement of concerted actions. This kind of coordination problem, contrary to type I coordination, can be assessed by the human mind. In this case the coordination requires the use of certain common means to achieve a particular end. The difference between the two meanings can be explored in terms of whether the verb coordinate is transitive or intransitive (Klein 1997). As an intransitive verb it means: "to be or become coordinate esp. so as to act together in a smooth, concerted way" (Klein 1997:326). Here there is a direct object only of a reflexive kind. This is type II coordination. Coordination as a transitive verb means "to put in the same order or rank . . . to bring into common action, movement, or condition" (Klein 1997:326), which is type I coordination.

The two authors argue that these two kinds of coordination are solved in two different ways. Type I coordination is the result of the entrepreneurial competitive process as described by Hayek (1946) and Kirzner (1973). An entrepreneur, by discovering profit opportunities, turns information into knowledge and tends to improve the degree of coordination of individuals' plans: discoordinatedness is gradually replaced by a greater degree of coordination. Since past entrepreneurial acts create new profit opportunities (Holcombe 2003), this process never comes to a state of rest.<sup>6</sup> Out of this process emerges a spontaneous social order that exists without being planned, which is based on abstract rules and has no particular purpose. The social order is achieved by following certain rules and utilizes the knowledge of all its members without the knowledge being available to any particular mind.

Type II coordination is solved by rules or conventions such as "we all drive on the same side of the road". To put it differently, while the resolution of type I coordination brings about "a pleasing arrangement" (Klein 1997), that of type II means an agreeable interaction for the actors. An important point is that rules or conventions that are solu-

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<sup>6</sup> Two other factors that create profit opportunities are as follows: (1) factors that disequilibrate the market, (2) factors that enhance production possibilities (Holcombe 2003).

tions to type II coordination permit the functioning of type I coordination: these rules establish a framework that makes type I coordination possible (Sautet 2002)<sup>7</sup>. That is, type I coordination can be solved by institutions that are in their turn solutions to type II coordination problems. This means that the two kinds of coordination have a hierarchical relationship.<sup>8</sup> To summarize Sautet's and Klein's views, type I coordination refers to a coordination where the invisible hand coordinates the acts of many purposeful individuals, while type II coordination means an intentional coordination of the acts of many purposeful individuals by themselves.

From the above rather simple schema of the two scholars three propositions arise. The first is that the two types of coordination differ essentially from one another in intentionality. The second is that while type I coordination admits only organic solutions, that is solutions that emerge from the process itself, type II coordination may admit organic and pragmatic solutions as well (Sautet 2002). The third proposition maintains that type I coordination can be solved exclusively by the spontaneous market process, or put differently, firms solve exclusively type II coordination problems. My argument is that all these three propositions are controversial and require further investigation. It is worth transforming these assertions into dilemmas or questions to be answered.

The first dilemma concerns whether coordination in a market, i.e., type I coordination is unintentional and all conventions and rules, i.e., type II coordination is intentional. The second question is whether the solutions to type I coordination could have an exclusively non-designed (organic) character. The third dilemma refers to whether type I coordination can be solved exclusively by the spontaneous order, or put alternatively, do firms exist to solve exclusively type II coordination problem?

My argument is that answers to these questions may help to better understand both the market and the firm. In what follows, by analyzing the coordination both in the market and within the firm, I will provide answers to the above three dilemmas. The argumentation will be based upon two things. First, I will emphasize more explicitly the difference as regards the nature of coordination problems (whether type I or type II) and

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<sup>7</sup> "Social order emerges through the existence of meta-market institutions such as property rights and contract law, and market institutions such as firms" (Sautet 2002:35).

<sup>8</sup> This view will be supported by what will be said in Section 3.3. and 4.2.

their solutions (whether the market process or conventions and rules<sup>9</sup>). This suggests, as I will discuss below at greater length, that there is no one-to-one correspondence between them, in contrast to what both scholars have argued. On the other hand, I will show that it is crucially important to differentiate between the coordinating institutions and the solutions to coordination. This framework will allow me to draw some new conclusions.

### **3 Coordination by spontaneous order**

Adam Smith (1776) argued that the invisible hand of the market produces coordination in an economy, albeit the details of how coordination is achieved remained unexplained. Hayek (1945, 1946) and Kirzner (1973) provided an explanation for this. In this section I will first show the Hayekian-Kirznerian theory of coordination. Then I will turn to the first two dilemmas I have raised above and will discuss the issue of intentionality in the market and the issue of the organic character of the market.

#### **3.1 The Hayekian-Kirznerian theory**

The coordination problem is of central concern in Austrian economics. Based on Hayek (1945), who speaks of coordination in terms of individuals' plans which reflect individuals' knowledge and expectations, coordination is needed because of dispersed knowledge<sup>10</sup>. Dispersed knowledge has to be coordinated in order to exploit it for the benefits of humans. The problem that the market has to solve is in fact how individuals' particular knowledge can be diffused and made general (Bianchi 1994). Hayek's theory maintains that in an uncertain world the discovery procedure of market competition spontaneously coordinates decentralized knowledge. According to him, this coordination is achieved by the mechanism of prices.

Hayek's (1945) major achievement has been to show that the advantage of decentralized decision-making in a market stems from the fact that this is an extremely efficient way to coordinate dispersed knowledge. Efficiency is reflected, on the one hand, in the fact that the price system allows us to economize on knowledge: the only thing we must

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<sup>9</sup> What Klein (1997) means by conventions, can be regarded as institutions.

<sup>10</sup> Knowledge exists only in "the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess" (Hayek 1945:77).

know is prices.<sup>11</sup> On the other hand, exchange enables us to make our local tacit knowledge socially usable for others: buying and selling for instance convey our knowledge to others without the need to articulate our knowledge.<sup>12</sup> To put it differently, the major advantage of the market process is that it allows us to utilize a much greater amount of knowledge than under an alternative system.

In Hayek's view there is a tendency to equilibrium in a decentralized exchange system, which is brought about by competition and entrepreneurship. Here the role of the entrepreneur becomes crucial because the coordination depends upon his activity (Kirzner 1973).<sup>13</sup> "A fully coordinated state of affairs . . . is one in which each action can be taken by each individual in a demarcated set of actions, correctly takes into account (a) the actions in fact taken by everyone else in the set, and (b) the actions which the others might take were one's own actions to be different" (Kirzner 1998:292). Clearly, a state of perfect coordination, by definition of the market process, never can be reached. Accordingly, the term coordination is used to refer to the process in the course of which a state of discoordinatedness gradually comes to be replaced by successive state of greater and greater degrees of coordinatedness. That is, coordination is a dynamic concept: plans become more consistent over time.<sup>14</sup> Entrepreneurial competition must be seen as responsible for coordination: individuals are constantly revising their plans in a way that brings them into greater uniformity: "The very disappointments and regrets that results from initial coordination failures systematically bring about improved sets of market decision" (Kirzner 1992:146). The above coordination story is about how markets work; accordingly, the Austrian theory of the market process is in fact a coordination theory. When arguing that there is a tendency toward diffusion of knowledge and increased consistency of plans, we speak of an *ex post* coordination (O'Driscoll 1977) which is conceptually different from an *ex ante* coordination.

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<sup>11</sup> See the tin case in Hayek (1945).

<sup>12</sup> In this sense, according to Hayek, the market is a communicative process. For a critique of this, see Hülsmann (1997).

<sup>13</sup> Kirzner's view of equilibrating entrepreneurship is very often contrasted with Schumpeter's disequilibrating entrepreneurship. See among others Kirzner (1973), Boettke and Coyne (2003).

<sup>14</sup> This means that the market economy is characterized by continual planning and plan revision, albeit on a decentralized level. That is, spontaneous order does not preclude planning as such; the argument is that only planning by individuals in decentralized markets will tend towards an optimal use of knowledge (Barry 1982).

In a state of disequilibrium individuals' plans are not perfectly coordinated, which is reflected, however, in price discrepancies in product and input markets (Kirzner 1973).<sup>15</sup> All this means that prices are always, to some extent, "incorrect" in the Kirznerian sense because they are disequilibrium prices. What is of significance is that the coordinatedness is not perfect in the market; as a consequence we can conceive various degree of coordinatedness. A system is better if it exhibits a higher degree of coordinatedness, and, according to Hayek (1945), the price system is a system that can produce the highest degree of coordinatedness.<sup>16</sup>

To refer to the complex system that assures coordination of individuals' acts Hayek (1964, 1973) uses the term spontaneous order or catallaxy. According to him, spontaneous order consists of those institutions that are the result of human action but not the result of some specific human intention. In other words, spontaneous order or catallaxy is a network of firms and households and has no specific purpose of its own; rather it serves as a process by which individuals and organizations pursue their own purposes. Catallaxy is that which results naturally from the interaction of firms and households through the market exchange.

### 3.2 On intentionality

The coordination that is achieved through the spontaneous order, as noted above, is referred to as type I coordination by Sautet (2002) and Klein (1997). The important thing is that here individuals are not aware of the fact that they participate in a coordination game. In this sense the coordinatedness – which is not perfect, as I have argued above – is an unintentional result of the activities of all market actors. Clearly, here unintentionality refers to the way the coordination problem is solved since the outcome of the market process looks as if it had been designed and predicted by an omnipresent actor, but clearly could not have been. Actors whose activities become coordinated act intentionally, i.e.,

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<sup>15</sup> Note that the Kirznerian concept of equilibrium (there are no unexploited profit opportunities) differs from the Hayekian concept (the plans of all individuals are mutually compatible). See Holcombe (1999) for the details.

<sup>16</sup> Hayek's concern was to show the advantage of the price system in coordination over other systems, and, in this spirit he claims that the price system exhibits better coordinatedness than other systems. This view, however, does not give a criterion for the quality of the coordination, which would be indeed necessary as is also stressed by Hülsmann (1997).

they pursue their own interest. Nevertheless, the solution to such a coordination problem emerges as an unintentional result of the actors' intentionality. All this concerns the first dilemma (i.e. whether it is in terms of intentionality that the basic difference between the two types of coordination lies) I have drawn up above.

In order to better understand the whole issue of intentionality I propose to differentiate between the nature of coordination problems and the solutions to them. The ambiguities that are embedded in Sautet's and Klein's framework stem precisely from the fact that they fail to distinguish between these two things. My argument is that intentionality must be interpreted in terms of how the solutions to coordination problems are achieved, while the nature of the coordination problem refers to whether the actors are aware of the fact that they are playing a coordination game or not. It follows that, of course, the two types of coordination differ in intentionality, but, it is not intentionality that constitutes the fundamental difference between them. Instead, what constitutes the difference is to be found in the fact that actors are not aware that they are playing a coordination game in type I coordination, while they are aware of this in type II. And it is precisely this latter concept which is reflected in the question of whether the solution is an intentional (type II coordination) or unintentional (type I coordination) result of individuals' intentional acts.<sup>17</sup> To put it differently, difference in intentionality between the two types of coordination is best seen as a consequence of individuals' awareness, i.e., the nature of the coordination problems, rather than as a cause of it.

### 3.3 The organic versus pragmatic character of the market

What was said above leads us to the second dilemma: whether the solutions to type I coordination could have an exclusively non-designed (organic) character. My answer is no. The fact that solutions to type I coordination problems emerge unintentionally does not mean that designed (pragmatic) institutions do not play a role in this. For instance, for markets (spontaneous orders) to emerge there are some preconditions such as private property rights, freedom to contract and contract enforcement (Hodgson 2001:310). When these institutions exist, markets can emerge to a large extent spontaneously. In addition, in many cases people who expected to undertake a great many transactions

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<sup>17</sup> In this sense intentionality per se is not missing from type I coordination, since actors behave intentionally in both types of coordination.

and valued the private benefits to be gained from making the market above the private costs invested in making markets (Loasby 1999:119). There were periods in history when rulers or kings initiated markets, or buyers and sellers or other organizations created markets by inventing new institutions necessary for the market to operate (Lamoreaux et al. 2003)<sup>18</sup>. This is to say that markets, which are the best way to solve the type I coordination problem, could emerge either spontaneously or to a certain extent deliberately. This seems to contradict what Hayek (1973) said about the spontaneous origin of the market process. Thus, this is only a paradox which can be resolved by rethinking what the market means.

The point is that the “market” is not a simple term (Ménard 2005) and has two meanings. The first meaning of the “market” is market economy. In this sense “market” means the general set of arrangements of how an economic system operates and cannot be equated with particular markets. It involves the set of institutions that embed all modes of organizations and make them possible to operate. A “market” in the sense of the market economy is a purely spontaneous result of the actions of humans, as Hayek argued. In another sense “market” delineates a concrete mode of organizing exchanges (spot markets) as opposed to arranging them within the firm. Here markets are understood as one of the governance structures in Williamsonian terms (Williamson 1985). In this sense a particular market can be partly created by purposeful actors as in the case of the wheat market in Chicago.

