Between Subjectivism and Individualism: A Critical Appraisal of the Austrian Case for Private Ownership

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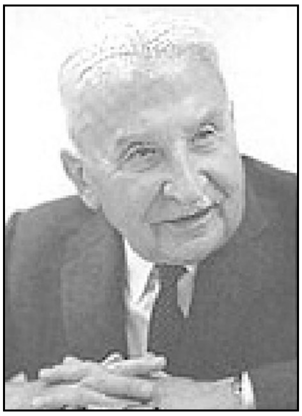

Ludwig von Mises   Friedrich von Hayek

Introduction

An important reason for writing this paper has been the fact that the Austrian School (also known as the “Vienna School” or the “Psychological School”) is a heterodox school of economics that emphasizes the spontaneous organizing power of the price mechanism. It holds that the complexity of subjective human choices makes mathematical modeling of the evolving market extremely difficult (or undecideable) and advocates a *laissez-faire* approach to the economy. Although often controversial, the Austrian School was influential in the early 20th century and was for a time considered by many to be part of mainstream economics. Austrian School economists’ forewarnings about the global financial crisis has led to renewed interest in the School’s theories. Many of the hot topics such as “individual” or “choice” in today’s economic discussions center around ideas first popularized by the Austrian School.

The Austrian School derives its name from its predominantly Austrian founders and early supporters, including Carl Menger, Eugen von Böhm-Bawerk and Ludwig von Mises. Despite this name, proponents of the Austrian School can be from any part of the world, and there are now few Austrian School economists of Austrian nationality.

Vienna in the late 1800s was a site of incredible intellectual activity, producing an array of memorable figures whose work defined our current view of the world. Great advances in the fields of psychology (Sigmund Freud), art (Gustav Klimt), music (Arnold Schoenberg, Gustav Mahler), medicine (Theodor Billroth) and philosophy (Ludwig Wittgenstein) were all made in this one place. But Vienna was also this site of our modern view of economics.

While Freud was revolutionizing psychology, a group of vanguard economists, led by Carl Menger, Eugen von Boehm-Bawerk, and Friedrich von Wieser were using similar principles to reinvent economics. Eventually called "The Austrian School," these men rejected the mechanical and deterministic approach of their colleagues, advocating instead a "pure" economics that attempted to account for the role of individuals and their desires. They reflected the recognition of risk and uncertainty in their models and have done more for global wealth creation than possibly any other group.

The Austrian School emerged around one of the pioneers of the 1871 Marginalist Revolution, Carl Menger, at the University of Vienna. The first generation of the Austrian School was composed of a pair Austrian professors who, although not directly students of Menger, were nonetheless heavily influenced by him: Friedrich von Wieser and Eugen von Böhm-Bawerk. It was they who, for the most part, spread the Austrian School gospel throughout the Austro-Hungarian Empire and trained the next two generations. These later generations were dominated by the figures of Ludwig von Mises and Friedrich von Hayek. The Austrian School maintained its base in Vienna until the 1930s, when most of its members moved or were exiled to Great Britain and the United States.

Already in Wieser and Böhm-Bawerk, we find the principal features of Austrian School economics, many of which became clearer and more distinctive in the hands of their students, particularly Mises and Hayek. These can be generally enumerated as follows (with notes, in parentheses, on their main disputants):

- a radically "subjectivist" strain of Neoclassical marginalist economics[1] (*versus* the Classical School[2]);
- a dedication to *a aprioristic* "pure" theory, with an emphasis on "methodological individualism" (*versus* the German Historical School[3]);
- the theory of opportunity cost[4] which reduces all goods and factors, by "imputation," to the subjective valuation of consumer goods (*versus* the Classical School and the Marshallian Neoclassicals[5]);
- a time-theoretic approach to capital and interest (*versus* everybody else, especially Chicago[6]);
- a monetary overinvestment theory[7] of the business cycle (*versus* Keynesians[8]);
- support for anti-cyclical monetary policy and, later, a free banking system (*versus* Monetarists[9]); and
- a general political, economic and philosophical defense of laissez-faire economic policy versus Keynesians and Marxians.

These features are not the only reason, however, that the Austrian approach should be of interest to historical materialists. While classical economics focused on the labour theory of value, in the late 19th century attention was focused on the concepts of "marginal" cost and value. The Austrian School was one of three founding currents of the marginalist revolution of the 1870s, with its major contribution being the introduction of the subjectivist approach in economics.

Carl Menger's 1871 book, *Principles of Economics*, was the catalyst for this development. While marginalism was generally influential, there was also a more specific school that grew up around Menger that came to be known as the "Austrian School."

The Austrian School played a major role in the development of economic theory in the 20th century. Austrian economics, as noted above, is currently closely

1 <http://homepage.newschool.edu/het/essays/margrev/margrev.htm>.
2 <http://homepage.newschool.edu/het/schools/ricardian.htm>.
3 <http://homepage.newschool.edu/het/schools/historic.htm>.
4 <http://homepage.newschool.edu/het/essays/margrev/oppcost.htm>.
5 <http://homepage.newschool.edu/het/schools/english.htm>.
6 <http://homepage.newschool.edu/het/schools/chicago.htm>.
7 <http://homepage.newschool.edu/het/essays/cycle/moneycycle.htm>.
8 <http://homepage.newschool.edu/het/schools/cambridge.htm>.
9 <http://homepage.newschool.edu/het/schools/monetar.htm>.

associated with the advocacy of laissez-faire views. Earlier Austrian economists were more skeptical compared to later economists such as Ludwig von Mises. However, the Austrian School, especially through the works of Friedrich Hayek, was influential in the revival of laissez-faire thought in the 1980s.

