

BOOK REVIEW

AUSTRIAN THEORY AND ECONOMIC ORGANIZATION: REACHING BEYOND FREE MARKET BOUNDARIES

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In her introduction to this collection, Guinevere Nell applauds Austrian scholars for their noteworthy contributions to economics. However, in her view, contemporary Austrians are too often motivated—and constrained—by the search for free-market conclusions, leading them to neglect both the problems of unregulated markets and the promise of alternative forms of organization. To remedy this myopia, Nell's book attempts to apply Austrian theory outside "free market boundaries."

Specifically, the essays collected here survey and revise Austrian theories of organization, and extend them in unconventional

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directions. Given the increasing importance of organization studies in the social sciences, the potential value of this kind of project is large, and several of the papers do live up to their aspirations. Unfortunately, however, the most ambitious chapters tend to suffer serious problems, especially in terms of due diligence.

Before explaining this assessment further, I should say a word about the framing of the book, which is explicitly intended as an antidote for perceived orthodoxy in economics. This motivation is not a problem as such; however, it does unintentionally put critics in a difficult position. Specifically, because the book offers an alternative to received wisdom, critical discussion of its content, especially in support of established Austrian theory, runs the risk of being dismissed as reactionary intolerance. However, while such reactionary writings certainly do exist, they do not mean serious criticism grounded in established Austrian theory is impossible. With that in mind, I now turn to several of the more significant contributions to this collection.

Randall Holcombe's essay on "Improving Spontaneous Orders" provides a foundation for the other chapters either to build on or to criticize. Holcombe provides a concise overview of spontaneous order, along with some advice about how and how not to tamper with it; in general, he suggests "bottom-up" methods, rather than a "top-down" approach. Specifically, "If one is looking for ways to improve spontaneous orders, a good place to start would be to look for ways to facilitate voluntary interaction and to prevent coercive and predatory interaction." (23) Overall, readers will find this essay a useful reference on the definitions and implications of planned and unplanned orders.

The same is true for Per Bylund's chapter, which deals with "The Firm and the Authority Relation: Hierarchy vs. Organization." Bylund pushes organizational theory forward by questioning whether firms can truly be defined by the authority relations within them. His answer is no; instead, Bylund draws on recent work in Austrian economics to argue that firms are market institutions that facilitate entrepreneurial innovation. (116) Authority is at most an incidental aspect of firm structure.

Caleb Miles and Edward Stringham's paper, "Eliminating the Perceived Legitimacy of the State," is also fundamentally about the

problem of order. Rather than firms, however, their chapter studies the emergence of law and coercive government institutions. Miles and Stringham argue, along Hayekian-evolutionary lines, that law emerges as the result of a long-term and often spontaneous process of rule-formation. Contrary to popular belief, states do not emerge as the result of a contract with the people, but through a combination of persuasion and force. Ideology is an especially important part of the persuasive process, as it plays a key role in legitimizing state activity. Consequently, changes in ideology—especially the recognition of non-state sources of order—help delegitimize the state.

One chapter likely to stimulate discussion is Kevin Carson's essay on "Economic Calculation Under Capitalist Central Planning." In it, Carson applies insights from the socialist calculation debate to the modern corporation and its internal organization. In particular, he argues that hierarchical forms of control are inherently bureaucratic, and experience the same calculational chaos that centrally-planned economies do (or, for that matter, that "one big firm" would). However, his essay extends the calculation argument further than Ludwig von Mises, F.A. Hayek, or Murray Rothbard would. According to Carson, the corporate form itself is a creation of state interference in the economy. In a genuinely free market, calculation problems would cause the disappearance of such hierarchical organizations altogether.

I am sympathetic to the substance of Carson's argument, which deserves more attention. Unfortunately, his chapter suffers from its own metaphorical calculation problem, with predictably similar results: its output is not directed toward clear goals, lacks an organized structure, makes inefficient use of resources, and is too large. I am not simply trying to be clever when I say this project would be more fruitful as a series of smaller, more focused papers, rather than "one big essay."

These stylistic issues contribute to a sometimes uneven discussion of economic calculation. For instance, the argument jumps from theoretical to empirical claims without clear transitions. The references are somewhat eclectic, and often draw on sources that are either outdated or out of place. The bibliography, for instance, ranges from the works of Oliver Williamson to science fiction novels. There are also several under-supported claims, including some assertions about corporate management

culture and how managers behave in practice. These claims may well be accurate, but they need to be grounded in more extensive evidence. Especially important, the paper lacks a clear definition of “hierarchy,” which would be useful for separating entrepreneurial from bureaucratic decision making. Fortunately, Per Bylund’s chapter explores this question in detail.