Let me now focus on the first meaning of the market, i.e., the market economy and analyze how coordination is achieved in the catallaxy. In fact, the word catallaxy describes the network of market institutions that surround the use of exchange as a means of achieving human ends. These institutions facilitate coordination by providing rules that guide actors making choices in a world of uncertainty (Horwitz 2004). As argued by Lachmann (1970) there are various institutions through which coordination can be assured in the market, which means, in fact, that it is not the market itself that coordinates, but the various institutions of the market: “An institution provides means of

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<sup>18</sup> Lamoreaux et al. (2003) argue that in the second half of the 19th century some markets (for instance the wheat market in Chicago) could not work properly even despite the significant decrease in transportation and communications costs in the U.S. because of the “lemons” problem. To resolve this problem the Board of Trade worked out three categories of wheat (standards of quality) and hired inspectors to control quality in stores. This proves that in some cases markets need assistance to emerge.

orientation to a large number of actors. It enables them to coordinate their actions by means of orientation to a common signpost” (Lacmann 1970:45). In this spirit I argue for a differentiation between the coordinating institutions and the solutions to coordination. Solutions to coordination are those complex institutions such as for instance the catallaxy and firms, which themselves encompass numerous institutions such as rules and conventions, which may emerge either spontaneously or deliberately.<sup>19</sup> That is, institutions which are “the social crystallization of rule-following behavior” (O’Driscoll and Rizzo 1985:6) and from which the market economy is built up serve to coordinate individuals’ dispersed knowledge, while the market economy is a complex of interrelationships and the institutions. Market in the sense of market economy involves particular markets, firms, long-term contractual relationships between firms, all contractual institutions, etc.

Clearly, the price system could not have been equated with catallaxy, unlike in Sautet (2002) and Klein (1997); the price mechanism is only one of the coordinating institutions of the market.<sup>20</sup> As Hayek (1945) pointed out, prices convey information, which serves to achieve a greater consistency between plans. Moreover, prices do not simply summarize an already existing information set, they also provide the incentives for the discovery of new information (Hayek 1978)<sup>21</sup>, which enforces individuals to revise their initially uncoordinated decisions. Individuals base their plans on prices, even though these prices reflect past ratios of exchanges. Nevertheless, it is not only prices that coordinate activities and plans in the market, but all other market institutions as well. Amongst them, let me start with the role of trust. Trust should be seen in the context of the anonymity of market interactions. What markets do is to promote cooperation in anonymity (Ebeling 1987) by enabling anonymous actors to have high levels of trust in each other. The trust that actors have in each other is not the sort of personal trust that comes from face-to-face relationships; rather this trust is institutionally driven. Another, and probably the most fundamental institution of the market economy is private property (Mises 1920). As Hülsmann (1997) points out it is not prices that coordinate the actions: prices are the outcome of the coordination. Rather, it is property that coordinates the individuals’

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<sup>19</sup> See Sugden (1989) for an explanation of how rules can evolve without conscious human design.

<sup>20</sup> Similarly, firms involve numerous coordinating institutions too, an idea which will be developed in the following section.

<sup>21</sup> Note that both the market and the firm provide an incentive system. I will discuss this at greater length below.

actions because only a property owner can “select knowledge in terms of importance” (Hülsmann 1997:44). And of course, the other coordinating institutions such as the rule of law, contract enforcement, rules of how to make contracts, smaller scale norms, practices, etc. are also necessary for catallaxy to operate. Some of these institutions, such as private property, rule of law, freedom to contract must assure the stability of the broad institutional framework in the market economy (Lachmann 1970).

It follows from all this, that good institutions are important because they coordinate our behavior by limiting our choices: they make behavior more predictable, which enhances the coordination of our behavior with that of others.<sup>22</sup> In most cases the institutions of catallaxy work best when they emerge as unintended consequences of human choices, rather than being imposed (Horwitz 2004). In other words, rules appropriate for spontaneous order are more likely to be discovered than deliberately created (Barry 1982), which does not exclude the fact that some rules may have a pragmatic origin.<sup>23</sup>

To summarize, the spontaneous order consists of various coordinating institutions which are mostly, but not exclusively, of a non-designed character. However, designed (pragmatic) institutions are much important when thinking of the market in its second meaning, i.e., a particular market for organizing particular transactions. Note that this meaning may also involve those long-term relationships between firms which are basically of market-type contracts (e.g., supplier programs, joint ventures, outsourcing, networks of firms). Since these modes for organizing transactions are deliberately chosen by the actors they entail numerous designed institutions such as quality standards, standards in production, distribution and quality control, etc. However, we must recognize that here, to a significant extent, the coordination game is well-defined and well-known to the participants (for instance for the firms who belong to the same franchise system). Accordingly, in many respects firms in a network coordinate their activities similarly to

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<sup>22</sup> “To justify one’s faith in the coordinating function of markets, one cannot simply assume that prices are coordinating at their *ex ante* equilibrium level. Rather, one must be concerned with the institutional environment of economic systems and the appropriateness of these institutions for the emergence of a spontaneous market order” (O’ Driscoll 1977:141).

<sup>23</sup> For instance, in some markets property rights have evolved spontaneously, while in many other cases they were created deliberately (Sugden 1989).

the way activities are coordinated inside firms.<sup>24</sup> Without going into details, from the viewpoint of my present context the important thing is that market in its second meaning involves a mixture of type I and type II coordination problems and I argue this for the same reasons I will present in the next section in case of firms.

My intention was only to draw attention to the fact that when thinking of the market in its second meaning, i.e., a particular mode for organizing transactions, it can be seen as a solution to the type II coordination problem, the actors being aware they are playing a coordination game. It is only in this sense that the market may have a largely pragmatic character.

#### **4 Coordination within the firm**

Sautet (2002) and Klein (1997) suggest that firms are solutions to type II coordination, although they are rather ambiguous as regards the role of firms. The third dilemma I have drawn up above specifically concerns how coordination is achieved within firms. In providing answers to this dilemma I will use the framework I have used in the case of spontaneous order. That is I will rely on a distinction, on the one hand, between coordinating institutions and solutions to coordination, and, on the other hand, between the nature of coordination problems and solutions to them.

First of all, note that it is self-evident that the more the work is subdivided inside the firm, the greater is the danger of confusion and the greater is the need for coordination. Coordination, of course, resolves task dependencies that result from the division of work and specialization just as in the market. However, more importantly we can articulate the coordination problem in the same way as in the case of catallaxy, as proposed by Sautet and Foss (1999).

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<sup>24</sup> The deep investigation of how coordination is achieved in long-term contracts between firms is beyond the scope of my present paper. Whereas this organizational form is becoming the “swollen middle” (Hennart 1993); an extensive literature has accumulated on the topic. For an overview see Ménard (2004).

#### 4.1 The knowledge problem within the firm

Just as in the market, each agent in a firm possesses knowledge that is local, subjectively held and partly tacit. There can always be knowledge possessed by the employees, which will depend on a particular “place and time” that the management cannot know. This knowledge is about how to improve allocation inside the firm or how to seize profit opportunities in the marketplace. That is, the Hayekian knowledge problem exists within firms, too, and the CEO, like the central planner cannot centralize the employees’ knowledge. This knowledge problem can be partly solved within the firm just as in the market, by entrepreneurship.

Central management must rely on the entrepreneurial process within the firm to discover new profit opportunities. For this, managers must give employees discretion and responsibility to induce them to make use of their tacit knowledge.<sup>25</sup> For this, firms must deliberately create or let spontaneously emerge within their boundaries such institutions that serve to promote the effective use of individuals’ knowledge. One conclusion from all this is not only that firms cannot rely on central planning<sup>26</sup>, but that the firm must let the knowledge decentralized, as in the market. To put it differently, the centralization of individuals’ knowledge is impossible within the firm just like in the market; instead both markets and firms are systems for economizing on knowledge (Langlois 1995).

All this has an implication for the third dilemma involving the question of whether type I coordination can be solved exclusively by spontaneous order. My argument is that while admitting that members of a firm are aware of the fact that they participate in a coordination game, because of the Hayekian knowledge problem that occurs within the firm too, in some respects they are not able to identify the details of this coordination game. When this latter situation prevails, type I coordination occurs. Nevertheless, the firm is a solution to a mixture of type I and type II coordination problems: the more complex the firm is, the more the details of the coordination game are ambiguous for firm

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<sup>25</sup> A good example is found in the so-called project-based firms which proliferate in today’s economy. These firm organizations infuse more entrepreneurship into firms by organizing work cross-functionally around a well-defined task, or project and by giving the employees the right to decide in many important questions. See Kapás (2004).

<sup>26</sup> As argued by Langlois (1995) it is a false conclusion that planning (conscious, rational, forward-looking) is what a firm is about. Firms plan in a sense quite different from the meaning usually given that term in discussions of central planning. Planning can mean some sort of policy, however broadly defined.

members, and consequently the more the coordination acquires a type I coordination character. That is, the spontaneous order is not the only solution to type I coordination; on the other hand, although type I coordination occurs in firms, it does not exclusively characterize firms. This being said, how is coordination achieved within firms?

#### 4.2 The role of incentive institutions within the firm

As I have argued, to a significant extent, the employees of a large firm, just like the actors in the market, are not able to consciously coordinate their activities because they cannot identify the details of the multipersonal coordination game inside the firm; very often they are not aware of each other's existence. The coordination is achieved by inducing individuals to make use of their local, tacit knowledge. For this, no doubt, an effective incentive system is needed which, in addition, must be carefully designed (Sautet and Foss 1999). That is, the reason why employees' actions become coordinated is not only that they consciously do so, but the incentive system designed by the management "enforces" them to behave in a particular way. Management should provide a framework or environment in which internal entrepreneurial processes can best function (Cowen and Parker 1997). It must be noted that despite the fact that particular institutions emerge spontaneously within the firm, the overall character of the institutions of the firm remains designed. When the management lets the new institutions emerging from employees' interactions survive, this is part of the "design" too. These spontaneously evolved institutions entail a lot of tacit and shared knowledge, which coordinates activities within the firm in the same way as in the market. Another important aspect of the similarity between the incentives of the firm and the market lies in the fact that firms like markets are based on property rights, the rule of law and trust (Cowen and Parker 1997).

Clearly, the incentive system must be designed in such a way as to produce a "pleasant arrangement", a result which is also produced by the institutions of the market, as shown above. However, the institutions of the market (e.g., price system, property rights, etc.), which serve to align incentives<sup>27</sup> just as incentives used within the firm are mostly not designed, unlike the firm's incentive system. But the crucial thing is that both the market and the firm use a particular incentive system (institutions) for the coordination of dis-

<sup>27</sup> "[T]he incentives offered by market prices during this competitive process are the key elements in motivating competitive entrepreneurial entry and discovery" (Kirzner 1992:150).

persed knowledge. In the market the price system and the other coordinating institutions are able to coordinate individuals' acts without referring to a central mind. Contrary to this, the incentive system that operates within the firm must be designed by humans, but once it is designed, it drives the individuals' acts in the same way as the incentive system of the market: the individuals may only pursue their own interest.

### 4.3 The pragmatic versus organic character of the firm

Let me turn to the question of whether the firm has an exclusively pragmatic character. Firms are of pragmatic origin in the sense that an individual starts a firm with some concrete purpose in mind. But this does not mean that firms do not contain organic elements; on the contrary, firms may develop strong organic elements, such as a corporate culture.

Hayek has put a special emphasis on the crucial relationship between the character of the rules of individual conduct and the character of the resulting order (Vanberg 1994): the spontaneous order rests on abstract rules while the firm rests on concrete ones.<sup>28</sup> To the extent that firms develop abstract rules the originally pragmatic character of the firms may change and acquire a partly spontaneous character.<sup>29</sup> Ioannides (2001) has shown how this process operates.

The growth of the firm inevitably leads to this process because the complexity of the firm increases as it becomes larger; and complex orders rely on abstract rules (Hayek 1973).<sup>30</sup> As Hayek suggested, the more abstract the rules of a system are, the better that system is able to coordinate a diversity of concrete purposes. Large firms, by becoming more complex, entail a wider diversity of individual goals, and accordingly the perspicuity of the coordination game the firm members face degrades. This brings about a situation in which individuals become no more able to identify all the details of the

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<sup>28</sup> For a critique of Hayek's theory on the relationship between the kinds of rules and the kinds of orders, see Garrouste (2001).

<sup>29</sup> Note that even if rules are deliberately designed, an order may partly acquire the characteristics of spontaneous order provided these rules have all the following attributes: abstractness, generality, and independence of purpose (Ioannides 2001). This means that it does not matter whether abstract rules are deliberately designed or they emerge spontaneously, the firm may acquire to a certain extent the character of spontaneous order.

<sup>30</sup> Of course, catallaxy is far more complex than the firm can ever become. For the reasons, see Ioannides (2001).

coordination game, which in turn requires more abstract rules (institutions). That is, in the evolution of the firm, more commands will tend to acquire a character of generality. Further, the introduction of abstract rules affects the character of the firm by gradually changing the nature of the firm itself. Moreover, the extent to which the firm can acquire an organic character depends upon particular characteristics of the firm itself (e.g., history, informal rules, corporate culture), that of the industry in which it operates and that of the whole economy.