Any discussion of the political and ideological role of the Austrian school need must also consider such organisations as The Society for the Development of Austrian Economics, Or The Ludwig von Mises Institute.[10] Through the Mises Institute's student fellowships, study guides, bibliographies, and conferences, the Austrian School, it is alleged, has permeated, at some level, virtually every department of economics and the social sciences in America, and in many foreign countries as well.

With the re-emergence of Hayek's *The Road to Serfdom*, he and Mises have begun attracting attention among general readers. They wrote before, during, and in the years after World War II when capitalism was under heavy ideological assault by the two collectivisms of the 20th Century: Fascism and Marxism. Today, in their writings, we can today find an articulate defense of capitalism and a rapier attack on socialism and collectivism in general. Both economists offer an alternative to Galbraith, and to a current leading proponent of Keynesian economics, *New York Times* columnist and a Nobel laureate Paul Krugman.

Another economic journalist, Alfred Malabre, in his recent critical book on modern economics, *Lost Prophets*, argues that "the monetarism that Friedman and his followers were preaching was not quite as conservative as advertised. In fact, the University of Chicago professor was treading not far from the middle of the economic road, flanked on the left by the likes of Galbraith and Leontief and on the right by Hayek, along with other Austrian-school luminaries. That is why there are no Austrian Socialists ["Ideology, Science and the Austrian School," *Journal of the History of Economic Thought*, 17, pp. 35-5].

Austrian economic methodology rests on the related tenets of methodological individualism and subjectivism. Among the implications of subjectivism for economic theory are: the unpredictability of human action; the uncertainty that necessarily faces each market participant; the dynamic conception of time; and the conception of the market process and competition as a discovery or learning process

[10] <http://mises.org/>.

involving entrepreneurship and private decentralised knowledge. These points illustrate the relevance of seemingly abstract epistemological and methodological considerations for theoretical and applied economics, including our central theme, that of public versus private ownership. Rational economic choice or decision making requires a broad sweep of knowledge, including, but not limited to, the knowledge of prices. Prices require competitive markets if they are to be able to fulfill their informational function; as Mises put it, it is only by "the competition between entrepreneurs, trying to wrest from each other the material means of production and the services of labour, that the prices of the factors of production are formed" [1936, p. 520]. In turn, competition necessarily requires private ownership of the means of production in order for it to serve its function as a discovery procedure, for it is only through the competitive bidding of independent owners of the means of production that prices tend to have the coordinative meaning necessary for their function in economic calculation [Lavoie, 1985, pp.181,183].

According to the Austrian school, the continuous changes over time in tastes, techniques, available resources, prices, plans and expectations demand that individuals be free to act and dispose of their property while using their knowledge of their circumstances of time and place as they see fit, in order to gain access to more and better knowledge than would be possible with less freedom of action [Moldofsky, 1989, p. 18].

The Perils of Subjectivism

A line of criticism which will run like a thread throughout this paper points to several major differences of opinion within the Austrian school. Let us state at the very outset that this kind of critique cannot be easily dismissed by describing them as merely differences of emphasis to be found in any developing discipline [Littlechild, 1986, p.85]. For the Austrian school claims to constitute a system of thought and the deep differences between the members of the school call into question the integrity of the system. One of these differences consists in the fact that the Austrian thinkers differ in regard to the role of *a priori* [Littlechild, 1986, p.85]. Some of them believe that the fundamental assumptions from which the rest of the theory can be deduced are a priori to all experience [Mises, 1949; 1960]. Others, however, insist on the empirical nature of these assumptions [Hayek, 1935, Rothbard, 1976a]. Worse still, even the thought of single writers can be marked by inconsistency. Hayek asserted that his proposition about a tendency toward equilibrium rests on an empirical basis [1952, p. 46]. In another text, however, he stated that the validity of the theory of competition, of which the thesis about the tendency to coordination in the market is an integral part, can never be tested empirically [1984, p.255]. Assuming the former proposition to be valid, some other doubts arise, however. While Hayek maintains that the co-ordinating tendency is in principle falsifiable, he never states under what conditions this could be so, which means that the failure of the market to co-ordinate can always be explained away in terms of some institutional impediment to this process [Barry, 1984, p. 45]. Kirzner, in turn, pointed out that the empirical proposition on which the equilibration thesis relies is inconsistent with a tenet fundamental to Austrian methodology. The former asserts that market participants learn from experience in a systematic manner so that their actions become increasingly coordinated. This, however, is incompatible with the basic Austrian insight that there is an inherent indeterminacy in the way by which human knowledge changes [Kirzner, 1976b, p. 49].

There is another dimension to this inconsistency, however. If Hayek's proposition that people learn to avoid mistakes is rejected, then the basis for viewing the market process as a coordination and equilibrating mechanism is undermined, and, by the same token, the basic task of economic theory, which is, according to Hayek, the explanation of the unintended market consequences of human action, turns out to be unfeasible. This second task of economic explanation mentioned by Austrians – that of making the world intelligible in terms of human action, based on the recognition of human purposefulness – is in fact quite distinct from the above-mentioned task and should not be confused or even associated with it [Kirzner, 1976b, pp. 40-50].

