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An unconventional critique of economic liberalism: Reconsidering the Austrian school in the light of Fernand Braudel

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Abstract

Austrian school of economics tends to identify 'capitalism' with the 'market economy'. A celebrated member of this school once warned that "[t]he psychological problem of why people scorn and disparage capitalism and call everything they dislike 'capitalistic' … concerns history and must be left to the historians." One does not have to be a specialist in history in order to acquaint himself with the *magnum opus* of the "Pope of history", namely *Civilization and Capitalism* of Fernand Braudel. Braudel's full-fledged historical analysis comes to the amazing point that capitalism and the market economy are 'exact opposites.' Capitalists have invariably bent the 'spontaneous' rules of the market so as to convert the 'legible' market data into the 'tacit' knowledge of the privileged few. Consequently, 'money' has served as a 'power' pivot rather than a mere medium of exchange, whereas the 'market process' has had to propagate wealth/power gaps apart from converting individual self-interests into social good. As such, our interpretation puts an entirely new face on liberal economic thought.

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And Diotallevi kept interjecting, sententiously: "Historia magistra vitae." To which Belbo responded: "Come on, cabalists don't believe in history." And Diotallevi invariably answered: "That's just the point. Everything is repeated, in a circle. History is a master because it teaches us that it doesn't exist. It's the permutations that matter."

Umberto Eco (1989), *Foucault's Pendulum*

1. Introduction

It was not accidental that the advent of *industrial* capitalism in its infancy coincided roughly with the emergence of the Scottish Enlightenment with its theme of *laissez-faire* as of the 18th century. Taken root in the era of late feudalism as it might have, capitalism as such came into sight following the mercantilist period. Ascribing the wealth of nations to the amount of bullion they possessed, mercantilism comprised across-the-board protectionist policies in international trade. Scottish economic philosophy then generated a seminal challenge to mercantilism by treating it as 'quack medicine' insofar as the developmental problems of the newly emerging nation-states were concerned. It was David Hume who first identified a self-defeating mechanism within mercantilism by means of his axiomatic version of the classical quantity theory of money. Attacks were then in order upon the state-led protectionism pertaining to mercantilist economies. When Adam Ferguson asserted that "[n]ations stumble upon establishments, which are the result of human action, but not the execution of any human design" (cited in Hayek, 1967: 96, fn.1), he was paving the way for the overthrow of interventionism and planning in the economy. In due course, Adam Smith came up with the appealing metaphor of an 'invisible hand' that represented the price mechanism in a free market economy as a converter of individual self-interests into social good. The propagation of the wealth of nations could not be a matter of state *per se*, but a natural outcome of competitive market forces based on individual liberty. Thus formulated, the Scottish tradition was bound to yield prospective offshoots encircled by a 'liberal creed' in the supremacy of design-averse and plan-free market orders. The essential comrade was embryonic capitalism, making itself a nest of cushions in the form of an urban renewal. The landscape of industrial capitalism and the genesis of a 'free' market economy were standing side by side. Weren't they, indeed, two sides of the same coin, if not Siamese twins?

As such, the philosophy of natural liberty, along with capitalism, has developed as a seminal doctrine, whereby liberal thought in economics has regularly found fertile ground on which to flourish. As the source of inspiration for several mainstream economic attitudes as well as the target of bitter criticism for many heterodox traditions, the doctrine of *laissez-*

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faire and its very implications have proven to be the dominant root of pros and cons. Therefore, "[i]t is no coincidence that most writings on economic thought either start with, or inevitably arrive at, Adam Smith" (Özveren, 1998: 469). Adam Smith was an intellectual leader of singular wit who built a system of political economy, the hard core of which still survives in our day. More momentously, if he lived today so as to be able to examine retrospectively the socio-economic course of the last two centuries, he would most probably come up once again with uniquely influential treatises, which might have entailed particular modifications over his previous tone. Thus, it is by no means a twist of fate that he has had a multiplicity of disciples. However, 'wishful thinking' is an inevitable instinct deep-seated in the essence of mankind. That is, once we attempt to take the veil off the disciple-led liberal thought, we will most likely end up discovering adulterated versions of masterpieces.

So what? So, we may always face an ocean of concealed prejudices pertaining to the 'ideology' of economic liberalism, whenever we happen to inquire into socio-economic phenomena encompassed by the market economy *cum* capitalism. This being the case, we had better discover and utilize particular tools *outside* rather than *within* economics. For instance, if the embeddedness of 'economic history' and 'history of economics' is perceived, the former turns out to be an ideal testing ground for the idiosyncrasies of the latter. Market economy and capitalism have come out as 'factual' systems in human history. However, the very profession of economics has been, more often than not, prone to handle those phenomena in quite 'fictional' terms. The most prominent instance is the above-mentioned 'liberal creed', which has dominated our horizons all through the evolution of economic inquiry from the 'invisible hand' philosophers of classical political economy to the market-friendly mainstream economists of our times. Whether self-proclaimed or not, disciples of this creed have usually put forward fictional conceptions as intellectual background: Money as merely an accelerator of exchange, the market as the naturally most efficient regulator of the economy, and capitalism as a resultant and mirror image of the market order.