In this evolutionary process the fact that the proportion of abstract rules among the rules of the firm increases and the firm becomes more complex and to a certain extent acquires the characteristics of the market is reflected in significant changes in firm organization.<sup>31</sup> The original highly centralized hierarchical organization that characterized firms in the period before the Second Industrial Revolution rested almost exclusively on concrete rules (commands).<sup>32</sup> From the 1920s the large vertically integrated multidivisional firms, for various reasons, gave decision rights to lower levels and stimulated entrepreneurship within their boundaries, something which was made possible, in fact, by letting more abstract rules operate. And today the project-based firms, as already mentioned above, are built upon the entrepreneurial acts of their employees, which results in a shift in the mix of concrete and abstract rules towards more abstract rules. That is, to some extent, firms exhibit an organic character too, similar to catallaxy. However, the “constitution” of the firm surely differs from that of the market: commands (authority) remain of primary importance. In fact, the firm can be seen as a hybrid order, i.e., a mix of the man-made and spontaneous orders since it entails many elements of both (Ioannides 2003).

What was said above allows us to analyze the character of the coordination problem the firms deal with. Of course, type II coordination predominates within firms since most aspects of the coordination game are well-known to the employees as well as to the management, who, basically, consciously coordinate their activities with those of others. What was stressed above is that type II coordination is not exclusive within firms, the type I problem occurs too, but to a lesser extent. The more the firm acquires an

<sup>31</sup> For an overview on the evolution of firm organization, see Kapás (2006).

<sup>32</sup> Even in the highly centralized hierarchy the members of the firm build up some fund of ideas in common (Sugden, 1989), which belongs to the corporate culture and which will allow them to coordinate their actions without any conscious communication.

organic character, the more type I coordination becomes relevant. And type I coordination is solved, as argued above, by referring to the incentive institutions designed by the management.

## 5 Conclusions

By analyzing coordination problems my aim was to better understand the firm and the market. The starting point was a distinction between two kinds of coordination problems and two kinds of solutions to these, proposed by Sautet (2002) and Klein (1997). The significant critique I have leveled against their views was that they suggest a one-to-one correspondence between the two kinds of coordination and the solutions: the type I coordination problem is solved by catallaxy, while type II by rules and conventions (the firm being of primary importance). I have formulated three dilemmas stemming from Sautet's and Klein's framework that needed further investigation. My argument was that answering these dilemmas requires two kinds of distinction: on the one hand between the nature of coordination problems and the solutions to these, and on the other hand, between coordinating institutions and the solutions to coordination problems.

Through an analysis of (1) the coordinating institutions of the market and of the firm and of (2) the character of the rules on which the market and the firm rest, the major conclusion was that both the market and the firm could be seen as particular solutions to both kinds of coordination problems, provided that we distinguish between two meanings of the market. Since I have focused on the first meaning of the market, namely the market economy, the emphasis was on the similarities and the differences in how market and firms resolve the type I coordination problem.

Coordinating institutions play a crucial role in solving the type I coordination problem both in the spontaneous order and within the firm. My conclusion was that (1) coordinating institutions provide incentives for individuals both in the market and inside firms, and (2) both the institutions of the market and that of the firm are the product both of deliberate and spontaneous investments, but (3) the institutions of the firm have an overall designed character, while to a certain extent also relying on abstract rules, and finally (4) the institutions of the market have an overall undesigned character, while to a certain extent also relying on deliberately designed coordinating institutions.

That is, how coordination is achieved within the firm is fundamentally similar to how it is assured in the catallaxy: through coordinating institutions which induce individuals to use their local, partly tacit knowledge. My argument is that the coordinating institutions both in the catallaxy and within the firm drive the individuals' acts in the same way: the individuals may only pursue their own interest. Nevertheless, what makes the difference is that the institutions of the firm are designed by the management, while those of the catallaxy have an overall undesigned character. That is, the difference between catallaxy and the firm lies in the extent to which they are the result of design (Loasby 1999). And this is a difference of degree, and not of kind. Accordingly, "the well-managed firm is more similar to the market than different from it" (Cowen and Parker 1997:60).

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**Rule-following, Praxeology, and Anarchy**

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**Abstract:** Wittgenstein's rule-following paradox has important implications for two aspects of Austrian theory. First, it makes it possible to reconcile the Misesian, Rothbardian, and hermeneutical approaches to methodology; second, it provides a way of defending a stateless legal order against the charge that such an order lacks, yet needs, a final arbiter.

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## 1 Introduction

The aim of Ludwig Wittgenstein’s “rule-following paradox” is to diagnose a seductive error that Wittgenstein sees as underlying a variety of different philosophical mistakes: the implicit assumption of the need for and/or possibility of a *self-applying* rule. A further implication of Wittgenstein’s diagnosis is that human action is not reducible either to purely mentalistic or to purely behavioural phenomena.

If, as I shall argue, Wittgenstein’s analysis is correct, then, I shall further argue, the rule-following paradox has important implications for two aspects of Austrian theory.

First, Wittgenstein’s argument sheds light on the relation between economic theory and economic history – *i.e.*, between the aprioristic method of *praxeology* and the interpretive method of *thymology*, as Ludwig von Mises uses those terms in *Theory and History*. In particular, it shows that, just as thymological interpretation involves praxeological categories, so the possession of praxeological categories involves thymological experience – thus enabling a reconciliation of the superficially opposed insights of Mises’ Kantian approach, Murray Rothbard’s Aristotelean approach, and Don Lavoie’s hermeneutical approach to Austrian methodology.

Second, Wittgenstein’s argument provides a way of defending the stateless legal order advocated by Rothbard, Lavoie, and others. Critics of free-market anarchism often charge that a stateless society lacks, yet needs, a “final arbiter” or “ultimate authority” to resolve conflicts; but what such critics mean by a “final arbiter” turns out to be yet another version of the “self-applying rule” that Wittgenstein has shown is neither needed nor possible.

## 2 The Rule-Following Paradox

I’ll start by explaining the rule-following paradox. Suppose I present the following sequence of numbers: 2, 4, 6, 8, 10, 12, 14, 16; and then I ask you to continue the series “in the same way.” I’m confident that you would continue with 18, 20, 22, 24, 26, and so on. But what grounds this confidence? By “the same way” I mean following the same *rule* – that rule being “add 2 each time.” But that is not the only rule that could generate my

initial series. Another rule that would also generate it is “add 2 each time until you get to 16, then start adding 3 each time.” Still another is “add 2 each time until you get to 4387, then start adding 12 each time.” Yet another is “repeat the even numbers between 2 and 20 over and over again.” And still another is “count by 2s up to 16, then count down again.” In fact there are infinitely many rules that would all generate the initial sequence 2, 4, 6, 8, 10, 12, 14, 16, and then diverge at some point thereafter. How can I know that you will follow my interpretation of “continuing the series in the same way,” rather than some other interpretation?

It may quickly seem that I can never know this. No matter how far you continue the series in the way I expect, there is always some rule other than “add 2 each time” that could explain this, and the divergence between your rule and mine might emerge at the very next step. No finite sequence of numbers can ever guarantee that you are following my rule rather than some other.

Of course I can *ask* you what rule you are following. And perhaps you will say, “Oh, I’m adding 2 each time.” But does that really help? How do I know that you mean the same thing I do by the phrase “adding 2 each time”? The only way I can determine what you mean by those words is by seeing how you apply them – but as we’ve just seen, any finite empirical test will always be inconclusive on this question.

It may be suggested that what I mean by the words “add 2 each time” is the *simplest* procedure, and that all these other possibilities are more complicated. Well, it’s certainly the simplest given my language and my conceptual scheme – but might not some other rule be the simplest in some other language (perhaps yours) or some other conceptual scheme (perhaps yours)? Or even if my interpretation really is the simplest, why should I assume that you care about simplicity as much as I do? (You may assure me that you do indeed care about simplicity as much as I do, but that just throws me back on the question whether you mean by the word “simplicity” what I do.)

This will initially look like a *skeptical* question, a question as to how we can ever be sure what other people are thinking. But in fact Wittgenstein isn’t trying to drive home a skeptical moral at all; quite the opposite, as we’ll see. (Indeed, Wittgenstein is one of the most relentlessly *anti-skeptical* philosophers in history.) His eye is on other game. So what point *is* Wittgenstein trying to make?

Well, Wittgenstein goes on, suppose I could telepathically peer into your mind and see what rule you're following. It's tempting to think that that would settle the question. But would it? Let's say I peer into your mind and see the thought "add 2 each time" inscribed there in big shining ectoplasmic letters. What does that settle? What prevents you from cheerfully saying or writing *10, 12, 14, 16, 50, 40, 10, 12, 14, 16, 50, 40*, regardless of what words I see shining in your mind? What you mean by the *thought* "add 2 each time" depends on how you actually apply it in practice, just as much as what you mean by the spoken words does. As Wittgenstein writes:

I cannot know what he's planning in his heart. But suppose he always wrote out his plans; of what importance would they be? If, for example, he never acted on them. . . . Perhaps someone will say: Well, then they really aren't plans. But then neither would they be plans if they were *inside* him, and looking into him would do us no good. (Wittgenstein (1982) 234-235.)

Once we see that telepathy wouldn't solve the problem, we can see why Wittgenstein isn't pushing a skeptical moral. His primary interest lies not so much in the epistemological question "how can we *know* what rules people are following" as in the metaphysical question "what *is* it to follow a rule?" If it's not reducible either to my private thoughts or to my overt actions, what else is there for rule-following to *be*? This is a puzzle that arises just as much about one's own actions as about those of others. And it's not a skeptical puzzle, because I know perfectly well what rule I'm following; Wittgenstein never denies, indeed he readily grants, that I know what I mean by "adding 2 each time." In fact, he's happy to admit that I know what *you* mean by "adding 2 each time" also. The point of Wittgenstein's rule-following paradox is not to shake our confidence that we understand ourselves and one another; rather, it is to shake us free from a certain false picture of what such understanding is like.

The apparent problem with the spoken phrase "add 2 each time" is that it can be interpreted or applied in a variety of different ways. When I initially suppose that telepathy would resolve the question, what I'm supposing is that there's something in your mind that can't be interpreted or applied in different ways, something that carries its own interpretation or application with it. But that supposition is dissolved by Wittgenstein's thought-experiment where I peer into your mind and see your thought – but still don't know what I need to know.

The moral of the rule-following paradox, then, is not that following a rule is somehow mysterious or impossible, but rather that following a rule *would* have to be mysterious or impossible if it involved what we're tempted to think it involves: a *self-interpreting* or *self-applying* rule. That's what I was hoping to find by peering telepathically into your mind – but all I could find there was simply more stuff that required interpreting and applying. If I think that following a rule *must* somehow be anchored by the rule's having its application already built into it, then a close look at rule-following is bound to turn vertiginous, because there's no such thing to be found. As Wittgenstein puts it, “any interpretation still hangs in the air along with what it interprets, and cannot give it any support.” But what he infers from this is not that grasping a rule is impossible, but rather that “there is a way of grasping a rule which is *not* an *interpretation*, but which is exhibited in what we call ‘obeying the rule’.” (Wittgenstein (1958) I. 201-202.)

In short, understanding a rule is not a matter of possessing some purely interior mental item; for any such item could be applied in a variety of ways. Nor, however, is it a matter of performing some finite sequence of bodily movements – because any such sequence is likewise compatible with a variety of different rules. And of course understanding a rule cannot be identified with some particular *combination* of an interior mental item and a finite sequence of bodily behaviour, for just the same reason. At this point we feel driven to vertigo because we're inclined to ask “what else *is* there for following a rule to be, if not interior thoughts, bodily movements, or some combination of the two?” But the reductionist impulse to explain action in terms of something else is part of the mistake that generates the paradox. One moral of the paradox is that action is an indivisible whole, of which thoughts and movements are aspects but not separable ingredients; *action* is more than the sum of its parts. The identity of my thoughts depends on how I translate them into action – not bodily movement, but action. As Wittgenstein puts it:

Thinking is not an incorporeal process which lends life and sense to speaking, and which it would be possible to detach from speaking rather as the Devil took the shadow of Schlemiehl from the ground. (Wittgenstein (1958) I. 339)

[A] move in chess doesn't consist simply in moving a piece in such-and-such a way on the board – nor yet in one's thoughts and feelings as one makes the move: but in the circumstances that we call “playing a game of chess”, “solving a chess problem”, and so on. (Wittgenstein (1958) I. 33.)

So what entitles me to think I know what rule you're following? Well, I'm thinking of a certain rule – but my thinking of that rule isn't a matter of shining words inscribed in my mind; rather, what rule my thought is about depends on how I express that thought in action. One way of expressing my thought of a rule is to *follow* that rule; but another is to identify instances where others are following the rule. As Wittgenstein notes:

What use of a word characterizes that word as being a negation? ... It is not a question of our first *having* negation, and then asking what logical laws must hold of it in order for us to be able to use it in a certain way. The point is that using it in a certain way is what we mean by negating with it. (Wittgenstein (1989) XX, p. 191)

The ability to apply a concept is thus part of having the concept; just as I don't count as thinking of a given rule unless I can successfully follow it myself, so I don't count as thinking of a given rule unless I can successfully identify the following of that rule in others. (In each case the application needn't be unerring, so long as it's reasonably reliable. My possession of the concept *cat* is consistent with my occasionally mistaking a cat for a dog or vice versa, but not with my doing so regularly.) Far from promoting skepticism, then, the moral of the rule-following paradox is anti-skeptical.