It is clear from the foregoing that the existence of the tendency toward equilibrium is a subject of controversy among the Austrian writers. Kirzner, generally following Hayek, has developed a conception of an equilibrating market process as based on his concept of entrepreneurship [1982]. In his view, opportunities have a tendency to be discovered by entrepreneurs, and hence the market process is characterised by continuous discovery and increasing coordination. Other Austrians, however, have maintained that this view does not do justice to, if not totally ignores, the possibility of errors. If a market participant acts on the basis of a perceived opportunity that turns out not to exist, he may further discoordinate the market rather than increasing coordination in it [Littlechild, 1989, p. 32]. Lachmann [1976, 1977] underscores the subjectivity of expectations and hence the importance of uncertainty so extreme as making it impossible to assert on theoretical grounds that the market will tend toward equilibrium. In this view, since expectations are no more than guesses about the future we cannot be sure they will be correct; indeed, an expectation that turns out to be successful is already a past event and is therefore irrelevant to the prospects of future successful coordination [Barry, 1984, p. 46]. Shackle [1972] takes an even more radical view, positing a kaleidic, or moving from one disequilibrium to another, process. Shackle regards the economy as subject to sudden landslides of re-adjustment to a new, precarious and ephemeral, pseudo-equilibrium, in which variables based on expectation, speculative hope, and conjecture are deliberately stacked in a card-house of momentary immobility, waiting for the news to upset everything again and start a new disequilibrium phase [1972, p. 433]. By contrast, O'Driscoll and Rizzo maintain that there is a place for the notion of equilibrium in the framework of Austrian economics. However, it must be revised so as to incorporate the possibility of error. In their opinion, it is only when equilibrium is conceived as entailing the absence of not merely exogenous but also endogenous change that its idea is incompatible, as in Shackle [1972, pp. 253-4], with the Austrian world of time and uncertainty. However, a looser idea of a pattern equilibrium allows for uncertainty and change. In this view coordination can exist with respect to plans or the typical features of planned activities, but not with respect to the actual activities themselves. The latter are a complex of typical and unique features and are not stable in real time because the unique aspects of events are time-dependent and hence change from within the system as opposed to the relatively stable types or patterns which are, in the short run, affected only by exogenous shocks to the system [O'Driscoll and Rizzo, 1985, pp. 86-7]. There is thus among the Austrian theorists an almost bewildering variety of positions on equilibrium or equilibration.

The aforementioned requirement that economics should make the world intelligible in terms of human purposes, which is, according to Austrian methodologists, one of the two fundamental tasks of economic explanation, refers, naturally, to the subjectivist understanding of economic phenomena. Subjectivism involves the recognition that the real world is more than the external world; the real world includes a whole range of matters beyond the scope of the measuring instruments of the econometrician. The notion that economic science must be able to encompass this realm [Kirzner, 1976b, p. 47] is a useful reminder of the narrow-mindedness of behaviourism and related doctrines. But making reference to human plans and motivations [Kirzner, 1976b, p. 47] is not the same thing as, to quote Lavoie's definition of subjectivism, the approach that "focuses on perceptions on reality by individual minds rather than directly on reality itself" [1985, p. 102]. It is one thing to look at the world from the point of view of thinking and acting subjects, but it is quite another thing to limit one's scientific interest to the contents of individual minds [ibid., p. 101]. It may be conceded that the latter alternative does not necessarily follow from the notion of subjectivism. Hayek, for instance, cannot be accused of reducing reality to human perceptions, etc. or of failing to see the relationship between consciousness and the external world. He writes, for instance, that the apparatus by means of which we learn about the external world is itself the product of a kind of experience. It is shaped by the conditions prevailing in the environment in which we live, and it represents a kind of generic reproduction of the relations between the elements of the environment which we have experienced in the past [1984, p. 225]. One of the perils of extreme subjectivism is that it tends to undermine any policy conclusions drawn by Austrian economics, including those supporting privatisation and condemning nationalisation. Rothbard is thus consistent when he argues that "Austrian economics does not enable the economist to make any value pronouncements or to advocate any public policy whatsoever . . . the case for laissez-faire and the free-market economy" (1976b, p. 109) included. He, accordingly, criticises Mises for failing to see the contradiction between methodological subjectivism and making normative or policy statements. Indeed from the subjectivist point of view, a preference for this or another policy is a matter of the individual alone. Kirzner, while agreeing that it is impossible to speak of efficiency in terms other than those of the purposes of specific individuals under discussion [1976c, p. 81] tries to defend Mises by pointing out that, for the latter, professional approval by an economist of a specific policy proposal merely means that the economist believes the policy will enhance the fulfillment of the purposes of those interested in the economist's professional opinion [1976c, p. 81]. Rothbard, however, remains unconvinced by Kirzner's defence, for how could Mises know what the advocates of the particular policy consider desirable? How could he know what their value scales are now or what they will be when the consequences of the measure appear? [1976b, p. 101]. Suppose that one wants to show that nationalisation is a bad measure because it leads to impoverishment in contrast to privatization, which is shown to lead to affluence. But this effect may still be favoured by advocates of nationalisation as consistent with their own individual preferences and values. They may, for instance, prefer public ownership as supposedly leading to a more equitable distribution of income and wealth as opposed to privatization, which is believed by them to increase wealth and income disparities. Other supporters of nationalisation may set a high value on it as a means of protecting jobs and reducing unemployment, and so on and so forth.