Whatever we make of Carson’s essay, it is an earnest attempt to answer pressing questions in economics. I am not convinced the same can be said for some of the other chapters in this book. Take, for instance, Gus diZerega’s chapter on “Contract, Freedom, and Flourishing.” Before criticizing his essay, I should note that most of it is devoted to a genuinely intriguing discussion of worker cooperatives in Spain’s Basque Country. These cooperatives illustrate the argument—made throughout the book—that horizontal forms of organization can perform just as well as, if not better than, hierarchical forms. A case study of this sort is a welcome complement to the rest of the chapters, which are mainly theoretical.

Regrettably, the bulk of the essay is crippled by its early sections, which try to motivate the discussion of cooperatives with a criticism of free-market economics and/or libertarianism. This framing device is almost completely unrelated to the empirical analysis that follows, and appears added as an afterthought. More importantly, its critical analysis runs into difficulties.

DiZerega’s major claim is that “libertarians and other advocates of unregulated markets”—none of whom, incidentally, are ever identified—defend unrealistic theories of contract and property rights that only function at “high levels of abstraction.” (123) The problem is that the conventional logic of choice does not describe real-world exchanges or contracts, because all of these involve important contextual elements:

[E]very exchange... exists within a concrete context that combines their personal qualities with their historical situation in a certain society at a certain time. In addition, any given exchange occurs within a time frame where its results reflect the context in which it occurred and influence what comes next. (123)

Readers will likely be confused by this claim, especially because diZerega considers it a decisive criticism of free-market thought.

Yet who would deny it? Unsurprisingly, diZerega cites no sources arguing against his position; in fact, many economists have reasoned along similar lines. To take only one example, Ludwig von Mises discussed the importance of “context” at length in his description of economic history. In his view, even though there are universal properties of action, human beings need “specific understanding” of contextual information to fully describe concrete exchanges in the real world (Mises, 2007, esp. 264–284).

In any case, diZerega fails to show that free-market thought is committed to defining its terms in such a way as to eliminate “context.” (130) Nevertheless, he goes on to argue that the notion of context undermines several important libertarian concepts, including self-ownership, voluntary contract, and coercion. Despite the fact that these issues have been debated for decades, he makes almost no reference to the literature. A notable exception is when he misrepresents the work of Mises and Rothbard by claiming that their theories did not—and could not—contribute to the analysis of human welfare:

Sadly the increasing insistence on the impossibility for making “interpersonal comparisons of utility” prevented many Austrians from exploring this rich area of understanding. This was particularly true for Austrians seeking to develop a “praxeological” approach to economics.... If we take Mises and Rothbard’s arguments seriously, praxeological economics has nothing at all to say about whether well-being is increased or decreased by any act of coercion or violence against *any* number of people. It is useless. (129)

The above passage indicates that diZerega has either not read the works he cites, or is uninterested in conveying their actual content (he mentions only *Human Action* and *Man, Economy, and State*: tellingly, without page numbers from either). In particular, any reader of Rothbard’s works knows he not only used Misesian praxeology to develop a systematic approach to utility and welfare economics, but explicitly based this approach on the concepts of cooperation and coercion. Rothbard first elaborated his theory in a 1956 essay in honor of Mises (Rothbard, 1997), and later extended and applied it in *Man, Economy, and State*, which extensively references the original paper (*cf.* for example, Rothbard, 2004, 1061–1068). DiZerega’s claim is therefore mistaken, whether we

accept Rothbard's theory or not. Furthermore, even if diZerega's criticism of praxeology were correct, it still would not show that praxeological theorems are false: it would only mean that economic theory has at least one limitation. Why would this limitation make praxeology "useless"? Is welfare the only subject about which economic theory should inform us?

Consider another example of questionable background research. According to diZerega, Mises supports an "all-too-common image of entrepreneurs as somehow radically different people than those who provide 'labor'" (136–137). DiZerega does not cite any of Mises's scholarly discussions of entrepreneurship to support this claim. Instead, he quotes one sentence from Mises's fan letter to Ayn Rand, which is ludicrously described as an "example from Austrian theory." It is no such thing, and diZerega knows it: it is an informal comment taken out of context by someone who apparently cannot be bothered to actually read what Mises has to say. To take another example, Mises actually wrote a lengthy essay on producer cooperatives (Mises, 1990). If diZerega wants to critique Mises, why not address this argument?

In any case, Mises's letter does not even say what diZerega wants it to. The relevant quote is as follows: "You [Rand] have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you." Out of context, this might appear damning. Yet Mises's meaning is explained by his next sentence, which diZerega does not quote: "If this be arrogance, as some of your critics observed, it still is the truth that had to be said *in this age of the Welfare State*" (Mises and Rothbard, 2007; emphasis added). In other words, Mises is contrasting wealth creation with wealth redistribution, and pointing out the superiority of the former. He is suggesting that entrepreneurs are "superior" in that they create value for consumers rather than redistribute it, as the welfare state does. Moreover, even if this were not Mises's intended meaning, the quote still fails to support diZerega's claim, because it says nothing about "entrepreneurs" as compared to "labor."