### 3 Implications for Austrian Methodology

What implications might Wittgenstein's rule-following paradox have for Austrian methodology? Ludwig von Mises introduced into Austrian theory a distinction between *praxeology*, the method of economic theory, and *thymology*, the method of economic history. Praxeology comprises a set of *a priori* insights into the nature and implications of human action; thymology involves identifying, via the hermeneutical method of *verstehen*, the particular means and ends chosen in particular cases. Thus praxeology, for example, states the laws governing monetary exchange, while thymology determines whether a particular interaction is in fact a case of monetary exchange. For Mises, thymology presupposes praxeology, since one must possess such concepts as means and ends before one can apply them. Praxeology, by contrast, does not presuppose thymology; Mises maintains, in Kantian terms, that we derive our praxeological categories not from experience but from the innate structure of the human mind.

The precise status of and relation between praxeology and thymology have been debated in Austrian circles ever since. For example, Murray Rothbard argued, in Aristotelean terms, that praxeological insight derives not from the mind's innate structure but from experience, and that it is *a priori* only *relatively*, being prior to more narrowly empirical sorts of experience. And Don Lavoie, invoking Gadamer, suggested that praxeology depends on hermeneutical *verstehen* just as much as thymology does.<sup>1</sup> And so on.

Mises' distinction raises further epistemological questions. Critics of Mises often seem to assume that he regarded the application of economic theory as an *a priori* matter; as we've just seen, he did not. But given that application is thymological rather than *a priori*, one might worry how economics can claim any scientific accuracy. For although delineating the relations among concepts of action may be a matter of apodictic certainty, it might seem that one could possess the total fund of praxeological knowledge and yet be clueless about its application and unable to explain any actual events. For if I am praxeologically mighty but thymologically weak, I might be able to write hefty tomes on, say, monetary theory, and yet be woefully unable to recognise monetary exchanges in real life – in which case I would be helpless in trying to explain historical events like depressions and hyperinflations. It may thus appear that praxeology is useless in explaining anything unless it is supplemented by thymology, which in turn seems to require some special knack of intuition whose presence or absence seems more a matter of luck than of scientific insight.

Here is where Wittgenstein's rule-following paradox becomes relevant. One of the morals of that paradox is that we don't count as possessing a concept unless we are – not perfectly reliable, but – *reasonably* reliable at applying it. It follows that the just-imagined scenario of praxeological proficiency combined with thymological ineptitude is not a real possibility; we don't count as possessing praxeological concepts except insofar as we are generally able to apply them accurately. Grasping an economic law is not, cannot be, a purely interior, private mental episode with no implications for our outward conduct – because that conception of the mental has been exposed as incoherent.

It further follows that the relation of dependence between praxeology and thymol-

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<sup>1</sup> See Mises 1986 and 1995; Rothbard 1997; and Lavoie 1986.

ogy must be two-way rather than one-way. We can't have thymology without praxeology, because we can't apply concepts we don't possess; but equally we cannot have praxeology without thymology, because we can't possess concepts we are unable to apply. In that sense, Rothbard and Lavoie are correct in holding, against Mises, that praxeological insight requires some sort of experience; but Mises is equally right in insisting that praxeological insight is not derived *from* experience – since the relevant experience already involves praxeological categories. Praxeological and thymological understanding arise together; they are simply aspects – not separable components – of the single indissoluble whole which is intelligent human experience.<sup>2</sup>

#### 4 Implications for Austrian Political Theory

Finally, let's turn to the rule-following paradox's implications for Austrian political theory. Many Austrians – including Rothbard, Lavoie, Hans Hoppe, Walter Block, Ed Stringham, and others<sup>3</sup> – have defended a stateless legal order, or “free-market anarchy,” in which such traditionally governmental services as protection of rights and adjudication of disputes are provided via market competition with no monopolistic central authority. A frequent criticism of such an arrangement is that it lacks a final authority to resolve disputes. Without such an authority, what guarantees that disagreements will be resolved peacefully rather than triggering violent conflict? And how can a dispute ever be brought to a close if there is no final court of appeal, beyond which no further appeal is possible?<sup>4</sup>

The proper answer to such questions, I think, is to ask what guarantees the peaceful resolution of disputes under a government? Suppose you and I have a dispute, and the court rules in your favour. I can appeal the ruling to a higher court; but suppose I reach the highest court of appeal, and it too rules against me. Is that the end of the matter? It may or may not be, depending on what I choose to do next. I can petition the legislature to pass a law reversing the court's decision, or to appoint judges friendlier to my point of view; or I can try to foment a revolution to overthrow the government. There are plenty of options available to me; in that sense, no legal system, whether governmental

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<sup>2</sup> For further discussion of the implications of Wittgenstein's ideas for Austrian methodology, see Long (2004).

<sup>3</sup> See, e.g., Rothbard 1978, Lavoie 1993, Hoppe 1999, Block 2005, and Stringham 2006.

<sup>4</sup> See, e.g., Bidinotto (1994).

or anarchic, can guarantee *absolute* legal finality. To be sure, many of my options involve a lot of hard work and are unlikely to be successful, and so I probably won't bother to pursue them; in that sense, governments *can* provide *reasonably reliable* legal finality – but now there's no reason to suppose that anarchies can't do so as well.

Defenders of government often complain that under anarchy, providers of legal services are not themselves subject to legal limitation, whereas under a constitutional government, the monopoly provider of legal services is limited by the *constitution*. But presumably a mere written document is not sufficient to limit the government's power; what's needed are actual institutional structures. But these sorts of constitutional restraints, such as checks and balances and divided powers, do not exist in their own right, as external limitations on society as a whole; on the contrary, they exist only insofar as they are maintained in existence by human beings acting in systematic ways. Hence they are just as available under anarchy as under government – *more* available, in fact, since a system that allows free entry into the market for legal services is obviously going to have more effective checks and balances than a system that monopolizes such services. As the anarchist Gustav Landauer once wrote: “The state is a relationship between human beings, a way by which people relate to one another; and one destroys it by entering into other relationships, by behaving differently to one another.”<sup>5</sup> When Hobbesians worry that people won't be able to cooperate without a government, they forget that government is not some sort of automatic robot standing outside the social order it serves; its existence too depends on ongoing cooperation, both from the members of the government and from the populace it governs.

The opponent of anarchy has thus fallen into the same error as the one Wittgenstein diagnoses in his rule-following paradox: the error of supposing the possibility, and/or the necessity, of a self-applying rule. Just as one may initially be thrown into intellectual vertigo by the failure to locate some mental item that all by itself guarantees its own meaning regardless of how one goes about applying it in practice, so the opponent of anarchy is thrown into vertigo at the thought of a legal system lacking any component that all by itself guarantees social order regardless of how it is applied by human agents. Just as it's tempting to think that my grasp of a rule is something independent of my actions, something that *makes* me behave in a certain way, so it's equally tempting to

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<sup>5</sup> “Weak Statesmen, Weaker People,” *Der Sozialist*, 1910; quoted in Graham (2005), p. 165.

think that a society's legal system is something external to that society that *makes* it orderly. But as the rule-following paradox shows, there couldn't be any such self-applying entity; and since individuals do manage to follow rules pretty well most of the time – and since societies do likewise manage to maintain order pretty well most of the time – the absence of such a self-applying entity is no problem at all.

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**New Perspectives on Political Economy**  
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**A Diagrammatic Exposition of the Socialist Calculation  
Argument\***

Barry Dean Simpson<sup>†</sup> and Scott A. Kjar<sup>‡</sup>

**JEL Classification:** B25, B53, P51

**Abstract:** In this article, the authors build on the previous work of Kirzner (1963) and Simpson and Kjar (2005) to present a diagrammatic exposition of the impossibility of monetary calculation in a purely socialist economy. In order to accomplish this goal, the authors juxtapose diagrams of the socialist economy with previous Austrian diagrams of price theory and the social appraisal process in a free market economy.

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\* This paper was presented at the 2005 Austrian Scholars Conference in Auburn, Alabama. The usual caveats apply.

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## 1 Introduction

In this article, the authors present a diagrammatic exposition of the socialist calculation argument. The first section recapitulates the previous work of Kirzner (1963) and Simpson and Kjar (2005), presenting diagrams of the social appraisal process in a market economy.<sup>1</sup> Section two restates the calculation argument against socialism. Section three builds on the previous diagrams, positing diagrams for a purely socialist economy. By juxtaposing these diagrams, we stress the impossibility of central planners to construct a common unit with which to compare the data of human action. If central planners cannot compare such data, then they cannot rationally allocate scarce factors of production to meet human needs.

## 2 Social Appraisalment in a Market Economy

Figure 1 presents the diagram of price theory in a market economy. The economic actors are consumers, entrepreneurs, and factor owners (other entrepreneurs and laborers). Economics begins with the consumer, who has an unmet need. This unmet need, or “feeling of uneasiness,” leads to economic action.<sup>2</sup>

Entrepreneurs act to quell the feeling of uneasiness in consumers. In a monetary market economy, entrepreneurs perform monetary calculation to accomplish this task. Monetary calculation can be broken down into two temporal activities, plus the production process. *Ex ante*, entrepreneurs compare current prices of factors and methods of production. These comparisons are weighed against entrepreneurial judgments of future consumer good prices.<sup>3</sup> If the entrepreneur’s calculations of current factor prices and future consumer good prices deems the product profitable, then he will bid for factors of production from the factor owners. Entrepreneurs who bid the most for factors of production acquire the scarce resources to create consumer goods.

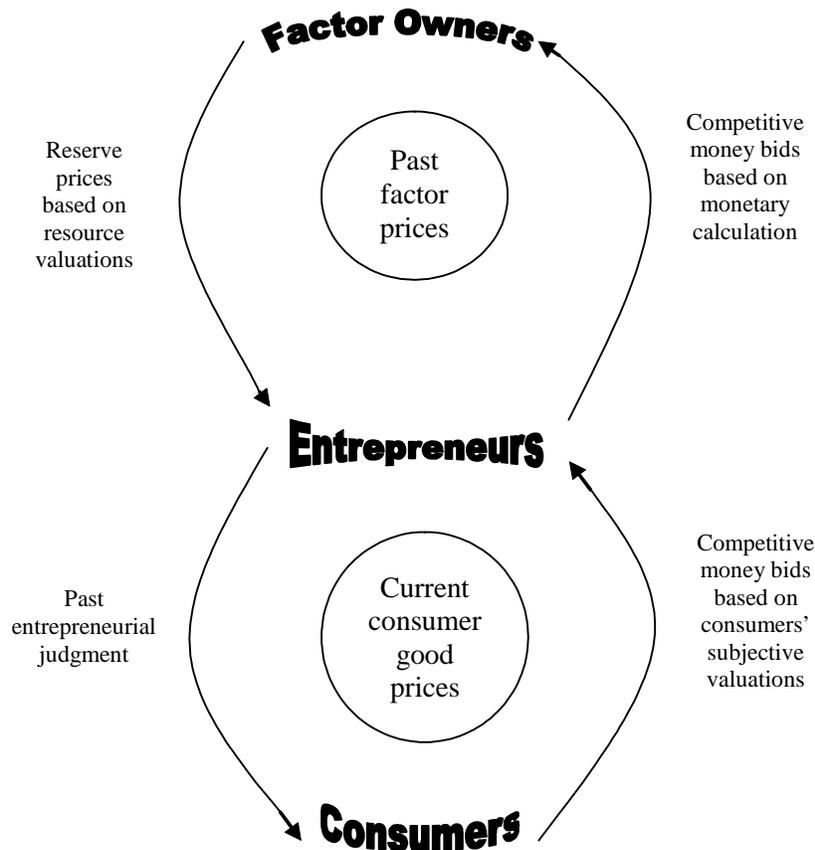
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<sup>1</sup> Israel Kirzner, *Market Theory and the Price System*, (Princeton: Van Nostrand, 1963), and Barry Dean Simpson and Scott A. Kjar, “Circular Flow, Austrian Price Theory, and Social Appraisalment,” *The Quarterly Journal of Austrian Economics*, Volume 8, no. 4 (Winter 2005), pp. 3-13.

<sup>2</sup> See Carl Menger, *Principles of Economics* (Grove City: Libertarian Press, 1994), pp. 51-52, and Ludwig von Mises, *Human Action*, The Scholars Edition (Auburn: LVMI, 1998), pp. 13-14.

<sup>3</sup> The entrepreneur also receives an interest payment for the time of the production process. See Mises (1998, p. 550), and Simpson and Kjar (2005).

Figure 1–Price Theory<sup>4</sup>



*Ex post*, entrepreneurs evaluate their previous decisions through profit and loss. Entrepreneurs who profit increase their capital base and may acquire even more scarce resources for production. Since profit rewards entrepreneurs who correctly anticipate consumer needs, and who correctly allocate scarce resources to meet these needs, it allows them to make more decisions concerning the allocation of scarce resources. Entrepreneurs who suffer losses decrease their capital base; therefore, they make fewer allocating decisions. The entrepreneurs who continue to suffer losses will eventually cease to be entrepreneurs.<sup>5</sup>

<sup>4</sup> Figures 1 and 2 are derived and explained as a single figure in Simpson and Kjar (2005).