Once they identify 'capitalism' with 'the market economy', pro-market attitudes ascribe the virtues of the latter to the survival of the former. A pertinent case, worthy of analysis, is the Austrian school of economics. If there is anything that can be labelled as 'ultra-liberalism', it is one version of the Austrian school that deserves the attribute most. Therefore, insofar as an apt understanding of liberal ideology is required, it is a good idea to analyze this 'eccentric' school. Thus, it is elaborated in the second part. A celebrated adherent of this school once warned that "[t]he psychological problem of why people scorn and disparage capitalism and call everything they dislike 'capitalistic' … concerns

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history and must be left to the historians" (Mises, 1963: 265). Notwithstanding that I am no historian, Austrian economics is re-examined in an essentially history-conscious context in the third part. The *magnum opus* of the "Pope of history", namely *Civilization and Capitalism* of Fernand Braudel, is used as the testing ground. There is general agreement that Braudel is a controversial figure, yet one of the most influential historians of the twentieth century. He has an aversion to capitalism; but his sympathies are with the market, so beloved of the Austrians. What is most fascinating as regards Braudel is that he had his own story to tell about 'money', 'market economy' and 'capitalism.' This grand aspect of Braudel is introduced into analysis while casting a new light on Austrian economics. We are well inclined to interpret Braudel's work as an ideal testing ground whereby the veil on the liberal ideology can be taken off. As 'fact' and 'fiction' are to be detached from each other, Austrian economics is used as a case of far-reaching liberalism, whereas Braudel's 'economic history' is presented as a truly original context of anti-capitalism. I hope that the rationale behind these two choices will be self-evident by the end of the study.

2. An epitome of Austrian economics

2.1. From spontaneous origins of markets to commodity-moneys

One peculiarity of Austrian economics concerns the conception of the phenomenon of 'market', the intellectual question as to the origin, nature and functioning of which remains a subject of debate. The Austrian notion of 'superiority of spontaneity', which implies the 'inferiority of human design', relies on the analysis of the market as an extraordinary institution, which emerges spontaneously, evolves gradually, and functions efficiently. From Carl Menger (the founder of the Austrian school in the 1870s) to Ludwig von Mises and Friedrich Hayek (the most influential members of the school in the second and third quarters of the twentieth century), the hard core continuity within the school has been maintained primarily by a secular adherence to an uncompromising stance that may be called 'pro-marketism.' Notwithstanding their particular differences, Israel Kirzner and Murray Rothbard (Mises' students at New York University) along with Ludwig Lachmann and George Shackle (Hayek's pupils at London School of Economics) were well able to maintain the current of thought involving the same domain of pro-marketism. In addition to their radically subjective individualism and essentialism, the school's attitude towards the market has proven to be distinctive. It is, therefore, a good starting point to recapitulate the Austrian position on the emergence of markets in history.

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As the founder of Austrian economics, Menger (1963: 152) comes up with a seminal proposition: Many social institutions "serve social interests to a high degree and the first origins of which in the great majority of cases can in no way be traced back to positive laws or other expression of intentional common will." In this regard, Menger (1963: 146) sets forth "the most noteworthy problem of the social sciences" as follows: "*How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a* common will *directed toward establishing them"?* Inspired by the Scottish tradition, his own solution to the problem involves a sort of 'invisible hand' reasoning: While behaving *purposefully* so as to pursue their own economic interests, individuals *unintentionally* contribute to common good through a proliferation of well-being opportunities.

In Menger's analysis, the genesis of particular institutions (such as language, law, morals, localities, division of labor, money, markets and the state) is typified by 'spontaneity' as opposed to 'human design.' Spontaneous emergence of institutions relies on an 'evolutionary' causality that runs from *the individual* towards *the social*. Economic action at the level of individual is purposeful in the sense that it aims at discovering *better ways of satisfying individual needs*. Purposeful individual behavior generates unintended yet beneficial consequences at the level of society. Neither planned nor envisaged beforehand, such social consequences epitomize the Mengerian (and at large the Austrian) notions of spontaneity and uncertainty.

In a study such as this, two major socio-economic institutions, the origins of which Menger dealt with on several connections (1892, 1963, 1981) call for a special treatment: Markets and commodity-money. If the so-called 'market economies' of the post-feudal era have to do with the origins and evolution of 'ancient' markets and commodity-money, these two institutions embedded in human history should not be skimmed over. At this point, we had better bear in mind also that Menger's analysis of the origins of monetary exchange constitutes a prototype for the eminent notion of 'spontaneous orders', which were put forward by the subsequent generations of the Austrian school as a rationale behind their uncompromising pro-marketism.

In this construct in economic history, the division of labor and markets emerge spontaneously and evolve in an interrelated mode (Menger, 1981: 236-41). At the start, a primordial form of division of labor exists in the 'isolated' household economies. Production is based on self-sufficiency with no goods being produced for exchange, while a familial authority determines the division of labor and distribution. The evolutionary path launches out on a voyage of discovery at a time when self-interested "persons who have acquired a certain skill offer their