My previous two paragraphs devote more space to understanding Mises and free-market thought than diZerega's entire essay. Nevertheless, although I found parts of his chapter

frustrating, I emphasize again that I am discussing only the introductory sections. These contain such a large number of problematic claims and implications that criticism requires far more space than the original ideas. The chapter's framing thus detracts from what otherwise might have been an informative analysis of the cooperative movement.

The final two chapters of the book do the most to build on its central theme of "reaching beyond free market boundaries." These essays, by Andrew Cumbers and Guinevere Nell, respectively, each aspire to do more than simply emphasize decentralized, non-hierarchical forms of market organization in the private sector. Rather, they want to extend these organizational forms to the public sector as well, in an effort to create viable "post-Austrian" forms of market socialism.

The general thrust of each chapter is that free markets produce a number of social ills, including inequality and worker exploitation, and generally fail to provide social justice. A fairly aggressive program of government intervention and economic control is therefore required to solve these problems. At this point, Austrians might raise some conventional objections about the failings of central planning. However, according to Cumbers and Nell, such problems are not insurmountable: Hayek's criticism of central planning, while important, can be accounted for through innovative approaches to social and economic institutions. For instance, non-hierarchical, worker-owned cooperatives operating in competitive markets can solve knowledge problems without conventional private ownership of the means of production (although Cumbers believes this solution would grant too much power to markets). Market socialism gets the best of both worlds by effectively allocating resources *and* meeting the needs of the least advantaged people in society.

Let us assume, for the sake of argument, that this kind of criticism of Hayek is enough to undermine his case against planning (which is debatable). Even so, it is still insufficient to make the case for the possibility of a socialist economy, market or otherwise, because it ignores the *calculation* problem of socialism stressed repeatedly by Mises. As he observes, the impossibility of socialist calculation remains even if we assume that planners possess all relevant information about the availabilities, potential uses, and possible combinations of

resources, as well as the prevailing state of technology (Mises, 2000). Ultimately, economic calculation rests on ownership and the “entrepreneurial division of labor.” Mises’s approach therefore shows that Cumbers’ criticism of market resource allocation—specifically, that markets are flawed because they are uncertain and imperfect conveyors of information—is irrelevant (189–190).

Sadly, Cumbers does not mention Mises at all, and Nell only hints that Mises had a distinctive view of central planning. Similarly, neither references the extensive literature building on Mises’ work, which continues to shed new light on the problems of market socialism (Salerno, 1990a, 1990b, 1993; Machaj, 2007). This neglect, taken in light of Mises’s still-relevant arguments, offers a good example of the usefulness of distinguishing between Mises and Hayek’s critiques of socialism.

The last and most problematic essay in this collection is Guinevere Nell’s “The Post-Austrian School and the New Market Socialism.” This chapter is partly a synthesis of the others in the book, but also extends their arguments in order to further criticize Austrian theory and propose a market socialist alternative. Unfortunately, Nell’s arguments do not live up to their ambitions.

Nell bases her discussion of market socialism on the assertion that Austrians often turn a blind eye to public goods and collective action problems, especially when they threaten preconceived free-market conclusions (197–198). Needless to say, she never provides evidence for this assertion, nor could she, given the enormous number of Austrians writings on these subjects; in fact, her own discussion of Austrian critiques of public goods contradicts the claim that Austrians ignore them (199–201). Ultimately, she manages to summon only a few scattered references to the Austrian literature, including non-academic works. She does, however, cite several critiques of Austrian theory, suggesting that they contain more extensive arguments. Yet readers are usually left in the dark about what these criticisms actually entail (in addition, some seemingly-important references are not listed in the bibliography). The pattern just described, of unsupported assertion, self-contradiction, and vague referencing is repeated throughout the chapter.

Cumbers and Nell each insist that some form of market socialism is necessary because free markets produce a number of important social

ills, including the exploitation of labor and the environment, and wealth inequalities. As evidence, they appeal to general and specific historical examples. However, their evidence persistently highlights the failings, not of free markets, but of government intervention. The most egregious example is Nell's claim that markets can promote discrimination (202–203). As anecdotal support, she discusses a US restaurant that was obliged by neighboring businesses to stop serving food to the needy. In her view, this is a clear example of cultural values driving business to make discriminatory and unjust decisions in the pursuit of profit. However, she goes on to acknowledge that it was not the neighboring businesses, but the *police* who enforced the discriminatory bullying! Nell even observes that such bullying is usually institutionalized through legislation, yet she fails to see this undermines her narrative about *market* discrimination, and actually supports the case for unregulated markets. Her criticism eventually descends into self-parody when she hints that Austrian economists, because of their single-minded focus on the importance of markets, willfully ignore the historical slave trade (204).