Another problem with subjectivism is that it may lead to the neglect of the inherent social dimension of human consciousness and knowledge. This is the point made by Hodgson, who, criticising what he calls the extreme subjectivism of the Austrians, writes of the intrinsically non-autonomous character of preference and beliefs [1988, pp. 122-3]. He goes on to add that "we cannot hope to create a conceptual framework capable of handling vast quantities of information on our own. We have to rely on interactions with others to develop our cognitive skills, to form judgements about the world, and to acquire guidelines for action. Furthermore, for cognition we rely on a language and linguistic structure which is socially formed" [Hodgson, 1988, p. 121]. It should be noted that in order to rebut this charge it is not enough to assert simply that individuals are continually learning from and influencing each other [Rothbard, 1976a, p. 31], for it must be shown how these indeed obvious points can be incorporated into the subjectivistic framework. One particularly significant implication of this criticism of the Austrians' over-subjectivism concerns economic knowledge. As Hodgson points out, whilst the Austrian argument that it is impossible to centralise all argument is valid, it is wrong to assume that all knowledge is individual in character. Some information (often information about the location of other information) is necessarily centralized and institutionalized (e.g., in a telephone directory). It is thus doubtful that the decentralized market can provide an effective signaling device for all information and all activities in a complex economic system [1988, p. 237].

Another tension, which has already been hinted at, arises between the subjectivistic programme and the Austrians' self-imposed question: How can individuals acting in the world of everyday life unintentionally produce existing institutions or, more generally, the overall patterns of social interaction? [O'Driscoll and Rizzo, 1985, p. 20]. Given that there is a complex chain of mutually reinforcing actions that produce results beyond those that can be individually apprehended or intended [O'Driscoll and Rizzo, 1985, p. 20] or that the spontaneous collaboration of free men often creates things that are greater than their individual minds can ever fully comprehend [Hayek, 1984, p. 135], what place is there for the subjectivist assumption? This is another way of saying that social relations cannot be reduced to inter-subjective relations. Social, including economic, relations are in great part suprapersonal in nature. Such relations involve individuals, but these individuals are not necessarily aware of the nature and the very existence of the said relations. In this sense, the Austrian view that "artifacts – tools and instruments or other products of human beings – cannot be interpreted to refer . . . to things irrespective of what people think about them" [Hayek quoted in Kirzner, 1976a, p. 46] does not go far enough. For such artifacts can be the media of the relations between people who do not know that they have entered into a given relation. For instance, consumers of given goods enter into a relation with their producers without knowing or seeing them. The former are dependent on the latter for the satisfaction they derive from the act of consuming, and bad products can have damaging consequences for the consumers' health. Thus the relation, which exists independently of its participants' consciousness, has very real implications for their behaviour.

The Perils of Methodological Individualism

The foregoing argument points to a further source of confusion present in the Austrian approach. Kirzner identifies the aforementioned realm of reality (with which economics is concerned) as one of human conduct, which in turn he describes as interests, motivation, and purpose [1976b, p. 44]. But the concept of action cannot be reduced to that of the agent's purpose. Action involves not only ends but also means, and it takes place in concrete conditions. This remark points to a further deficiency in the Austrian approach. In their over-reaction to mechanistic and deterministic models of behaviour in orthodox economics, the Austrian writers tend to assume either that action bears no significant influence of the environment within which the individual acts, or that the question of why particular ends and courses of action are adopted lies outside the confines of economic theory. The first assumption is simply false; the socio-economic and institutional environment has a significant effect on the kind of information we receive, our cognition of it, or preferences, and thereby much of our behaviour [Hodgson, 1988, p. 71]. These undeniable facts are admitted by some members of the Austrian school. Rothbard, for instance, calls the assumption that each individual arrives at his values and choices in a vacuum, sealed off from human influence absurd [1976a, p. 30]. Rothbard, however, does not offer, as he indeed cannot if he wants to remain a consistent methodological individualist, any positive conception of the moulding or determination of men's goals and actions by social influences. Instead, he asserts that economic theory does not need to investigate the origin of choices [Rothbard, 1976a, p. 31]. But this boils down to evading the question at issue. Hayek, too, wants to exclude the explanation of individual purposes from economics and indeed from any social science. He accomplishes this goal by allotting the task of explaining the springs of human action to psychology. He writes: "If conscious action can be explained, this is the task for psychology but not for economics . . . or any other social science" [Hayek, 1948, p. 67].