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services to society and work up the raw materials of other persons for compensation" (Menger, 1981: 237). This is 'production on order', which is an institution entailing production-for-exchange along with its limitations.[1] Out of the limited possibilities of production-on-order, self-interests and individual purposes gradually pave the way for a higher form of exchange: "Production for uncertain future sale." At this stage of economic development, producers start keeping goods in stock to meet demand as immediately as it occurs. Consequently, it is this latter institution of exchange that gives birth to 'factories' (mass production) and 'ready-made (standardized) commodities' (Menger, 1981: 238). All in all, "[t]he higher the level of civilization attained by a people and the more specialized the production of each economizing individual becomes, the wider become the foundations for economic exchanges" (Menger, 1981: 239). In this regard, "wider foundations for economic exchanges" arise primarily from "discovering better ways of satisfying individual needs." Individual purposes form the basis of social institutions of exchange, which, in their turn, evolve so as to provide society's needs in better ways. As "structures of everyday life" gradually reach their thresholds, self-interests amalgamate into a slow transformation from self-sufficiency towards the emergence of particular markets, and from thenceforth towards a comprehensive market economy. Within these historical processes, neither collective agreement through positive legislation nor human design through planning has to do with the emergence of division of labor, of markets, and of a market economy. In the final analysis, purposeful individual behavior generates unintended yet beneficial social consequences, thus, entirely regardless of any common will directed towards their institutionalization.

To be precise, "[t]he principle that leads men to exchange is the same principle that guides them in their economic activity as a whole; it is the endeavor to ensure the fullest possible satisfaction of their needs" (Menger, 1981: 180). It is in this way that, in Menger's analysis, markets first come into being thanks to individual efforts aimed at individual satisfaction. Besides, markets, as serviceable and natural formations, enable the emergence of a 'generalized medium of exchange' as a 'natural' by-product. Accordingly, Menger analyzes the emergence of money within the same context of spontaneity. At the barter stage of economic history, purposeful individual action is exemplified by the exchange of surplusses in return for deficiencies, for which there exists an immediate need. However, the commonplace phenomenon of 'double

[1] When production is on order, "[t]he consumer must still wait some time for his product, and is never quite certain of its properties in advance. The producer is sometimes wholly unengaged and at other times overburdened with orders, with the result that he is sometimes forced to be idle while at other times he cannot meet the demand" (Menger, 1981: 238).

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coincidence of wants' prevails as an obstacle to the traffic of goods in the 'ancient' markets of barter. The difficulty of direct exchanges arising thereby acts but as a signal on the part of the most 'perspicacious and ablest' individuals, who recognize that particular wares have a higher demand with respect to the majority of other articles offered for exchange. Consequently, the more alert members of the society start discovering that it is to their advantage to acquire more marketable goods:[2] "[P]ossession of more saleable goods clearly multiplies the chances of finding persons on the market who will offer to sell the goods that man needs" (Menger, 1981: 260). Specifically, more marketable goods can be used for immediate exchange in future, and thus yield a propagation of barter opportunities. It is at this point where the transition takes place from a pure barter system of direct exchange towards an impure barter system of indirect exchange. In pursuit of the fullest possible satisfaction of his needs, man starts using more marketable items as more routine media of exchange, "even when he has no direct need for these goods or has completely satisfied his possible need for them" (Menger, 1963: 152). Among the more marketable wares, individuals "again select those which are most easily and most economically suited to the function of a means of barter" (Menger, 1963: 154). *Purposefully* striving to satisfy their needs as completely as possible and *unconsciously* searching for the most 'liquid' of all goods, individuals *unintentionally* contribute to the eventual emergence of one commodity as the most marketable of all (be it cattle, cocoa beans, copper or silver) and to its institutionalization as a generalized medium of exchange in the form of commodity-money.

As is evident, commodity-money comes into being neither as a product of collective will nor as an invention of state.[3] In contra-distinction, money emerges along a discovery process on the part of more alert individuals, who are then imitated by the rest of society through a

[2] Menger (1892, 1981) also deals with the causes of the different degrees of marketability. Marketability is conditioned by such factors as the number and purchasing power of demanders; availability, durability, divisibility, and transportability of the good in question; the existence of a spatial institution of a market for the item to be exchanged, and so on.

[3] "[C]ertain commodities came to be money quite naturally, as the result of economic relationships that were independent of the power of the state" (Menger, 1981: 262). "[L]egal stipulation demonstrably had the purpose not so much of introducing a certain item as money, but rather the acknowledgement of an item which had already become money" (Menger, 1963: 153). "[B]y state recognition and state regulation, this social institution of money has been perfected and adjusted to the manifold and varying needs of an evolving commerce. … All these measures nevertheless have not first made money of the precious metals, but have only perfected them in their function as money" (Menger, 1892).

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learning process.[4] Emergence of a new medium of exchange along each sequence of discovery-and-learning is not only "typically a self-organised process", but also "self-enforcing because, in each new period of exchange, the use of this medium is more and more efficient" (Arena and Gloria, 1997: 4-5). As such, Menger's evolutionary inquiry into the origins of money, along with its seeming implication of 'natural selection', is of a seminal property in the history of economic analysis, notwithstanding the existence of contrasting assessments in the literature.[5] Indeed, it is not only an original attempt to visualize the invisible hand approach pertaining to classical liberalism, but also the very basis of the Austrian idea of the omni-efficiency of spontaneous orders.

2.2. Mises's 'regression theorem' as a basis for Austrian theory of money

Menger's formative influence on economic thought is not confined to his analysis of the origins of social institutions in general and of money in particular. Menger's reputation also relies on his leading position in the so-called 'marginal revolution' in economics during the 1870s (along with two contemporaneous yet independent discoverers of 'marginal analysis' in economics; namely, William Stanley Jevons and Léon Walras). As a challenge to the classical 'labor theory of value', marginal utility theory of value[6] is presumably Menger's most noteworthy contribution. Nevertheless, in spite of the fact that his theory of value (of commodities) is revolutionary, and although his analysis of the origins of money is fairly original; the entirety of Menger's work does not say much about the determinants of the value of and demand for money.[7]

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[4] "[T]here is no better means to enlighten people about their economic interests than their perceiving the economic successes of those who put the right means to work for attaining them" (Menger, 1963: 155).