<sup>5</sup> This is part of the “Selective Process” of markets described below.

Factor owners receive bids from entrepreneurs for factors of production. Factor owners make subjective valuations of the worth of their owned factors.<sup>6</sup> If the highest bid exceeds the reserve price of the factor owners, then the factor owner sells his factor to the highest bidding entrepreneur. This process leads to prices for resources and capital goods.

Once entrepreneurs acquire the necessary resources for production, they combine or transform these factors to produce consumer goods. Consumers make subjective evaluations of the value of consumer goods and then buy or refuse to buy the goods. This process leads to prices for consumer goods, and to profits and losses for entrepreneurs. Since the exchanges between consumers and entrepreneurs are based on the *past* judgments of entrepreneurs, current consumer good prices have little direct connection to *current* factor prices.<sup>7</sup> Additionally, since the economic process begins with the unmet needs of consumers, the process ends when these needs are satisfied.

### **The Selective Process**

The entire process is called a market, and explains how prices are formed.<sup>8</sup> Although we break this process into a market for consumer goods and a market for factors, this is a simplification for pedagogic purposes. The entire diagram helps to explain the selective process of the market. First, entrepreneurs generate expectations of future consumer good prices and market conditions. Second, entrepreneurs select the production processes and resources they expect to be the most profitable. Third, consumers select products, thereby indirectly selecting entrepreneurs. Fourth, entrepreneurs earn profits or suffer losses based on how well their expectations actually met consumer needs. Successful entrepreneurs earn profits and have more financial wherewithal to make allocating decisions concerning scarce resources. Unsuccessful entrepreneurs suffer losses and have less financial wherewithal to make allocating decisions. Fifth, entrepreneurs revise their

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<sup>6</sup> We stress here that the bids of the entrepreneurs are based on their expectations of future consumer good prices and market conditions. See Simpson and Kjar (2005, p. 3).

<sup>7</sup> Entrepreneurs might use current consumer good prices as their starting points in projecting future consumer good prices. As such, we hesitate to say there is no connection. Still, any connection is based on expectations only.

<sup>8</sup> See Kirzner (1963), page 21-22.

expectations, and the process continues endlessly. This process is made possible by profit and loss, and profit and loss calculations are made possible through market prices.

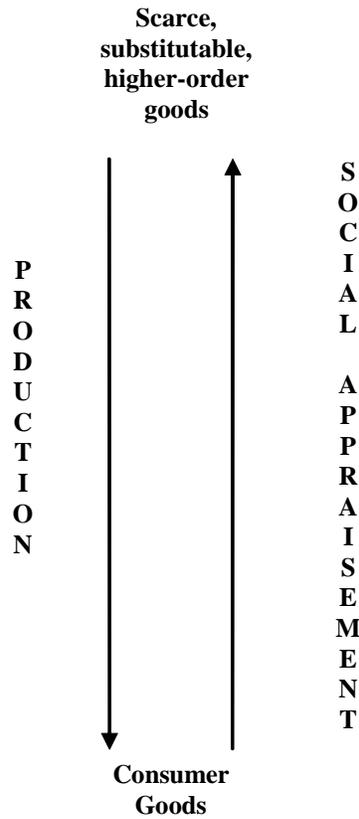
### **Social Appraisalment**

The selective process allows social appraisalment to occur, as seen in Figure 2. Because entrepreneurs select resources based on monetary calculation (which includes projections of future consumer good prices), and these decisions are evaluated at a later date through profit and loss (based on actual consumer good prices), a rational allocation of scarce resources to unlimited consumer wants transpires. Social appraisalment refers to the fact that factors and production techniques are appraised by entrepreneurs based on their projected satisfaction of consumer wants. As this process occurs repeatedly, subjective consumer values are imputed to the factors of production in the form of factor prices. The social appraisalment process entails imputation, the pricing of factors, resource allocation, and entrepreneurial cost and profit calculations.<sup>9</sup>

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<sup>9</sup> See Salerno (1990), Mises (1998, p. 308), and Simpson and Kjar (2005).

Figure 2–Social Appraisalment



### 3 The Calculation Argument

The Social Appraisalment Process explains how entrepreneurs use factor prices to allocate scarce resources among unlimited wants *within the market economy*. The socialist economy, however, is a different story.

#### The Calculation Argument

Why can central planners in a socialist economy never rationally appraise factors of production? Mises recognizes that exchange can exist in a socialist economy; thus, in Figure

3 below, consumers exchange consumer goods. No matter how consumer goods are distributed, consumers may exchange quantities of one good for quantities of another good. Money, a universal medium of exchange, can then develop through these exchanges of consumer goods.

The problem is that when production is centrally controlled, the significance of money is drastically different from an economy in which resources are privately owned and exchanged. Since, “no production good will ever become the object of exchange, it will be impossible to determine its monetary value.”<sup>10</sup> Without monetary values for scarce resources, central planners are at a loss to rationally allocate them. “[A]ll production involving processes stretching well back in time and all the longer roundabout processes of capitalistic production would be gropings in the dark.”<sup>11</sup>

Socialism’s main problem concerns the appraisal of factors of production. Appraisal occurs through monetary calculation, and these calculations are based on *exchange values*.

In an exchange economy the objective exchange value of commodities enters as the unit of economic calculation. This entails a threefold advantage. In the first place, it renders it possible to base the calculation upon the valuation of all participants in trade. ... [Secondly,] calculation by exchange value furnishes a control over the appropriate employment of goods. ... Lastly, calculation by exchange value makes it possible to refer values back to a unit.<sup>12</sup>

Monetary calculation allows entrepreneurs to objectively appraise factors of production. According to Salerno, “each and every type of productive service is objectively appraised in monetary terms according to its ultimate contribution to the production of consumer goods.”<sup>13</sup> Social appraisal is based on monetary calculation, and monetary calculation is based on market exchanges made through the medium of money.

The central problem then is that under socialism, factors of production *are not privately owned*. Hoppe states the problem in this manner:

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<sup>10</sup> Mises (1990, p. 6).

<sup>11</sup> Ibid., pp. 16-17.

<sup>12</sup> Ibid., pp. 12-13.

<sup>13</sup> Salerno (1990, p. 54).

If there is no private property in land and other production factors, then there can also be no market prices for them. Hence, economic calculation, i.e., the comparison, in light of current prices, of anticipated revenue, and expected cost expressed in terms of a common medium of exchange—money—(thus permitting *cardinal* accounting operations), is literally impossible.<sup>14</sup>

Economic calculation is impossible without factor prices. Factor prices can only develop through market exchanges. Markets exchanges for the factors of production *must* be based on private property. Socialism seeks to abolish private property. By abolishing private property, every other mechanism tied to property is abolished: exchange, markets, prices, calculation, and finally, the economy itself. Here, we see clearly Mises' contention that "Socialism is the abolition of rational economy."<sup>15</sup> The rational allocation of prices and calculation is replaced with chaos. The central planners have no means available to rationally allocate resources.

Thus, the economic problem is not the pricing of factors *per se*, but the *allocation* of heterogeneous capital resources. Such an allocation requires the speculation and investment of entrepreneurs. According to Mises:

Our problem does not refer to the managerial activities; it concerns the allocation of capital to the various branches of industry. The question is: In which branches should production be increased or restricted, in which branches should the objective of production be altered, what new branches should be inaugurated? ... One cannot *play* speculation and investment. The speculators and investors expose their own wealth, their own destiny. This fact makes them responsible to the consumers, the ultimate bosses of the capitalist economy.<sup>16</sup>

Given a certain amount of information, Mises maintains the impossibility of rational allocation in the Socialist system. Mises gives the central planners knowledge of the quality and quantity of all factors of production, the latest production techniques, and the set of all consumer preferences. Even if the planners have such knowledge, they still do not have factor prices, so they cannot objectify consumer wishes according to

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<sup>14</sup> Hoppe (1996, p. 143). Emphasis in the original.

<sup>15</sup> See Mises (1990, p. 26).

<sup>16</sup> Mises (1998, pp. 704-705). See Klein (1996, p 12); and Rothbard (1991, pp. 57-60) for elaborations on this theme.

available resources and technology, i.e., *socialism cannot solve the problem of rationally allocating scarce resources among unlimited wants*. The lack of private property renders socialism useless as an economic system. Socialism can only exist in a world of capitalist economies, so the socialist planners can make their calculations by using the prices which form under capitalism. Socialism is able to limp along for a short time period, but its downfall is inevitable.

### **Incentive Problems**

The calculation argument is far from an incentive argument against socialism. Even if we stipulate that socialism can overcome the incentive problem and breed altruistic humans ready to carry out the wishes of the central planners, the planners still face the problem of calculation.

What exactly would those planners tell [the altruistic humans] to do? How would they know what products to order their eager slaves to produce, at what stage of production, how much of the product at each stage, what techniques or raw materials to use in that production and how much of each, and where specifically to locate all this production? How would they know their costs, or what process of production is or is not efficient?<sup>17</sup>

This argument can be rephrased in terms of the principal/agent problem. The incentive problem revolves around the agent carrying out the orders of the principal. Again, however, even if we stipulate that socialism can solve this problem—an unlikely assumption at best—the problem is not solved. The problem is not how to get the agent to complete his assigned tasks, but “[h]ow does the principal know *what* to tell the agent to do?”<sup>18</sup> The calculation argument demonstrates the impossibility of rationally answering such a question in a socialist economy; any answer not based on economic calculation is nothing more than the subjective preference of the planner.

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<sup>17</sup> Rothbard (1991, p. 52).

<sup>18</sup> Klein (1996, p. 12). Emphasis in the original.

#### 4 A Diagram of the Socialist Economy

Figures 3 and 4 are diagrams of the Socialist Economy. When juxtaposed with Figures 1 and 2, the diagrams highlight the calculation problem.

Figure 3–Socialism

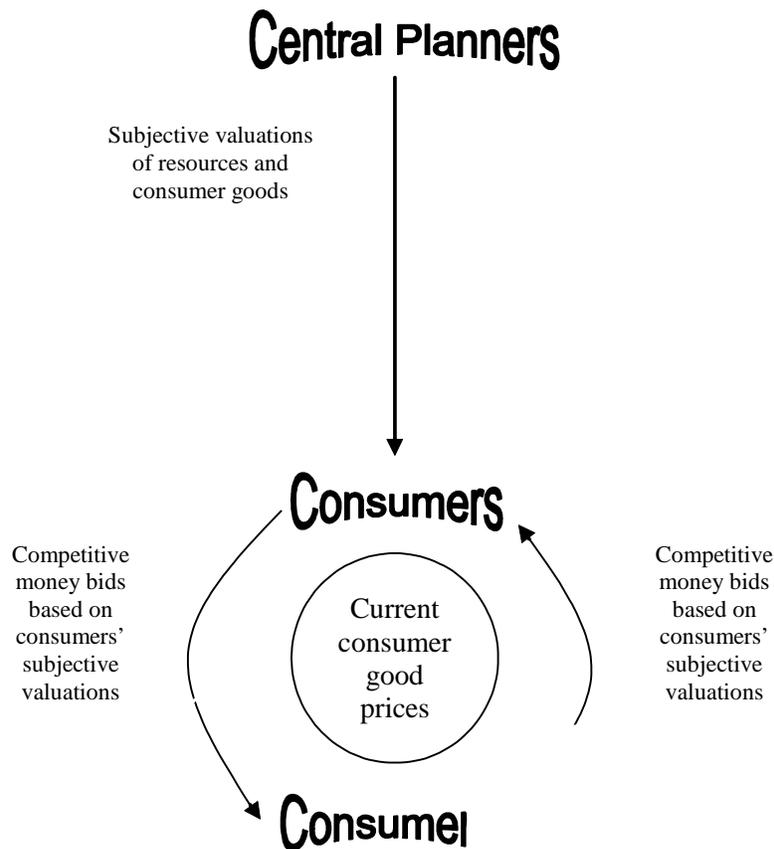
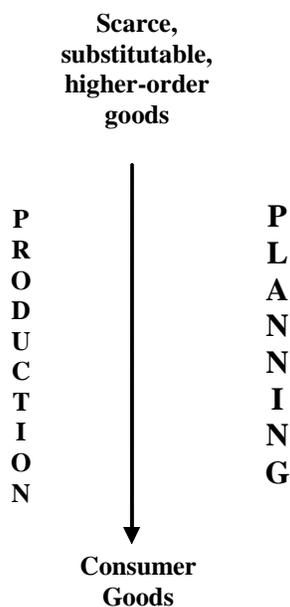


Figure 3 should be compared to Figure 1. In Figure 3, consumers may exchange produced consumer goods based on their subjective valuations of those goods. Prices for consumer goods may form based on the exchanges of consumers. Since resources are collectively owned, however, they are controlled by central planners. Thus, no markets exist for the exchange of factors of production. There are no markets for labor, capital goods, or resources. Pricing of these factors is therefore impossible.