But psychology conceived as a social science that views human behaviour in general, suprahistorical terms is obviously too abstract to explain particular human actions taking place within, and conditioned by, concrete social structures. When, on the other hand, Hayek admits that the tastes of man, as is also true of his opinions and beliefs and indeed much of his personality, are shaped in a great measure by his cultural environment [1965, p. 40], then he clearly contradicts his own statement cited above. Moreover, if such cultural and social influences on individuals and their goals are conceded, then the whole methodological individualism label is called into question. Since the individual forms an indissoluble, interpenetrating unity with the social and the cultural, and his very individuality and personality are shaped by his socio-cultural environment, methodological individualism becomes clearly untenable. The individualist label can be saved only if one regards human action as totally spontaneous and indeterminate. Such a view provides a plausible excuse for refusing to investigate the formation of purposes. In some pronouncements Mises and Lachmann, for instance, come close to this position [Hodgson 1988, p. 63]. The view in question is indefensible, however, as it undermines the very notion of choice, so dear to the Austrians. As two Austrian writers rightly note, unless an individual can expect a great deal of predictable decision-making on the part of others, he will find it impossible to make a meaningful choice [O'Driscoll and Rizzo, 1985, p. 29]. Given this element of predictability in human behaviour, one is obliged to ask what the sources of this predictability are. And with this the argument comes full circle since one arrives at social structures and institutions as well as culture, which all are excluded by strict methodological individualism.

The above remark by O'Driscoll and Rizzo inadvertently reveals a further weakness in the Austrian approach to human action. While on the one hand the Austrian view of individual purpose is too narrow in that it removes the question of its conditioning beyond the compass of investigation, on the other it is too broad as it regards all human action, including habitual, as purposeful. O'Driscoll and Rizzo try to make room for predictable or habitual actions in their version of Austrian theory by arguing that in the case of such actions the individual is actually freely choosing to repeat his activity and hence it can be described as purposeful activity whose contents have been routinized [1985,p. 29]. But this begs the question since there remains the critical question: what causes habits to arise in the first place? And the point is that people do not always acquire habits from conscious and rational choice [Hodgson, 1988, p. 125]. More generally, by explicitly or implicitly assuming that all human action is conscious and deliberative, the Austrians fail to do justice to the Freudian discovery of the unconscious.

Of course one does not have to be a Freudian to recognize the role of subconscious and irrational factors in human behaviour. The Austrians' neglect of this role leads to distortions in their economic theory, as illustrated by their view of advertising. They regard advertising as an entrepreneurial device, an indispensable instrument whose function is to alert consumers to the opportunity for them to buy a given product [Kirzner, 1976a, pp. 121-3]. In this model "advertising does not change tastes . . . it reveals tastes to the hitherto unsuspecting consumer. The agents real tastes are assumed to be given, though he or she may not properly appreciate them" [Littlechild, 1989, p. 34]. But it is an elementary truth, known to every student of business administration, that tastes and wants cannot be assumed to be given and immutable as they are often in fact created by advertising and related activities. Kirzner's picture of the producer who anticipates the wishes of consumers and the advertised product that satisfies consumer desires is at best only partially true since these desires and preferences of consumers can be significantly manipulated. This would be a case of making much ado about nothing only if the advertising industry limited itself to conveying information about the advantages and disadvantages of a given good, thus enabling the customer to make a rational choice. The employment by the advertising industry of elaborate techniques of nonrational sales persuasion is, however, a matter of common knowledge. In advertising the emphasis is more often than not on a product's image or symbolic significance. Advertising – like propaganda, the movies, theatre, and fiction – works on the level of emotional responsiveness [Furst, Sherman, 1969, p. 24] rather than reason. "The experience of advertising is . . . an emotional one" [Furst, Sherman, 1969, p. 24] rather than that of rational choice or deliberate decision-making. It is not without good reason that the best-selling books about modern sales techniques are titled *The Hidden Persuaders*, *Subliminal Seduction*, and *Media Sexploitation*. Indeed in illegitimately assuming that all forms of action are equally purposive, the Austrians seem to ignore the implications of their own argument as to the fallacy of central planning. Just as the extensive economic information cannot be considered given to a single mind (or groups of minds of the central planners), neither can the human mind fully and rationally process all the information relating to individual human action at the highest level of deliberation [Hodgson, 1988, p. 114]. In other words, the problem of informational indigestion faces not only a central planning body but also any individual.

There are, to be sure, some attempts among the Austrians to accommodate the important notions of habit and routinisation in social and economic life to their theory. Let us discuss two such attempts. However interesting and plausible in other respects their view of habituations might be, O'Driscoll and Rizzo make out a singularly unconvincing case for the lack of incompatibility between their usual Austrian assumptions and the notions of institutions broadly understood as patterns of routine behavior [1985, p. 39]. They argue, namely, that their inclusion of institutions makes subjectivism even more, not less, important than before because the nature of what is transmitted (through institutions) is subjective [O'Driscoll and Rizzo, 1985, p. 40]. There is a clear difference in kind between the contents of the individual mind and a suprasubjective, objectified rule that exists independently of particular individuals and that, precisely due to this fact, can be – like all elements of culture – transmitted from one generation to another. The information created and distributed by social institutions has a social and not a purely subjective character. It is established by the routinized behavior of "a group of individuals . . . Its foundation is the social institution, even if the information given may be perceived differently from individual to individual" [Hodgson, 1988, p. 133]. Hayek, in developing in his later writings a theory of cultural evolution based on the survival and adaptation of traditions and rules, has moved away from his earlier position. As Gray, among others, correctly notes, it is at least not altogether obvious that this application of natural selection theory to social explanation is entirely consistent with methodological individualism [1984, p. 53]. The incongruity between the latter position, not relinquished by Hayek, and his theory of cultural evolution manifests itself in this theory's deficiency; while laying stress on the emergence of the various institutions of society from the interaction of individuals it does not extend to the individuals themselves. Although Hayek expressly rejects a simple conception of one-directional laws of cause and effect and appeals to what he calls, after Donald Campbell, downward causation, his approach is in fact one-directional in that it considers individuals purposes and preferences as given, not subject to the very evolution that generates a spontaneous social order. Viewing the sociocultural framework as the resultant of individual interests and actions is not enough, since the latter are shaped and structured by the former. Once this point is admitted, moreover, Hayek's argument against intervention in the spontaneous order is open to critique. Hayek asserts that the particular results that will be determined by altering a particular action of the system will always be inconsistent with its overall order [1989, p. 130]. But once it is seen that the actions in question, and indeed the agents themselves, are subject to endogenous, and not only exogenous, change (or intervention), the argument loses its force.