In addition to the alleged costs of markets, Nell sets her sights on their benefits as well. She aims high, asking whether markets were the true source of the enormous wealth creation of recent centuries (203). In her view, economists cannot claim economic growth as a victory for markets, because technological and scientific development played important roles as well. As it turns out, this argument has already been addressed by economic historians (McCloskey, 2010, 153–160, 355–365). Scientific and technological advances do contribute to human welfare, but only when entrepreneurs introduce them to markets—it is markets that make innovations accessible to the masses rather than simply to a handful of elites. However, Nell suggests that the causation can be reversed: wealth increases came first, and trade followed after. Critics might reasonably respond by asking how wealth could have grown to any significant extent without trade.

These kinds of straightforward objections are frequently overlooked. Another example concerns Rothbard's distinction between *coercion* and *refusal to engage in trade*, which happens to be the lynchpin of his critique of Hayek (Rothbard, 1998, 219–229). Nell remarks that Rothbard's definition of coercion is flawed because it does not take into account the loss of freedom individuals

experience when their options are limited by forces other than physical aggression. This criticism, however, is the reason Rothbard proposes the above distinction to begin with: according to him, alternate definitions of coercion lead to confusion and contradiction. As before, one does not have to agree with him to see that this argument needs to be at least mentioned.

The same is true for Rothbard's approach to welfare economics, which also comes under fire. In Nell's opinion, the demonstrated preference approach to utility implies, for instance, that homeless people must prefer to live on the streets (226). It seems not to have occurred to her that homelessness might not be an example of preference, but of coercion. Specifically, homelessness is often caused by rent controls, zoning restrictions, failed public housing projects, the effective criminalization of homelessness, and other public measures that make it impossible to find a stable place to live.

Ultimately, however, Nell's argument against free markets and in favor of market socialism rests on the assumption that Austrians do not and cannot endorse any kind of means for allocating resources other than profit-seeking market exchange (228). This claim is simply baffling, and Nell produces no evidence to support it. More significant though is her definition of market socialism: what "makes one a "market socialist"" is the willingness to discuss, "possible ways to support cooperatives, start-ups, nonprofits, and spontaneous order *democratic* solutions" (228; emphasis in original). By this account, practically everyone is a market socialist; moreover, Nell sees no irony in the fact that this assumption and definition appear shortly after her claim that it is the Austrians who conveniently define terms to fit a chosen narrative.

In general, Nell argues that public ownership, when combined with democratic decision making processes and alternative forms of organization (e.g. cooperatives), will produce viable market socialism. In this system, conventional objections to planning are no longer relevant:

In short, assumptions about self-interest underlie much of economic analysis. But what if voters are capable of voting for the true common good instead of for their own pet projects? What if "bureaucrats" were to be true "civil servants" and representatives were to care about doing what is right, rather than about their personal payoff? This could result in the collapse of much of "public choice" economics and of Austrian analysis. (225)

Charles Fourier would be proud: no wonder Marx yearned for scientific socialism. Nell could just as easily suggest that, “if the universe operated on entirely different principles than it does, and if everything we have learned about human decision making and institutions were false, this could result in the collapse of much of “public choice” economics and of Austrian analysis.” In addition, as far as Mises’s theory is concerned, Nell’s claim is inaccurate. As mentioned above, the impossibility of calculation does not depend on assumptions about central planners’ self-interested behavior, or about their knowledge or preferences. It would still exist even under new forms of market socialism, and it will take more than solemnly intoning “cooperatives” and “democracy” to show otherwise.

Several confusions and mischaracterizations come together in Nell’s conclusion, where she appears to endorse each of the following claims simultaneously: real-world economies are in fact free markets; real-world economies are in fact corporatist; Austrians believe real-world economies are free markets; Austrians believe real-world economies are corporatist; Austrians ignore the problems of real-world free-market economies; Austrians criticize the problems of real-world corporatist economies. Using these ideas as a foundation, Nell arrives at the astounding conclusion that, because Austrians embrace the economic status quo (which they do not), they should also endorse market socialism, because contemporary economies are close to market socialism already!

After devoting so much space to criticism, I would like to close by suggesting a positive way forward for Austrian organizational theory. A recurring theme throughout this review is the idea that Mises’s contributions deserve further study, and in fact, that they are most neglected in fields where they are most relevant. With that in mind, I encourage economists to renew their focus on Mises’s work, which has much to say about problems in entrepreneurship, organization, and economic systems. This endorsement does not imply that we can never add to his efforts; still, Mises’s ideas were not only path-breaking in their own time, but continue to inspire a vibrant research agenda, and for that reason, are worth returning to. In any case, researchers hoping to outline workable forms of market socialism cannot avoid challenging Mises’s views. Then again, if the essays in this book are any indication, Austrian economics can rest easy.

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