Figure 4–Socialist Production



Since no prices for factors of production exist, central planners face an insurmountable problem in rationally allocating scarce resources. In Figure 4, production of consumer goods occurs, but rather than being based on monetary calculation through an appraisal process (as seen in Figures 1 and 2), production is based on the subjective valuations of central planners (as seen in Figure 3). The lack of privately owned resources means that exchange will not occur for these resources. No exchange means no prices, and no prices means that central planners have no objective, common units from which appraisements can be made. There is no profit and loss, so monetary calculation becomes impossible. Without market selection and appraisal, the central problem of economics—allocating scarce resources among unlimited wants—cannot occur in a manner consistent with the wishes of consumers.

## 5 Conclusion

The calculation argument against socialism has existed since the 1920s. The failure of socialist economies near the end of the 20<sup>th</sup> century brought the argument once again to the fore of economics. The purpose of this article is to build on the pedagogical foundations of the Austrian school of economics, and to construct a solid didactic to explain the calculation argument in a diagrammatical fashion.

Without private markets for factors of production, central planners have no common unit from which to calculate economically feasible production processes. Without the selective process that occurs during social appraisal, central planners cannot rationally allocate scarce resources. Socialism cannot solve the economic problem. Data are not given, and even if they were, no process exists under socialism to adapt to marginal changes in consumer preferences or the environment. Socialism is, simply, the lack of an economy.

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## **New Perspectives on Political Economy**

**Volume 2, Number 1, 2006, pp. 60 – 74**

### **Pronikání myšlenek rakouských ekonomů do výuky na českých vysokých školách před rokem 1989**

#### **Infiltration of Austrian Economists Ideas into Teaching at Czech Universities before the Year 1989\***

**Jitka Koderová†**

**JEL Classification:** A22, B19, B25

**Abstract:** The ideas of the founding fathers of the Austrian school and of their initial followers had influenced the development of the Czech economic thought very strongly before 1948. After this year the tradition was forcibly interrupted, but it had not been dismantled completely. Students of some Czech Universities could obtain information on the existence of Austrian school in courses of “history of economic theories”, even in totalitarian state. At the beginning of the period of 1948 – 1989 the predominant form was the critique of Austrian doctrine. In 1970’s the situation began to change and the positive form of interpretation was predominating. The objective of this paper consists of a quest for answers to two questions. Firstly, how these courses of “history of economic thought” look, and how did they develop in time? Secondly, what parts of these courses were dedicated to the ideas of Austrian school?

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## 1 Úvod

Je všeobecně známo, že vídeňská subjektivně psychologická škola v počátečním stadiu svého vývoje zcela zásadním způsobem ovlivňovala české ekonomické myšlení, a to nejen díky tomu, že české země byly v období vytváření základů jejího učení, které spadá do doby od 70. let 19. století do 20. let století dvacátého součástí Rakouska-Uherska. Všichni tři hlavní protagonisté jejího formativního období byli nějakým způsobem spjati s českým územím.

Duchovní otec a dodnes kultovní osobnost celé školy, vídeňský univerzitní profesor Carl Meger studoval práva na univerzitě ve Vídni a na německé části Karlo-Ferdinandovy univerzity v Praze. Innsbrucký a posléze vídeňský univerzitní profesor a několikanásobný ministr financí rakousko-uherského mocnářství E. von Böhm-Bawerk se narodil v Brně a pozdější Mengerův nástupce na místě profesora vídeňské univerzity F. von Wieser působil předtím dvacet let jako profesor na německé části pražské Karlo-Ferdinanovy univerzity a byl také jejím děkanem.

Byli to právě tito ekonomové, kteří ve své době nejsilněji působili na české ekonomické myšlení, a to zejména svou teorií hodnoty založenou na teorii mezního užitku, hledáním vztahu mezi teorií hodnoty a teorií ceny a úroku a svým metodologickým principem hospodářského individualismu a subjektivismu. Silný vliv měla i Mengerova a Wieserova teorie subjektivní hodnoty peněz se svým důrazem na vliv peněžních důchodů na ceny, silně kontrastujícím s kvantitativní teorií peněz.<sup>1</sup>

Tato tradice byla sice v totalitním období silně potlačena, ale nikdy nebyla zcela zlikvidována. Bylo tomu tak minimálně ze dvou důvodů. První z nich souvisel se zájmem K. Marxe o vývoj ekonomických teorií, který prolínal jeho dílo již od práce *Ke kritice politické ekonomie* a vyústil do napsání *Teorií o nadhodnotě* jako závěrečného dílu *Kapitálu*, a byl chápán jako vyjádření nezbytné jednoty politické ekonomie a dějin ekonomických učení. Druhým důvodem byla všeobecně zdůrazňovaná nezbytnost spojit výklad marxistické politické ekonomie s kritikou nemarxistických teorií, která předpokládala alespoň minimální znalost základních směrů vývoje ekonomického myšlení.

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<sup>1</sup> Blíže viz Vencovský, F.: *Dějiny českého ekonomického myšlení do roku 1948*. Brno, Nadace Universita Masarykiana, 1997

Proto byl do výuky na vybraných vysokých školách zařazen předmět dějiny ekonomických učení, který na jedné straně sice silně deformoval domácí tradice seznamování vysokoškolských studentů s vývojem světové ekonomické vědy, na druhé straně však přinášel alespoň částečné informace o nemarxistických ekonomických teoriích. Prakticky od samého počátku jeho výuky v něm byla věnována pozornost učení představitelů rakouské (vídeňské) subjektivně psychologické školy, a to jak pokud jde o její výraznou metodologickou odlišnost od historického a dialektického materialismu, tak i pro její důraz na poprávkovou stranu a subjektivní faktory při výkladu teorie hodnoty.

Cílem předkládaného příspěvku je pokusit se nalézt odpověď na dvě otázky. Za první, do jaké míry mohli být studenti českých vysokých škol ve druhé polovině dvacátého století seznamováni s myšlenkami nemarxistických ekonomů, a za druhé jaký prostor v tomto procesu připadl na učení rakouských ekonomů.

## **2 Výuka dějin ekonomických učení na českých vysokých školách v průběhu 50. a na počátku 60. let 20. století**

Máme-li se pokusit odpovědět na otázku, do jaké míry byli studenti na českých vysokých školách<sup>2</sup> seznamováni s vývojem západní ekonomie, je třeba zdůraznit, že hlavním a snad i jediným zdrojem – pomínu-li samostatnou četbu sice nemnohých, ale přeci jen již dostupných prací tuzemských i zahraničních autorů, případně exilových českých ekonomů či příslušníků domácího disentu – byla výuka předmětu dějiny ekonomických učení (jindy byl tento předmět označován jako dějiny ekonomických teorií, dějiny a kritika ekonomických učení, současné buržoazní teorie či kritika soudobých buržoazních teorií apod.<sup>3</sup>).

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<sup>2</sup> Žádná z informací, které se mi podařilo shromáždit, nehovoří o tom, že by byly ve sledovaném období do středoškolské výuky nějakým způsobem systematicky zařazovány informace o soudobém vývoji nemarxistické ekonomické teorie.

<sup>3</sup> Na slově kritika v názvu předmětu či různých studií a statí byl kladen poměrně značný důraz, a to zejména v průběhu 50. a v první polovině 60. let. Od konce 70. a zejména pak v průběhu 80. let však vlastní výklad jednotlivých vyučujících či autorů v řadě případů ztrácel ostře polemický ráz. V souvislosti s tím nelze podle mého názoru všechny výše uvedené názvy de facto téhož předmětu výuky a zkoumání považovat za synonyma, proto jsem se rozhodla v následujícím textu používat obecně termín dějiny ekonomických učení, resp. teorií, nebo některý další z uvedených výrazů podle toho, jak byl různými autory resp. učebními plány jednotlivých vysokých škol používán.

I když byly dějiny ekonomických teorií definovány tak, že „jsou jako vědní a pedagogická disciplína neoddělitelnou součástí marxisticko-leninské politické ekonomie a mají přispívat k jejímu rozvoji a hlubšímu pochopení,“<sup>4</sup> staly se významným zdrojem informací o vývoji nemarxistických ekonomických teorií. To však neplatilo po celou dobu jejich výuky na českých vysokých školách po únoru 1948. Podle zaměření a obsahu výkladu lze hovořit zhruba o čtyřech, nikoli však striktně vymezených vývojových etapách.

První z nich lze zhruba vymežit od přelomu 40. a 50. let do první poloviny let 60., kdy snahy o zavádění nového obsahu a zaměření výuky na českých vysokých školách ekonomického zaměření teprve hledaly jeho vlastní podobu a náplň a kdy v této oblasti docházelo k významným institucionálním změnám.

Druhou etapu je možno spojovat s jistým uvolněním v politické oblasti a s nástupem tendencí k demokratizaci společnosti, které se začalo projevat ve druhé polovině 60. let. Toto období přineslo také velmi zajímavou tendenci související s vydáváním jednak oficiálních překladů některých významných děl světové ekonomické literatury, jednak jejich interních překladů či výkladů jejich obsahu, přičemž požadované kritické zaměření nebylo vždy plně respektováno. Tato tendence vycházející paradoxně z lůna stranického aparátu<sup>5</sup> a posléze zdomácnělá i na některých dalších pracovištích<sup>6</sup> byla sice zejména na počátku následujícího období zmírněna, nikdy však již nebyla zcela přerušena.

Třetí etapa nastoupila s příchodem normalizace, kdy byly využívány zejména překlady sovětských učebnic, nicméně poněkud paradoxně začaly být vydávány i vlastní české monografie spojené s důrazem na pozitivní výklad základních vývojových trendů v soudobé světové ekonomii.

V 80. letech došlo ve výuce dějin ekonomických teorií k významnému zvratu. V této době byl zpracován nový, o moderní směry ve vývoji světové ekonomické teorie rozšířený návrh programu výuky dějin ekonomických učení na všech vysokých školách ekonomického zaměření a na filozofických fakultách pro jednooborové i dvouoborové studium politické ekonomie a k zavedení třísemestrálního kurzu dějin ekonomických

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<sup>4</sup> Sítárová, Z. – Kliment, A. a kol.: Dějiny ekonomických teorií. Praha, Svoboda 1981, s. 7

<sup>5</sup> Řada takových materiálů vyšla na Vysoké škole politické ÚV KSČ, jiné byly publikovány v rámci edice Na pomoc lektorům a propagandistům vydávané oddělením propagandy a agitace ÚV KSČ.

<sup>6</sup> Především v Ekonomickém ústavu ČSAV.

učení na všech pedagogických fakultách na oboru učitelství všeobecně vzdělávacích předmětů – aprobační předmět občanská nauka.

Výše uvedená definice – ač pocházející z počátku let osmdesátých – je plně platná právě pro počáteční období výuky dějin ekonomických teorií, které lze datovat zhruba od přelomu 40. a 50. let do poloviny 60. let.<sup>7</sup> V tomto období měla výuka dějin ekonomických teorií ostře polemický charakter a byla zaměřena zcela jednoznačně na prohlubování marxisticko-leninského světového názoru.

Pozitivní výklad učení nemarxistických autorů, pokud se vůbec vyskytoval, byl natolik narušen kritickými výhradami, že bylo prakticky nemožné vytvořit si nějakou ucelenou představu o jejich názorech. Jedinou výjimku v tomto směru představovalo učení představitelů klasické školy D. Ricarda, zejména pokud jde o jeho výklad rozpornosti mezd a zisků, A. Smitha a F. Quesnaye, jejichž stěžejní práce vyšly v té době dokonce v českém překladu.<sup>8</sup>

Protože kurzy začínaly ekonomickým učením otrokářské a feudální společnosti a merkantilismu, kdy ještě nebylo možno hovořit o ucelených teoretických koncepcích,

<sup>7</sup> Počátek tohoto období souvisí s výukou dějin ekonomických učení na Vysoké škole politických a hospodářských věd, která byla založena od studijního roku 1949/50 se třemi fakultami: hospodářskou, politicko-diplomatickou a společenských nauk. Kurz dějin ekonomických učení byl vyučován pouze na oboru politická ekonomie, vyučoval jej zpočátku M. Rumler, po jeho nuceném odchodu pak K. Hrubý, který byl údajně také autorem skriptu k danému předmětu. To se mi však zatím bohužel také nepodařilo dohledat. Jako studijní literatura sloužily Rosenbergovy Komentáře k I. a II. dílu Marxova Kapitálu, dále pak jeho *Istoria ekonomickéj mysli a Kritika subjektivno psychologičeskoj teorii* (názvy posledně uvedených dvou titulů nemusí být zcela přesné, knihy se mi bohužel zatím nepodařilo nalézt v několika knihovnách). Prof. Petráček, který byl absolventem tohoto kurzu, uvádí, že v Univerzitní knihovně byl v té době k dispozici pouze jediný exemplář od každého z uvedených titulů, přičemž Komentáře ke III. dílu Marxova Kapitálu nebyly k dispozici vůbec. Podobný kurz byl vyučován také na Vysoké škole politické a sociální zřízené dekretem prezidenta E. Beneše z 26. října 1945, ta se však postupně rušila a v roce 1949/50 již nepřijímala studenty do 1. ročníku. Výuku zde vedl K. Hrubý.