Entrepreneurship and Ownership

The same methodological individualism is responsible for the one-sidedness of the Austrian view of entrepreneurship. Just as in the Austrian general view of the human agent the circumstances moulding his choices and decisions are not put into the picture, so entrepreneurial ability is portrayed as immaculately conceived. The following statement may be considered typical in that regard. Littlechild writes that under public ownership projects that rely on imaginative vision or hunch will find it more difficult to gain acceptance [1989, p. 37]. Whatever shapes this imagination is left outside the picture. Obviously, however, imagination and entrepreneurship require a variety of economic, social, and cultural conditions to flourish. Importantly, there is no obvious relationship between the pattern of private or public ownership, on the one hand, and the fertility of these conditions, on the other [Hodgson, 1988, p. 268].

Consequently, what matters more than the form of ownership is the type and level of social culture, the level of technical and general education, and the material and institutional supports for entrepreneurial activity [Hodgson, 1988, p. 268]. Hodgson's view on the relationship (or rather the lack of it) between ownership and entrepreneurship is shared by many other authors. For instance, Horvat points out that an entrepreneur, as was long ago pointed out by Joseph Schumpeter, is not an owner of capital. Owning the capital is the function of the capitalist (who is not forbidden to be also an entrepreneur, but that is not necessary). All that is necessary for an entrepreneur to function efficiently is that he is legally free to engage in a business venture of his choosing and has an access to capital [1991, p. 5]. Even an author sympathizing with the Austrian approach concedes that entrepreneurship does not require ownership to exist, though of course the exercise of it may be inhibited by limited access to necessary resources [Barry, 1984, p. 43]. These flaws in the view of the relationship between entrepreneurship and ownership taken by Austrian economics reflect its ambiguity over the concept of ownership. For instance, in one of his polemics with market socialism Hayek writes: "If the community is the owner of all material resources of production, somebody will have to exercise this right for it, at least in so far as the distribution and the control of the use of these resources is concerned" (1989, p. 135). But, a few sentences later, it turns out that this central authority would simply have rights of ownership of all real resources [Hayek, 1989, p. 135]. It is one thing, of course, to attribute ownership of the means of production to the community, and quite another to vest it in the state, the centre or some other institution. Moreover, although Hayek is not completely clear on this point, he seems to equate ownership with decision-making or power over the means of production. In the present writer's opinion, this notion is erroneous, as it refers to consequences or preconditions of what Berle and Means call beneficial ownership [1969, p. 8], and not to this ownership as such. To argue that ownership consists in either the power to assign the means of production to given uses or in the power to dispose of the products obtained [Poulantzas, 1979, p. 18] is like staging *Hamlet* without Hamlet. Making decisions determining the use of the object is not the same thing as actually benefiting from that use. It is not the same thing also in the sense that those who exercise control over given assets need not be those who enjoy the fruits of these assets. The above argument applies even more explicitly to Mises, who expressly states that ownership is the right of disposal [1936, p. 517]. If the present writer is correct, the premise of Mises' further reasoning is thus erroneous. From this premise he argues that it is impossible to reconcile socialism with a competitive exchange economy. Under socialism, ownership of the means of production, or the right of disposing of production, must be vested either in the central body, the commune, or in associations of producers. The former solution faces the insuperable contradiction between the inescapably fragmented and decentralised character of economic knowledge and centralised direction. The latter solution, for a change, lacks any coordination mechanism at all [Mises, 1936, pp. 517-8]. The problem is that the latter argument is double-edged and can be directed against free-market capitalism as well. This is another way of saying that, owing to their simplified concept of ownership, the Austrians fail to notice that their criticism of common ownership really only applies to state ownership. But common or social ownership can appear in many different forms, of which state ownership of the East or public enterprises of the West are only some.

Even a writer sympathetic to the Austrian approach notes that group ownership seems to be compatible with market economy as long as there are many groups, independent of each other, and individuals have the choice whether join them or not (i.e., whether to invest their resources in them or not, becoming in this way materially responsible for risks that they take) [Jasinski, 1991, p. 18]. One can even go further and say that the Austrian argument about the dispersed nature of knowledge really reinforces the case for such workers' self-management as tapping into knowledge of many more individuals than is possible under private ownership. On the other hand, it should be noted that workers participation in the decision-making process is of course possible within the capitalist context. Efficiency requires constant information about both the external environment in which the firm functions and its internal operation. This insight underlies not only many individual experiments designed to involve workers in company decision making but also the whole system of industrial relations in Japan. Alas, the Austrian school, focusing as it does on the entrepreneur, has little to say about organizational structure, industrial relations, and other important features of real-world firms. As Hodgson correctly notes, the analysis bypasses the shopfloor and there is silence about the real processes of production [1989, p. 237].