[5] For instance, there is a difference of opinion between O'Driscoll (1986) and Hodgson (1992) on this matter. The former regards Menger's analysis of money as a fundamental and enduring contribution to economics, the relevance of which is heightened by the recent work on the micro-foundations of monetary theory. The latter, however, provides a critique on account of Menger's incomplete evolutionary perspective.

[6] For about a century from the 1770s to the 1870s, classical political economists had postulated that value (price) of commodities was determined by the labor-time embodied in the production processes. In a sense, the labor theory of value was supply-based. At this point, one revolutionary aspect of the utility theory of value relied on its demand-centered analysis, in which case the value of a commodity primarily depends on the utility to be derived from the consumption of that commodity.

[7] See, however, O'Driscoll (1986) who argues that Menger's 'methodologically subjective' evolutionary approach to the emergence of money involves an explanation of the demand for money. From the Mengerian analysis, O'Driscoll deduces that money is perfectly liquid, and thus it has a special return for the liquidity services it provides. Therefore, money is demanded for its perfect liquidity.

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Interestingly, however, the first comprehensive theory of the value of money in economic thought is discernibly traced back to another influential Austrian economist: Ludwig von Mises, the author of a treatise on money as early as 1912. Starting from Menger's (subjective) utility theory of value, Mises arrives at the axiom that, like the value of all other commodities, the value of money is also determined by its marginal utility. Furthermore, thanks to his so-called 'regression theorem', Mises is even one of the first economists to emphasize a 'historical' component in the determination of the value of money. And most remarkably, Mises's utility-oriented effort to historically explain the value of money not only brings about a fortification on the part of Menger's exposition of the emergence of money, but also forms the basis of Hayek's memorable contributions to the monetary theory of business cycles.

In accordance with his 'praxeology',[8] Mises inquires into all economic phenomena relying on the subjectiveness of individual preferences. For instance, each and every individual has a 'subjective' preference for holding money as well as for consuming commodities. Individuals assign a 'specific' utility scale to particular amounts of money, just as they do for particular commodities. Subjective utility scales as such yield an objective value of money on the market in the form of actual 'purchasing power', which corresponds to the value (or price) of money. And, what essentially distinguishes a commodity from money is the fact that the former is 'useful' in itself. Individuals value and demand commodities for their 'direct use' in consumption. But money is not useful in itself; it is useful since it possesses a 'prior' exchange value. Individuals know that money has been useful in the past as a medium of exchange, and hence that it will keep this property of exchangeability in the future. Accordingly, individuals derive utility from money due to its price (or purchasing power) that has been already established. In other words, defying a consumption use, money is valued and demanded for its time-honored purchasing power that confers a property of intertemporal exchangeability. "But if the demand for, and hence the utility of, money depends on its preexisting price or purchasing power, how then can that price be explained by the demand"? (Rothbard, 1976: 168). Or the other way round, if the price of money is to be explained by the utility it provides (as postulated by the utility theory of value), how can it be that the utility of money is postulated to depend on the very same price? This seemingly awkward aspect of Mises's application of utility theory of value to the explanation of the purchasing

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[8] Praxeology, as a key-term in Misesian lines, can be shortly defined as the most appropriate 'science of human action' for analyzing economic phenomena. Its hard core properties entail *a priorism* and value-freeness (W*ertfreiheit*) along with an unconditional subjectivism.

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power (price) of money is known as the 'circularity problem' or the 'Austrian circle.' Mises, however, claims to overcome this circular trap by means of his regression theorem (Mises, 1953: 97-123; and 1963: 408-16).

That individuals derive utility from money due to its intertemporal exchangeability is indicative of an important 'historical' component that contributes to the determination of the value of money. People demand money since they derive utility from money; and they derive utility from money thanks to its preexisting purchasing power. To illustrate, money provides utility and thus is demanded on a Wednesday because it had purchasing power on Tuesday. The purchasing power of money on Tuesday is determined by the interaction of the supply of and demand for money on that Tuesday. Demand for money on Tuesday is determined by the purchasing power of money on Monday, which, in turn, is determined by again the interaction of supply of and demand for money on that Monday. Demand for money on Monday again depends on the purchasing power of money on Sunday. In sum, today's demand for money is determined by yesterday's purchasing power of money, which in turn is partially determined by yesterday's demand, which in turn is determined by the purchasing power the day before, and so forth. In the context of this regression, Mises pushes back this historical determination process to the last day when the commodity-money (say, gold) was demanded solely for its own direct consumption use since the historical component in the demand for the commodity-money vanishes on that last day of *pure* barter. The regression, thus, comes to an end when the commodity-money ceases to have a preexisting purchasing power as a medium of exchange. Before and on the last day of pure barter, the commodity-money under consideration is demanded for only its consumption use; it is valued as a commodity only. On and after the day the commodity-money is for the first time used as a medium of exchange, it assumes a 'monetary' value along with its prior consumption use. Only after the individuals start deriving utility from the commodity-money as a medium of exchange, only then can it possess a value (price) in the form of purchasing power.