Tento relativně podrobný výčet by neměl vzbudit dojem, že v před rokem 1948 nebyla věnována pozornost minulému a soudobému vývoji ekonomické vědy. O pravém opaku svědčí překlad *Dějin nauk národohospodářských* (Gide, Ch., Rist, Ch.: *Dějiny nauk národohospodářských*. I, II. Praha, Jan Leichter 1928. (I. díl – 434 s., II. díl – 487 s.), díla významných českých národohospodářů (srv. např. Engliš, K.: *Národní hospodářství*. Praha, F. Borový, 1928. 610 s.; A. Bráf – *Život a dílo* II. Vydali J. Gruber a C. Horáček. Praha, Vesmír 1923. 197. s) a programy výuky ekonomických disciplin na Právnické fakultě Univerzity Karlovy a na Vysoké škole obchodní. To je však zcela mimo rámec tématu této studie.

<sup>8</sup> Ricardo, D.: *Zásady politické ekonomie a zdanění*. Praha, SNPL, 1956. 323 s.; Smith, A.: *Pojednání o podstatě a původu bohatství národů*. Svazek první. Praha, SNPL 1958. 401 s. Svazek druhý. 572 s.; Quesnay, F.: Praha, SNPL 1958. 129 s.

byl předmět označován jako dějiny ekonomických učení.<sup>9</sup> Po té navazoval výklad učení hlavních představitelů klasické ekonomie.<sup>10</sup> Počátky rozvíjení klasické ekonomie byly spojovány s učením W. Pettyho v Anglii a P. Boisguilleberta ve Francii, završení její éry představovalo v tehdejší pojetí učení D. Ricarda.

Učení ekonomů bezprostředně navazujících na Ricarda a obhajujících jeho teoretické závěry, příslušníků tzv. Ricardovy školy – Jamese Milla a Mac Culloche – již bylo považováno za počátek vulgarizace učení klasických ekonomů a proslulí Richardovi současníci T. R. Malthus a J. B. Say a jejich pozdější následovníci N. W. Senior a F. Bastiat již byli označováni jako představitelé tzv. vulgární buržoazní politické ekonomie, jejíž vyvrcholení představovalo učení J. S. Milla.<sup>11</sup> „Vulgarizace“ učení příslušníků klasické školy byla spojována především s přechodem od pracovní teorie hodnoty k její nákladové verzi, v jejímž rámci se na tvorbě hodnoty podíleli vedle práce i další výrobní činitelé – půda a kapitál, resp. také podnikání, jehož odměnu představoval zisk (J. B. Say). Monistický přístup vycházející z determinace hodnoty resp. ceny na straně nabídky však byl zachován.

Následoval výklad maloburžoazního ekonomického učení první poloviny 19. století (S. Sismondi a J. P. Proudhon), dále pak utopického socialismu (T. More, F. Bacon, T. Campanella, H. de Saint Simon, Ch. Fourier a R. Owen) a německé historické (F. List, W. Fischer, B. Hildebrand, K. Knies, G. Schmoller, L. Brentano a K. Bücher).

Posledním vykládaným směrem<sup>12</sup> byla zpravidla právě kritika učení zakladatelů rakouské (vídeňské) subjektivně psychologické školy Carla Megera, Eugena Böhm-Bawerka a Fridricha von Wiesera, které bylo v příkrém rozporu s marxistickým učením o objektivních zákonitostech ekonomického vývoje na jedné straně a s pracovní teorií hodnoty na straně druhé.

Výuka dějin ekonomických učení probíhala prakticky na všech studijních oborech ekonomického zaměření<sup>13</sup> současně s výukou politické ekonomie kapitalismu a politické

<sup>9</sup> To však nebylo dodržováno zcela jednoznačně, a tak byly termíny dějiny ekonomických učení a dějiny ekonomických teorií v řadě případů používány jako synonyma.

<sup>10</sup> Všeobecně byl tehdy používán název klasická buržoazní politická ekonomie.

<sup>11</sup> Nemarxističtí ekonomové považovali všechny uvedené ekonomy za příslušníky klasické školy. Toto pojetí je charakteristické i pro většinu současných ekonomů.

<sup>12</sup> V některých kurzech byla ještě připojena kritika učení teoretiků II. internacionály E. Bernsteina, R. Hilferdinga, A. Kautského a R. Luxemburgové.

<sup>13</sup> Šlo hlavně o VŠE v Praze založenou v roce 1953, z jejíž učebních plánů především vycházejí následující údaje. Vládním nařízením byla v roce 1952 zřízena na ČVUT Fakulta ekonomicko-inženýrská, která

ekonomie socialismu. I když byl její význam spojován především s Marxovým zájmem o vývoj ekonomické vědy: „Klasikové marxismu-leninismu nejednou zdůrazňovali jednotu politické ekonomie a dějin ekonomických teorií. K. Marx ji vyjádřil i v celkové koncepci Kapitálu, kde jeho závěrečný čtvrtý díl Teorie o nadhodnotě je historickým vyústěním i prohloubením prvních tří teoretických dílů,“<sup>14</sup> je nesporné, že velice specifickým způsobem navazovala na domácí tradice seznamující studenty ekonomických disciplin s minulým i soudobým vývojem ekonomické vědy.

Kromě toho bylo zdůrazňováno, že: „Znalost základních směrů vývoje ekonomického myšlení a především kritické zhodnocení buržoazních, revizionistických a reformistických ekonomických teorií poskytuje potřebnou argumentaci pro vlastní kritiku nemarxistických názorů, teoreticky a ideologicky odvozených z buržoazní politické ekonomie.“<sup>15</sup>

V souvislosti s tím měli pracovníci českého a slovenského ekonomického ústavu ČSAV a zejména pak ti z nich, kteří byli začleněni do mezinárodního výzkumného týmu ekonomů socialistických zemí,<sup>16</sup> poměrně dobrý přístup k zahraniční ekonomické literatuře, a to nejen v domácích knihovnách, ale i v knihovnách v ostatních socialistických resp. lidově demokratických zemích. Zaměřovali se na studium soudobého vývoje marxistické i nemarxistických ekonomických, resp. sociálně ekonomických teorií a hospodářské politiky. Jednotliví členové týmu pracovali na dílčích výzkumných úkolech, každoročně byly pořádány domácí vědecké konference s prezentací výsledků dosavadního výzkumu a každé čtyři roky se konala konference na mezinárodní úrovni.

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byla zrušena v r. 1960. Její studenti dostali možnost dostudovat na ekonomických oborech jednotlivých fakult ČVUT. Stejným nařízením byla zřízena Fakulta ekonomicko-inženýrská na Vysoké škole báňské v Ostravě v roce 1953. V roce 1952 byla také zřízena Ekonomická fakulta na nově ustavené Vysoké škole zemědělské v Praze, později i v Brně a v Českých Budějovicích. Ekonomickou kvalifikaci bylo možno také získat na Vysoké škole stranické při ÚV KSČ, která v roce 1953 získala úředně postavení vysoké školy.

<sup>14</sup> Sitárová, Z. – Kliment, A. a kol.: Dějiny ekonomických teorií. Praha, Svoboda 1981, s. 7

<sup>15</sup> tamtéž, s. 8

<sup>16</sup> Členy tohoto týmu byli např. Štefan Heretik, Ján Iša, L. Korček, Zdenka Sitárová, Monika Šestáková, Miroslav Rumler, Květoslav Roubal, František Peštuka, Josef Závada, a další. Do počátku 70. let v komisi působili např. také Václav Klaus, Rita Budínová (pozdější „polistopadová“ velvyslankyně ČSFR v USA) a její první manžel Václav Müller. V některých případech byli do týmu zařazováni i učitelé politické ekonomie kapitalismu a dějin ekonomických učení na vysokých školách (např. D. Soukupová a někteří další), kteří pak svým vlivem přispěli k rozšiřování a prohlubování výuky o nejnovější trendy ve vývoji západní ekonomie.

K jistému uvolnění došlo v průběhu 60. let, kdy byly vydány další dva významné překlady – Hobsonův Imperialismus a Obecná teorie zaměstnanosti, úroku a peněz J. M. Keynes<sup>17</sup> – a kdy začaly vycházet také původní české monografie.<sup>18</sup> Kurzy dějin ekonomických učení začaly být v tomto období rozšiřovány o výklad učení A. Marshalla, J. B. Clarka a J. M. Keynes.

Ze soudobých teorií pak byla – především v navazujících kursech, a tedy ne již plošně na všech studijních oborech – věnována pozornost institucionalismu (Th. Veblen, J. R. Commons a W. C. Mitchell), teoriím nedokonalé a monopolistické konkurence (F. H. Knight, J. Robinsonová a E. H. Chamberlin), teoretikům ekonomického růstu (R. F. Harrod, E. D. Domar, N. Kaldor a W. W. Rostow) a rozvíjení myšlenek neoliberalismu (W. Eucken).

Tuto podobu měly kurzy především na VŠE, kde bylo základním učebním textem skriptum Dějiny ekonomických učení M. Šmejkal, Jaroslava Petráčka a Vlasty Šafaříkové, kteří byli zároveň vyučujícími těchto kursů.<sup>19</sup>

Na konci 60. let se pak celé řadě českých ekonomů – především těm, kteří se zabývali buď politickou ekonomikou kapitalismu či dějinami ekonomických učení – otevřela možnost vycestovat do zahraničí mimo země tzv. socialistického tábora a studovat původní odbornou literaturu v tamních knihovnách či dokonce v postgraduálních kurzech na tamních vysokých školách a univerzitách.

Toto relativní uvolnění bylo zmrazeno v období normalizace, kdy byl opět kladen důraz na jednoznačně kritický přístup, nicméně od počátku 80. let docházelo k intenzivnímu úsilí o zařazení výkladu nejnovějších tendencí ve vývoji světové ekonomie, a to nejen pokud jde o učení hlavního proudu.

Období normalizace však znamenalo nejen naprostou ztrátu podobných možností včetně omezování již tak nepříliš silného přílivu původních prací nemarxistických eko-

<sup>17</sup> Hobson, J. A.: Imperialismus. Praha, NČSAV 1962. 337 s.; Keynes, J. M.: Obecná teorie zaměstnanosti, úroku a peněz. Praha, NČSAV 1963. 386 s.

<sup>18</sup> Srv. např.: Rumler, M.: J. M. Keynes a soudobý kapitalismus. Praha, NPL, 1965. 255 s.

<sup>19</sup> Šmejkal, M. – Petráček, J.: Dějiny ekonomických učení. Část 1. Praha, SPN 1966; Šmejkal, M. – Petráček, J. – Šafaříková, V.: Dějiny ekonomických učení. Část II. Praha, SPN 1967. Před vydáním těchto skript sloužily jako základní literatura Heretik, Š.: Dějiny ekonomických učení. Praha, SPN 1955 a Heretik, Š.: Náčrt dejín politickej ekonómie. Bratislava, 1958

nomů, ale i vyřazení řady domácích odborníků z dalšího výzkumu. Nemálo z nich posléze emigrovalo, někteří dokonce definitivně opustili svou vědecko výzkumnou činnost, jiní se jí i nadále věnovali ovšem mimo svá stávající – většinou manuální či úřednická – zaměstnání.

Jako základní studijní literatura pak byly doporučovány především publikace sovětských autorů.<sup>20</sup> Paradoxně však začínaly vycházet také první kvalitní české publikace s pozitivním výkladem západních teoretických koncepcí, byť s nezbytně zdůrazňovanými kritickými aspekty. Podle mého názoru vůbec první zevrubný pozitivní výklad neoklasické ekonomie v české ekonomické literatuře, z něž bylo možno pochopit základní myšlenky neoklasické teorie ceny a rozdělování, podal J. Petráček,<sup>21</sup> který svůj přístup zdůvodnil „známou zkušeností, že protivník, proti němuž nejen není dostatek odpovídající výzbroje, ale který je zároveň v podstatě neznám, se jeví mnohem silnější, než ve skutečnosti je.“<sup>22</sup>

V souvislosti s tím charakterizoval svou práci jako kritické seznámení a nikoli jako pouhou kritiku, a to jednak z výše uvedeného důvodu, jednak proto, že „povrchní kritika je vždy neúčinná: účinná kritika předpokládá hlubší poznání jevu a proniknutí pod jeho povrch.“<sup>23</sup> To však bylo zřejmě hlavní příčinou skutečnosti, že se uvedená publikace zamýšlená jako první díl dvousvazkové práce,<sup>24</sup> nedočkala svého pokračování, II. části, která měla být věnována „tzv. makroekonomické části soudobé buržoazní ekonomie, tj. keynesiánské teorii zaměstnanosti, teoriím ekonomického růstu a interpretaci problémů soudobého kapitalismu a socialismu.“<sup>25</sup>

První část však sama o sobě výrazně obohatila a prohloubila výklad učení neoklasické ekonomie, který její autor ještě dále rozpracoval a zařadil do skriptu Dějiny ekonomických učení (spoluautor J. Talerová),<sup>26</sup> které bylo vydáno tímž nakladatelstvím o rok

<sup>20</sup> srv. např. Milejkovskij, A. G.: *Buržoazní ekonomické teorie a hospodářská politika imperialistických zemí*. Praha, Svoboda 1974, 393 s.