Another deficiency in the Austrian treatment of the entrepreneur is that it fits best early capitalism with its small firms whose owners combined simultaneously the functions of manager and entrepreneur. However, as Lukes observes, there is the ever-growing gap between the economic individualist model and the corporate neo-capitalist reality [1973, p. 153]. In the large, modern corporation the entrepreneurial function may be differentiated among many salaried managers or it may be spread out to the entire workforce if some kind of group incentive can be developed to elicit the workers' participation. Some entrepreneurial functions are being shared by employers with unions, and some are disappearing altogether. In any event "the risks are not ordinarily borne by those who innovate since the professional managements which operate most large firms do not fire themselves for making wrong decisions" [Buckingham, 1958, p. 215]. The last sentence in particular undermines Hayek's case for private and against public ownership to the effect that entrepreneurship is not possible without making those who are responsible for the decisions pay for their mistakes [1989, p. 138]. Buckingham has referred in the above quotation to the disappearance of certain entrepreneurial functions. Schumpeter, as it is well known, went much further in arguing that under modern capitalism the whole entrepreneurial function is becoming obsolete. While his pessimistic view of capitalism as doomed to self-destruction is almost certainly overstated, his perceptive analysis of the routinisation of entrepreneurship and innovation (being, in his view, the main factor in this alleged self-destruction) has much to be said for it. In Schumpeter's view, the function of entrepreneurship is being taken over by a rationalised, bureaucratic form of management, and individual action tends to be replaced by bureau and committee work. Innovation is reduced to a mechanized routine carried out by teams of trained specialists who turn out what is required and make it work in predictable ways [1942, p. 133], and the personal effort formerly producing, to use his well-known phrase, gales of creative destruction loses its importance. One need not agree with all Schumpeter's conclusions to appreciate his effort to explain the real historical development of capitalism. This compares favourably with the work of the Austrian school as a whole. Even Hayek, despite his otherwise laudable work in the theory of cultural evolution, makes little, if any, use of a historical perspective in his account of capitalism. Overall, the Austrians have very little to say about the real-world modern economic system whose main actors are not so much individuals as institutions, such as corporations whose "actions also need to be coordinated, and . . . if this system of internal (nonmarket) coordination does not work well, the information conveyed by prices will be very imperfect, and the agents themselves will be unable to react properly to the cues provided by the price system" [Rapaczynski, 1992, p. 62].

The efficiency of this system of corporate governance obviously cannot be taken for granted, as it seems to be in the Austrian theory. The Austrian argument about the difficulties of the centre with collecting, processing, and acting on the basis of microeconomic information can be easily extended to modern corporations, many of them being very large and highly diversified. It is not plausible to treat such a firm as a single entrepreneur since it is in fact a complex social system consisting of many organizations and individuals whose activities, based as they are on divergent and differently interpreted information, are by no means automatically mutually coordinated. The point about the structure of the economic system is indicative of a further error in the Austrian argument in favour of private ownership. Namely, it is not necessary to assume that buyers and sellers cannot act rationally unless "they own the means of production or own the firms they represent. . . . It is the exceptional, rather than the usual, case where economic calculations are made by the legal owners of resources any more. The growth of the institutions of proxies, professional managements, holding companies, agencies, even the corporate device itself, have shown that an economic system can operate . . . without the direct owner-trader relationship assumed by Mises and Hayek" [Buckingham, 1958, p. 345]. This kind of argument is damaging to Mises' recasted concept of entrepreneur. This concept is a better approximation to reality of modern capitalism in that it takes account of the separation of ownership and management characteristic of large joint stock corporations. It does not go far enough, however. Mises emphasises the important function of "owners . . . the speculators, promoters, investors and moneylenders . . . who buy and sell stocks and shares, who make loans and recover them, who make deposits in the banks and draw them out of the banks again, who speculate in all kinds of commodities . . . [and] in determining the structure of the stock and commodity exchanges and of the money market, circumscribe the orbit within which definite minor functions can be entrusted to the managers discretion" [1936, p. 139; 1949, p. 708; Lavoie, 1985, p. 176]. This argument, however, underrates the role played in the capital and money markets by institutions such as banks, insurance companies, pension funds, investment trusts, etc. Accordingly, an ever-increasing proportion of decisions in these markets is made by professional executives and hired agents of these institutions. Mises' assertion that "The speculators and investors expose their own wealth, their own destiny" [1949, p. 709] does not apply to portfolio managers, trustees, proxies, and others who act on behalf of a plethora of financial intermediaries. One should also not exaggerate the actual importance of bankruptcy. Bankruptcy is a means of last resort; its threat, even when real, will only prevent management from letting the company fall too far beyond the other players in the field. But, by itself, it provides no real incentive to excel in competing, and as long as the company is able to coast along the borders of profitability, the management can do quite well in the meantime [Rapaczynski, 1992, p. 63].