It is in this way that Mises blends utility theory of value and emergence of money in a historical context. On the one hand, he relates "the ability of individuals to assess the marginal utility of the money unit to this historical process" (Vaughn, 1994: 40). On the other, he lays bare that money must have emerged on the 'ancient' markets as once Menger envisaged.[9] Rothbard (1976: 169) faithfully praises the explanatory

[9] See Mises (1963: 405-7) for his epistemological account of Menger's analysis of the origins of money.

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power of Mises's regression theorem for revealing that "Menger's historical insight into the way in which money arose on the market was not simply a historical summary but a theoretical necessity." Mises's utility theory of the value of money, thus, shows up as a further step in conceptualizing money as an institution 'spontaneously' emerging out of 'spontaneously' evolving barter markets. In essence, the peculiar edifice of the Austrian background is so constituted: True parents of such social institutions as markets and money cannot be found in *collective* human design, but must be traced back to purposeful *individual* action.

2.3. Non-neutrality of money and Hayek's monetary explanation of business cycles

From this spontaneity-centered Mengerian-Misesian background, it may easily follow that if some phenomena owe their existence to complex 'natural' processes involving no human calculation and design, then it is simply impossible to have adequate wisdom to alter and re-design them in a fully conscious manner. And if this statement is taken to be bare truth, *such institutions as markets, money and the market economy must accordingly be exempt from design, regulation, and planning*. However, Menger himself was cautious as to an idea such as this.[10] For instance, he was in agreement with Adam Smith's proposals concerning the acts of intervention for the sake of the poor.[11] Nevertheless, Menger's reservations as such were somewhat neglected by some of his adherents such as Mises and Hayek. That the Austrian school is predominantly identified by a tenet of categorical pro-marketism owes much more to these two figures than to the founder of the school. The Austrian creed that the benevolence of an unregulated market order dictates the malevolence of any kind of planning and regulation finds its best expressions in Mises's insistence on the non-neutrality of money and Hayek's resolute attitude towards the detrimental consequences of premeditated monetary policy and 'artificial' credit expansion.

[10] This cautiousness of Menger corresponds to what Prisching (1989: 49) terms 'Menger's balance.' Prisching's contention is that Menger had explicit reservations for the motto that *spontaneously emerging institutions legitimate a laissez-faire model thanks to the 'higher wisdom' they bear*. Menger's attitude was that of a 'balanced interventionism' in the form of a warning about the preconception that institutions of spontaneous origin and nature always foster welfare better than regulation and planning. For a somewhat different view, see Streissler (1990) who indicates that Menger put much more confidence in the market, as opposed to state interventionism, insofar as the provision of the needs of society is concerned.

[11] At times, Menger was quite clear in this connection: "A statesman, he [Menger] confirmed, who is afraid to reform law to promote welfare because it is of organic [spontaneous] origin, is similar to a farmer, an engineer or a physician who abstains from intervening in the natural organic process because of his admiration of the high wisdom which is deployed by nature" (Prisching, 1989: 49).

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In history of economics, and dating back to classical political economy, 'neutrality of money' meant that money does not matter. Not only monetarists and Walrasian neoclassical economists, but also Keynesians have subscribed to this notion, which implies that monetary changes have no 'real' economic effects (at least in the long run). According to this doctrine, money has an impact on neither relative prices nor composition of output; and changes in monetary aggregates can only affect the aggregate price level leaving the real sector of the economy intact. In this regard, one major premise of Austrian economics is its rejection of neutrality of money. First of all, in the context of Austrian perception, it is by no means appropriate to speak of an aggregate or unitary price level since purchasing power of money can only be defined over a heterogeneous array of commodities. Moreover, each and every individual has a strictly subjective value scale for each and every commodity. Therefore, an *x* percent increase in the money supply is extremely unlikely to yield an *x* percent increase in the price of each and every commodity. Any change in money supply will alter the composition of the array comprising the purchasing power of money. In other words, monetary changes do not influence all prices uniformly (Mises, 1963: 398-99). As Mises insists, "an increased supply of money impinges differently upon different spheres of the market and thereby ineluctably changes relative prices" (Rothbard, 1976: 163). To be sure, once the neutrality of money (along with the quantity theory of money) is so rejected, the impact of deliberate monetary intervention on the economy shows up as a priority item to be analyzed.

Mises's contention at this point is full of warning as he postulates that government-led monetary changes generate permanently 'real' distortions in the distribution of income and wealth (Mises, 1953: 139-45). To Mises, money creation by the government (accompanied by the banking system) is not an unbiased process, but aims at re-directing spending towards pre-determined or 'favored' sectors. As such, expenditure-switching involves establishment of specific *privileges* to particular segments of the society. As the demand for pre-determined commodities increases, their prices rise quicker and more than those of others. In this sense, those who receive the new money earlier benefit at the expense of two larger groups: i) those who receive the new money later, and ii) fixed income groups receiving no new money at all. Hence, the re-distribution of income and wealth through money creation is a zero-sum game. Government-led changes in the money supply constitute a biased policy towards the most powerful and thus the most favored tiny portion of the society. 'Cash-induced' adjustments in purchasing power are appetizing merely on the part of those who enjoy the privilege of receiving the new money earlier (Mises, 1963: 421). In this connection,

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Mises's well-known aversion to *concentration* of economic power in the hands of the state and state-favored groups is self-evident. In accordance with the Austrian trait, it is of course no surprise that Mises passionately favors the free operation of the competitive market forces that *diffuse* power uniformly. Consequently, one presumable interpretation of Mises's standpoint is that so long as the money supply is controlled and regulated by the government and the banking system, a privileged fraction will keep thriving on the shoulders of the remainder of the society.