<sup>21</sup> Petráček, J.: *Kritika buržoazní politické ekonomie I*. Praha, SPN, 1974. 113 s.

<sup>22</sup> výše cit. práce, s. 5

<sup>23</sup> tamtéž, s. 5

<sup>24</sup> V podtitulu knihy bylo explicitě uvedeno: „I – mikroekonomická část: teorie hodnoty a rozdělování“ (tamtéž titulní a následující strana)

<sup>25</sup> tamtéž, s. 7

<sup>26</sup> Oba autoři byli v té době až do příchodu M. Sojky také jedinými vyučujícími daného předmětu s plným pracovním úvazkem na VŠE. Kromě nich vedl výuku externě také M. Rumler, vedoucí VI. odboru Ekonomického ústavu ČSAV

později.<sup>27</sup> Nově byla zařazena teorie ekonomiky blahobytu a teorie „transformace“ kapitalismu, také výklad „klasicky“ zařazovaných problémových okruhů, zejména těch, které se týkaly vývoje soudobé ekonomické teorie, byl v řadě bodů prohlouben.

V 80. letech došlo k významnému zvratu. V této době byl zpracován nový, o moderní směry ve vývoji světové ekonomické teorie rozšířený návrh programu výuky dějin ekonomických učení na všech vysokých školách ekonomického zaměření a na filozofických fakultách pro jednooborové i dvouoborové studium politické ekonomie. V návrhu bylo nově požadováno také zařazení třísemestrálního kurzu dějin ekonomických učení na všech pedagogických fakultách na oboru učitelství všeobecně vzdělávacích předmětů – aprobační předmět občanská nauka. K nemalému překvapení samotného autora návrhu<sup>28</sup>, k jeho přijetí skutečně nakonec také došlo.

Při Ministerstvu školství ČR byla ustavena samostatná předmětová komise pro výuku dějin ekonomických učení. Jejími členy se stali především zástupci vyučujících tohoto předmětu na jednotlivých vysokých školách v republice.

Dějiny ekonomických učení se tak staly povinným předmětem na všech ekonomických fakultách, na jednooborovém i dvouoborovém studiu politické ekonomie na filozofických fakultách a na výše uvedeném oboru pedagogických fakult. Učební plány byly jednotné a byly schvalovány zmíněnou předmětovou komisí ministerstva školství. Stejně tak byla schvalována i literatura doporučovaná ke studiu, její návrhy však byly do značné míry záležitostí jednotlivých vyučujících. Možnosti výběru studijní literatury byly poměrně široké, nehledě na to, že se v souvislosti s rozšířením výuky objevila i řada nových titulů.<sup>29</sup>

<sup>27</sup> Petráček, J. – Tallerová, J.: Dějiny ekonomických učení. Praha, SPN, 1975, 2. vydání v roce 1977, 3. v roce 1986. Skriptum bylo pod stejným názvem vydáno také v roce 1977 na Vysoké škole báňské v Ostravě, tedy po té, co zde byla znovu zřízena fakulta inženýrsko ekonomická (založena byla v roce 1953 a zrušena v roce 1959).

<sup>28</sup> L. Hájek, který byl v té době členem zmíněné komise a vyučujícím dějin ekonomických teorií na Pedagogické fakultě v Hradci Králové a externím učitelem VŠE v Praze zajišťujícím výuku na konzultačním středisku VŠE pro dálkové studium v Hradci Králové, vzpomíná, jak na prvním setkání učitelů dějin ekonomických učení Jaroslav Petráček uváděl, že navrhl vícesemestrální výuku s tím, že návrh bude ministerstvem zkrácen o jednu třetinu až jednu polovinu a byl sám velice překvapen, že tak rozsáhlý program výuky byl ministerstvem schválen. Jaroslav Petráček byl v té době vedoucím oddělení dějin ekonomických učení na VŠE v Praze a vůdčí osobností výuky tohoto oboru v českých zemích.

<sup>29</sup> V této době vyšly i v Čechách hojně používané dvě významné slovenské publikace Iša, J.: Koniec „keynesovskej revolúcie“? Bratislava, Pravda. 442 s. a druhé přepracované a doplněné vydání Heretik, Š.: Náčrt

### 3 Učení rakouských ekonomů v kurzech dějin ekonomických teorií

Jak již bylo uvedeno výše, byla učení příslušníků rakouské školy věnována pozornost od samého počátku výuky dějiny ekonomických učení. Tuto skutečnost lze přičítat především dvěma okolnostem. V první řadě to byla potřeba překonat vliv, který mělo učení zakladatelů Rakouské školy na vývoj ekonomického myšlení v českých zemích v období před druhou světovou válkou, s čímž souvisela i nutnost podrobit zevrubné kritice metodologický přístup rakouských ekonomů ke zkoumání hospodářských jevů a procesů a zejména pak jeho vyústění do teorie hodnoty, což silně kontrastovalo s metodou dialektického a historického materialismu a s pracovní teorií hodnoty monisticky vycházející z nabídkové strany hodnototvorného (cenotvorného) procesu.

Právě díky těmto výrazným odlišnostem se pozornost věnovaná učení příslušníků Rakouské školy neobešla bez obsáhlejšího pozitivního výkladu. Pokud jde o výuku dějin ekonomických učení na VŠE v Praze,<sup>30</sup> zatím se mi nepodařilo získat původní studijní materiály z přelomu 40. a 50. a z první poloviny 60. let. Ve výše zmíněném skriptu autorů M. Šmejkal a J. Petrářka z roku 1966 však již je ekonomickému učení rakouské školy věnována poměrně značná pozornost. Autor (M. Šmejkal) se odvolává na původní práce jejich zakladatelů a podává pozitivní, avšak současně s tím i značně kritický výklad jejich učení.

Východiskem je charakteristika známého „sporu o metodu“ (Methodenstreit) rakušanů s příslušníky německé historické školy, zejména pak s vůdčí osobností její mladší generace G. Schmollerem, který byl vyvolán vydáním Mengerovy práce O metodě spo-

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dejín politickém ekonomie (do sedemdesiatych rokov 19. storočia). Bratislava, Pravda, 1988. 428 s. Druhého vydání se dočkaly i Teoretické základy súčasnej buržoáznej ekonómie téhož autora (Heretik, Š. 1988a). Poměrně frekventovanou publikací se staly Dějiny ekonomických učení zpracované kolektivem autorů pod vedením Š. Heretika, L. Korčeka a J. Petrářka vydané ES VŠE v Bratislavě v roce 1983. Na Vysoké škole ekonomické bylo vydáno rozsáhlé skriptum kolektivu autorů pod vedením J. Petrářka Dějiny ekonomických teorií. Praha, SNTL, 1988. 323 s. Další nejčastěji doporučované a používané tituly budou uvedeny v následujícím textu a jsou i součástí seznamu literatury.

<sup>30</sup> Důraz, který kladu na výuku dějin ekonomických učení a na pozornost věnovanou učení Rakouských ekonomů na VŠE v Praze má několik důvodů. V první řadě je to skutečnost, že se mi ve vztahu k ní podařilo shromáždit nejvíce podkladových materiálů, dále pak fakt, že učební texty vydávané na VŠE sloužily jako studijní materiály i na většině ostatních vysokých škol, a v neposlední řadě i to, že zde působili odborníci, kteří se na studium učení Rakouské školy silně orientovali. V první řadě to byl J. Petrářek, k němuž se později připojili jeho aspiranti J. Schwarz a M. Ševčík.

lečenských věd a zvláště politické ekonomie<sup>31</sup> vydané poprvé v roce 1871. Přitom je věnována poměrně značná pozornost metodě zkoumání rakouské školy, jejíž pozitivní výklad je následován kritickými výhradami. Pouze jednou větou jsou zmíněny Böhm-Bawerkovy výhrady vůči Marxovi.

Následuje výklad teorie mezního užitku s tím, že se tato teorie „nejvíce rozšířila prostřednictvím učení rakouských ekonomů, kteří ji nejdůsledněji formulovali,“ především Böhm-Bawerka.<sup>32</sup> V souvislosti s tím se v textu podávána charakteristika učení rakouské školy opírá především o jeho názory s tím, že v přístupech jednotlivých představitelů existují určité rozdíly, které jsou v textu také místy připomínány.

Pozitivní výklad Böhm-Bawerkovy teorie hodnoty a rozdělování je doplněn několika citáty z jeho původních prací, na druhé straně je však následován řadou kritických výhrad. Kladně je naproti tomu hodnocen přínos rakušanů ke zkoumání teorie poptávky a chování spotřebitele a jejich upozornění „na význam určitých subjektivně psychologických momentů ve spotřebě, na určitou úlohu hodnocení užitečnosti zboží v cenotvorném procesu. Rakouská škola dala podnět k podrobnější analýze poptávky jako takové a její úlohy v tvorbě tržních cen.“<sup>33</sup>

Na rozdíl od M. Šmejkal, J. Petráček ve výše zmíněné práci *Kritika buržoazní politické ekonomie I* vykládá teorii mezního užitku na základě učení neoklasických ekonomů v interpretaci odpovídající mainstreamovému pojetí. C. Mengera, Böhm-Bawerka a F. Wiesera pouze uvádí mezi teoretiky mezního užitku a stručně se zmiňuje o pokračování

S. Jevonsem, přičemž zdůrazňuje odmítavý vztah rakušanů k používání matematických metod v ekonomické analýze. Následuje podrobný výklad metody rakouské školy a její teorie hodnoty a teorie cen, který respektuje odlišné momenty v učení jednotlivých představitelů a je hojně doplňován citáty z jejich původních prací. Kritické poznámky jsou řazeny přímo do výkladu jednotlivých problémů, nijak výrazně však nenarušují logiku výkladu a jeho srozumitelnost. Závěr věnovaný vlivu rakouské školy na další vývoj ekonomické teorie však vyznívá značně pesimisticky.<sup>35</sup>

Na počátku druhé poloviny 80. let vytvořil J. Petráček na VŠE v Praze široký tým spolupracovníků a vypracoval rozsáhlou, precizně strukturovanou osnovu skript, <sup>36</sup> které co do hloubky a šíře vykládaných problémů nemělo a dodnes nemá obdoby. Toto skriptum nejen výrazně prohlubovalo a novou strukturou výkladu precizovalo dosud vyučovaná témata, ale zahrnovalo také nejnovější směry vývoje soudobé světové ekonomie, a to nejen v rámci tzv. hlavního proudu, ale i koncepcí období stojících mimo něj.

Zde však již byla teorie hodnoty a rozdělování vykládána výlučně v pojetí neoklasických ekonomů a učení formativního období rakouské školy zde nebyla věnována žádná pozornost. Na rozdíl od předchozích učebnic zde však již byla obsažena charakteristika učení L. von Misesa a F. A. von Hayeka. Vedle výkladu Misesova liberalismu a praxeologického přístupu ke zkoumání hospodářských jevů a procesů je zde věnována pozornost i jeho kritice neracionality fungování centrálně plánovaného hospodářství, které Mises považoval za pouhý soubor neuspořádaných činností.<sup>37</sup>

Výklad učení F. A. von Hayeka obsahuje stručnou charakteristiku jeho nejvýznamnějších prací a všechny podstatné momenty jeho učení od liberalismu a kritiky keynesovské ekonomie až k teorii hospodářského cyklu a požadavku na zrušení monopolu emise peněz.

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<sup>35</sup> Doslova o ztroskotání pokusu rakouské školy o subjektivně-psychologickou přestavbu politické ekonomie psal ve své práci *Teoretické základy súčasnej buržoáznej ekonómie* Š. Heretik (Bratislava, Pravda 1973. 386 s.

<sup>36</sup> Petráček, J. a kol.: *Dějiny ekonomických teorií*. Praha, SNTL, 1988. 323 s.

<sup>37</sup> Kritické argumenty rakouské školy vůči Marxovu ekonomickému učení považoval Š. Heretik za hlavní zdroj „politickoekonomického antimarxizmu většiny buržoázných ekonomů.“ (Heretik, Š.: výše cit. práce, s. 55).

#### 4 Závěr

Studenti českých vysokých škol ekonomického zaměření byli seznamováni vývojem nemarxistických ekonomických teorií i v období po roce 1948. Nebylo tomu tak proto, že by se tím navazovalo na tradice předchozích období, ale zejména proto, že dějiny ekonomického učení byly chápány jako integrální součást marxistické politické ekonomie, která má přispět ke kritice nemarxistických ekonomických teorií.

Od počátečního převážně kritického přístupu, který v řadě případů neumožňoval vůbec pochopit podstatu kritizované teorie, začala být v pozdějších obdobích věnována pozornost také pozitivnímu výkladu, nicméně obsahujícímu silné kritické prvky.

Tento přístup byl aplikován i na učení hlavních protagonistů formativního období rakouské školy, informace o jejím dalším vývoji však prakticky chyběly a teprve až v roce 1988 byla věnována pozornost L. von Misesovi a F. A. von Hayekovi. Na zevrubnou analýzu učení příslušníků pozdějších generací rakouské školy si však museli čeští vysokoškoláci počkat až po roce 1989.

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