It follows from the foregoing that there is a fatal confusion in the central Austrian argument regarding information. Rowthorn points out that "the view that privatisation will help to generate the information required for effective decision-making . . . is very misleading since the information provided by the market is normally the result of product market competition and not private ownership per se. Product market competition, if effective, will generate the same information regardless of ownership of the enterprise concerned" [1991, pp. 4-5]. On theoretical grounds, the issues of competition and decentralisation of economic decision-making are quite separate from that of public or private ownership. On these grounds at least, therefore, the argument in favour of increased competition does not necessarily entail a justification of privatisation. It is arguable that the sheer technical problems of costing and pricing in state enterprises are minimized when they operate within a general environment of private enterprise since the market place resolves most difficulties. An ocean of private enterprise will determine the level of a bay of governmental enterprise. It is only when the roles are reversed – when governmental enterprises become the ocean and the private ones the bay – that the problem becomes serious [Nutter, 1974, p. 223]. Indeed, Lavoie concedes that the classical Austrian case against public ownership is strictly applicable only to a socialist economy and that it is evidently possible for a few nationalized industries to calculate on the basis of the prices generated by the capitalist market in which they are embedded [1985, pp. 76-7]. There arises another problem, however: that of drawing the line between what counts as a mere bay and what does not. Expressions such as to a certain degree found in Mises [1935, p.77] are not terribly helpful since they do not preclude that the decision in question can be arbitrary. However much truth is there in the Austrian view of the role of prices, and it certainly should not be dismissed entirely, it has some shortcomings. While many Austrian economists concede that price signals need not always be correct, they tend to limit their attention to such cases of this imperfection in which even incorrect (i.e., non-equilibrium) prices convey information by revealing inconsistencies and plan discoordination [O'Driscoll and Rizzo, 1985, p. 39]. But there is more to this than that. Markets are inherently incomplete; there are many public goods, for instance, which, because it is impossible to exclude nonpayers from their consumption, cannot be provided by the market mechanism. The price of such natural resources as air or water is zero. By market logic, this conveys to consumers and producers the wrong information: that the resources in question are not scarce and their supply is infinite. Hence each individual, in deciding upon the scale and character of his own use of the resource, will fail to consider the effect this may have on the welfare of other users. The upshot is overutilisation, overexploitation, excessive pollution, and economic inefficiency. The same argument applies more generally to all externalities, whether in production or consumption, imposing harmful (or beneficial, as the case may be) effects on the welfare of nonconsenting (or nonpaying in the case of benefits) parties. These external costs and benefits are not reflected in market prices. The overexhaustion problem reveals the incurable myopia of a price-market system, which only reflects the interests and needs of those now living but not that of future generations [Blackburn, 1991, p. 37]. The long-term ecological and genetic effects on posterity have to be added to the damage incurred by existing populations. On these matters the Austrian theory is particularly deficient. In his Constitution of Liberty [1960, pp. 367-75] Hayek attempts to brush aside what he calls, disparagingly, neighbourhood effects. Thus Hayek's own laudable emphasis on the unintended consequences of human action appears to be somewhat one-sided, to say the least. For any particular individual, for instance, it may be perfectly rational to buy a car as a convenient means of personal transportation, but the overall effect of all these rational individual decisions is traffic congestion and air pollution, phenomena which probably none of the individuals concerned wanted and none of them would have chosen had they known, but they nevertheless emerge as a consequence of their small-scale decisions in the market. In point of fact, ecological arguments cannot be satisfactorily dealt with by the Austrian subjectivist theory, as Rothbard's discussion, for instance, amply shows. In the framework of subjectivism, argues Rothbard, there is no way that one could assert the superiority of the long-run over the short-run [1976b, p. 103].

According to this logic, if a producer discharges effluent into a river and derives a short-term benefit from this (while necessarily inflicting injury on others and perhaps, in the long-run, even on himself), so be it; after all, it is not possible to criticize anyone's rate of time preference, to say that A's was too high and B's too low [Rothbard, 1976b, p. 103].

Hayek's aforementioned argument about the unintentional nature of market outcomes is biased in another respect as well. Hayek holds that the outcomes of the market that adversely affect the position of an individual cannot be said to be unjust because such outcomes were not willed or intended by anyone. In such a game in which the results for the individuals depend partly on chance and partly on their own skill, there is evidently no sense in calling the outcome either just or unjust [Hayek, 1989, p. 128]. The fact of the matter, however, is that in many cases the outcome of the game of competition in the market is determined neither by skill nor by chance. It is clear that, by and large, those with greatest initial property and income will derive greatest benefits from markets and those with least will derive least [Hoover and Plant, 1989, p. 215]. The economic position of a billionaire's son is hardly a matter of chance, not to say skill. Inherited capital put into an banking account or invested in gilt-edged securities provides the income without any effort and with hardly any risk. Hayek's own defense of inheritance is rather weak and related to a traditional conservatism based on such institutions as the family rather than to classic liberalism. He argues that the family's function of passing on standards and traditions is clearly tied up with possibility of transmitting material goods [1989, p. 337].

Conclusions

Although theoretically sophisticated and philosophically informed, the Austrian school failed to prove that entrepreneurship, innovation, and economic efficiency are associated with the private sector only. Entrepreneurship does not require private ownership to exist and the information required for effective decision-making is the result of product market competition rather than private ownership as such. Finally, it should be borne in mind that this whole counterargument implies one crucial premise: "given a market economy." This is another way of saying that the issue of alternative economic systems and forms of common ownership, which has been merely hinted at above, has remained beyond the scope of this paper.

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