Relying largely on Mises's earlier works on money, Hayek's theory of capital (1941) in connection with his approach to bank credit expansion forms a delineation of monetary phenomena. It is this portion of Hayek's grand research agenda that reveals him to be an opponent of the Keynesian thesis. Notwithstanding Keynes's overwhelming impact on macroeconomic theory and policy after the Great Depression of 1929, Hayekian assertions on the distortionary effects of credit expansion are worth considering. Revival of the liberal creed during late 1970s and early 1980s owes a great deal to Hayek's contributions in this respect.

For Hayek, 'appropriate' economic growth results from 'voluntary' saving in the economy, and not from an 'artificial' expansion of credit. It is the saving that determines the 'natural' rate of interest, whereas new bank credit leads the interest rate to fall below its natural level. This, in turn, paves the way for a sort of illusion on the part of producers, who erroneously start thinking that interest rates have fallen due to a decreased demand for consumer goods associated with an increased propensity to save. Investment is, thus, stimulated at the expense of the production of consumer goods. The misleading influence of a credit boom yields a mismatch between the expectations of producers and consumers (Hayek, 1975: 3-71; 1948: 220-54; 1978a: 165-78). In Hayek's analysis, it is this *mal-investment* process that basically causes economic crises. Consequently, this artificially initiated yet spontaneously operating process gives birth to detrimental economic fluctuations in the form of business cycles.

In this connection, expectations of the agents in the economy constitute the central theme in Hayek's theory of business cycles. Agents form expectations and take decisions by observing the signals provided by the price mechanism. The 'natural' operation of the price mechanism, which properly coordinates the economy as a whole, generates correct relative prices as signals to be observed by the agents. However, artificial credit expansion distorts this spontaneous-and-efficient process by spawning flawed signals in the form of a hallucinatory availability of credit in the system. Misapprehension created on the part of agents gives way to the formation of wrong expectations, the result being the

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incompatibility of the decisions of savers and investors on the one side, and of producers and consumers on the other. The self-coordination of the economy is thus dismantled through monetary interventionism. In this respect, the implication of Hayek's theory of business cycles is an extension of Mises's repugnance for the concentration of economic power in a few hands favored and sustained by the state apparatus. Unless competitive market forces are allowed to diffuse power uniformly and disseminate correct information throughout the economy, economic crises will keep hitting the bulk of society:

> To summarize: Under the impact of a monetary disturbance, prices will transmit misinformation. The revelation of this misinformation and its correction constitute a recession. The abnormal rise in losses and unemployment is the counterpart to the misallocations created by the misinformation. In short, *monetary expansion and recession are inseparable*! (O'Driscoll and Shenoy, 1976: 205).[12]

2.4. Socialist calculation debate and market order as a dynamic process

As should be clear now, Mises and Hayek together lead the peculiar liberalism of the Austrian school. Apart from their meticulous involvement in monetary matters, their participation in the renowned 'socialist calculation debate' is supremely relevant insofar as the chief characteristics of the Austrian school is to be comprehended. Scrutinizing the possibility of rational "economic calculation in the socialist

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[12] At this point, one exemplary application of the Austrian theory of money can be found in Rothbard's (1963) subscription to the Misesian-Hayekian domain of inquiry. While accounting for the collapse of the US stock market in 1929 and analyzing the protraction of the ensuing Great Depression, Rothbard exhibits a discernible Austrian mannerism. His contention is that the Federal Reserve's expansionary monetary policy throughout the 1920s had culminated in a credit boom that eventually gave birth to the well-known crisis of the 1930s, during which Herbert Hoover's precautionary measures to avoid unemployment and bankruptcies turned out to yield adverse outcomes. Rothbard's thesis is truly Austrian in the sense that the big bang in the financial sector and its real consequences thereafter were both attributed to 'interventionist policies' as opposed to the built-in inclination of the market system towards self-correction. Furthermore, following the 'stagflationary' 1970s that threw serious discredit on the instrumentality of Keynesianism, the Misesian-Hayekian agenda, during the neo-liberal 1980s and onwards, has been quite successful in engendering studies on monetary issues that are essentially Austrian in spirit (Vaughn, 1994: 116-7). For instance, Lawrance White's (1984, 1989) insistence on the defective nature of central bank policies sounded rather meaningful especially in the light of Hayek's (1978b) interesting proposal for the "denationalization of money" in the form of freely competing currencies. In line with the Austrian creed of the superiority of spontaneity, White's student George Selgin (1988) was then able to put forward the evolutionary dynamics that would generate a serviceable banking system without having any recourse to government action. It was Selgin's student Steven Horwitz (1992) who kept elaborating on the same issue while following in the footsteps of Mises and Hayek.

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commonwealth" in 1922, Mises[13] initiated a debate that would extend over several decades. The socialist side of the debate responded through the works of such figures as O. Lange, F. M. Taylor, H. D. Dickinson and A. Lerner.[14] Most importantly, however, a considerable portion Hayek's life can be said to be devoted to repulse socialist-oriented ideas and to embellish his hypotheses on the virtues of a spontaneous market order. His philosophical focus on socialism, liberalism and market order culminated into a huge series of works (e.g., 1935, 1944, 1948, 1960, 1973, 1976, 1979, 1988), which carried him to the status of one of the most prolific political economists of the twentieth century. The Nobel Prize he was given in 1974, thus, was no surprise.

In this connection, both Mises and Hayek deem a freely operating market system, as opposed to central planning, the best and the most efficient order among alternatives. Rational economic decisions can only be based on market data, which are by no means given. According to this Austrian stance, "[a]ctors do not calculate with ready-made information, they have to anticipate, speculate, interpret and 'feel' future developments" (Prisching, 1989: 53). The price mechanism of the market economy serves to integrate "individual-subjective appraisals in a world of uncertainty and permanent change." The central authority of a socialist polity cannot simulate the efficiency of a spontaneous market order. A central planning bureau entails the overthrow of the vociferously complex yet efficiently disseminated market coordination. As such, socialism is an annihilation *de facto* of the spontaneous price signals, without which economic calculation vanishes. This being the case, neither allocation of resources nor distribution of incomes and commodities can be channeled into efficient use under central planning. Hence, to Mises (1935), rational operation of the economy is impossible in a socialist order. Besides socialist appeals, Mises also refutes another intervention-oriented idea, which pleads for a 'balanced' involvement of the state instead of a comprehensive planning of socio-economic institutions.[15] He shows up

[13] This famous article by Mises ("Economic Calculation in the Socialist Commonwealth") was translated from its German original and reprinted in Hayek (1935).

[14] A thorough examination of the socialist calculation debate can be found in Vaughn (1980). The reflections of this relatively old debate have culminated into a lively area of research until recently. Feasibility of socialism along with the idea of 'market socialism' has been widely discussed. On this matter, some of the most prominent studies are: Bradhan and Roemer (1993, 1994), Stiglitz (1994), Adaman and Devine (1996, 1997), Milonakis (2003), Lo and Smyth (2004).

[15] The rationale behind this idea is the necessity of a 'third option' that is suggestive of "a free economic process regulated by political intervention" (Prisching, 1989: 55). Without any alterations in the *status quo* in terms of private and collective property, this scheme had its roots in the 19th century. *Kathedersozialisten* in Germany and *Wiener Fabier* in Austria, as distinguished from both the liberals and revolutionary socialists, were the antecedents of such reformist and revisionist theories.

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again as a decided dissenter owing to his belief that socialism is the most likely heir of balanced interventionism as such. In a similar vein, Hayek considers balanced interventionism, as well as purely socialist practices, detrimental to individual freedom. Hayek's rejection of a centrally planned economy finds its best expression in his praise of a 'spontaneous order', the sole *raison d'être* of which is to embolden and facilitate the materialization of individual purposes. He identifies a spontaneous order with individual liberty and refuses design and planning at the social level. Even though Hayek tends to accept the possibility of rational economic calculation under socialism, he nevertheless insists on the incompatibility of socialism and democracy.[16] In this sense, survival of a market order, characterized by free competition, is indispensable to individual liberty in Hayek's analysis. To him, any intrusion on the self-orderly and competitive socio-economic intercourse paves the way for the overthrow of liberty and for the erection of authoritarian polities. Destruction of individual freedom as such constitutes a dangerous "road to serfdom" (Hayek, 1944).[17] All in all, it is Hayek's fundamental endeavor to impose a spontaneous market order as the most benevolent economic co-ordination mechanism, which therefore calls for elaboration.

A peculiar characteristic of Austrian economics is its 'radically subjectivist' individualism, which is especially distinctive with respect to the 'perfect knowledge models' of orthodox economics. The (unrealistic) assumption of perfect knowledge entails two (fictional) outcomes: i) existence of economic agents as representative decision-makers in terms of their uniform expectations and valuations, and ii) lack of uncertainty since agents, by definition and construction, have complete access to all pertinent information. This is inevitably an 'economics of equilibrium' arising from 'objective' agent decisions in the idealistic world of certainty (Hayek, 1948: 60). Austrian insistence on the essentially subjective nature of individual decisions, however, renders economic analysis an 'economics of disequilibria' in the face of uncertainties (and imperfect knowledge) owing to ever-evolving market processes (Hayek, 1948: 42, 77-91). To Hayek, the market is efficient yet imperfect on the one hand, and economics is a science that basically deals with a coordination problem on the other. Therefore, market knowledge, which

[16] In fact, it has remained a subject of unsolved debate whether Hayek tended to accept the possibility of rational economic calculation under socialism. However, it can be more safely noted that "Mises considered the consistency of a social institution [central planning], Hayek rather the compatibility of two different institutions [democracy and central planning]" (Prisching, 1989: 53).

[17] Moreover, to Hayek, "[b]oth principles, planning and competition, became bad and blunt instruments if they are incomplete. They are mutually excluding principles for solving the same problem, and a mixture of both means that neither will function and the result will be worse than if one had relied on one of them" (Prisching, 1989: 58).

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enables economic calculation and rational decision-making, is essentially 'tacit.' The tacit nature of market knowledge in Hayek's work implies an ever-prevalent 'uncertainty' in the market. With perfect knowledge, agents would already know everything by assumption; that is, there would be nothing to be discovered. However, introduction of 'uncertainty' renders the market a process of discovery and learning through trial and error.

In this Hayekian (and at large Austrian) context, competitive operation of the market creates convergences towards equilibrium. Yet whether equilibrium is eventually reached or not is of secondary importance. It is the dynamic search for equilibrium that makes the market a process as opposed to the static concept that always ends up with Walrasian equilibrium. *Tacit market knowledge is fairly dispersed in the economy, and the price mechanism organizes this knowledge into a 'legible' format. Market participants are to discover and interpret the informative signals provided by the price mechanism, without which the knowledge-in-question remains 'illegible' as if it were a foreign language. What translates it into economy's native language is the price mechanism.* Hence, it is thanks to the price mechanism that participants are able to communicate, and thus the market process is automatically coordinated. Consequently, if it were well organized, central planning could simulate the Walrasian static equilibrium thanks to full information that necessitates no discoveries. However, that sort of a conception of economic coordination is a complete abstraction separated from the reality. To Hayek, what planning cannot simulate is the dynamism of the discovery process, which runs spontaneously. It is this spontaneity that makes the market a benevolent institution, which is singled out by an intricate orderliness (Özveren, 1997).

Springing from Mises and Hayek, the relationship between uncertainty and the market process has been emphasized most notably through the works of Israel Kirzner. He has consistently conceptualized the market as an entrepreneurial process, whereas the role of the entrepreneur is to eliminate or alleviate the disequilibria in the market (Kirzner, 1973). This process is "continually modifying, disrupting, and adjusting the market phenomena that govern the decisions of the market participants" (Kirzner, 1963: 105). At this point, the embeddedness of the market and uncertainty shows up as a crucial notion: "Even the *known* alternative courses of action the individual 'producer' is able to choose from … are by no means *certain* in their outcomes. … To some extent, in fact, *every* course of activity open to him leaves some range of uncertainty concerning the outcome" (Kirzner, 1963: 144). Thus, risk constitutes the essence of decisions taken within the market, and "to speak about such decisions as if they were made in a world without

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uncertainty would be self-contradictory" (Kirzner, 1963: 17). Besides, the market is efficient since it provides its participants with "a *process* that is ceaselessly at work *tending* to prevent waste from being perpetuated and from being carried too far" (Kirzner, 1963: 308-9). In this sense, the market operates efficiently in such a way as to convert the cloudy medium of uncertainties into a much more secure medium through which entrepreneurs can "anticipate, speculate, interpret and 'feel' future developments." Thus, in Kirzner's analysis in particular, and in Austrian economics in general, the ability to speculate is a 'virtue' that pertains to the market *per se*: "[T]he decision to buy a bundle of productive resources at one price in order to resell 'them' … later at a higher price, is *essentially* speculative. In a market there is constant opportunity for this kind of decision to be made…." (Kirzner, 1963: 17-18). Market is an extraordinary institution in this Austrian context, within which pro-marketism keeps on cheering to the echo: "A market economy, even the purest of pure, can never be a utopia" (Kirzner, 1963: 308).

3. Rethinking Austrian economics in the light of Braudel's 'economic history'

3.1. Origin and nature of markets and monies

The three-volume book by Braudel (1981, 1982, 1984), *Civilization and Capitalism: 15th - 18th Century*, is simply admirable, and needs no praise. The whole Braudellian analysis is built around an edifice of three storeys: The 'material life' at the basement, then the 'market economy' in the middle, and the 'true home of capitalism' at the 'commanding heights.'[18] Within this analytical construction, 'power' concentrates at the top, 'economic life' takes place in the middle, and 'self-sufficiency' prevails at the bottom. These three layers, which co-exist in time and space, are in constant interaction with each other throughout history; that is, segments of each may transform the structures of others over time. Therefore, their relative sizes change as time passes and geographies differ. At this point, at least for the Europe of fifteenth-to-eighteenth centuries, Braudel's demarcation among these three levels in terms of a monetary segregation is quite interesting:

> Europe stood alone and was already something of a monetary monster. It experienced the whole gamut of currency experience. On the lowest level, and to a greater extent than is usually believed, were barter, self-sufficiency and primitive money–old expedients, indirect

[18] For those who are unfamiliar with Braudel, it may be astonishing to suddenly come across a marked division between the market economy and capitalism. For the time being, it suffices to note that this distinction constitutes the hard core of the economic history made in Braudel's mind.

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> means of economizing on specie. At a higher level came relatively plentiful supplies of metallic money–gold, silver and copper. Finally there were many kinds of credit, from the pawnbroking activities of the Lombards and Jewish merchants to the bills of exchange and speculation of the great trading centers (Braudel, 1981: 457).

Here, we encounter a temporal and spatial conception of three distinct spheres of *human action* in terms of the use of specific media of exchange. As we move from the bottom towards the top, the media of exchange show up in more 'mature' forms. If we allow enough time to pass within each level, it is reasonable to expect higher forms of exchange to evolve. Therefore, in the first place, one had better keep in mind that Braudel's three-storey edifice, by way of which he conceptualizes the socio-economic life of humanity, involves a sort of monetary evolution in time as well as in space.

In Braudel's analysis, the transformation from the bottom to the middle layer (from material towards economic life) is *gradual* since material life entails slow rhythms:

> Ever-present, all-pervasive, repetitive, material life is run according to routine: people go on sowing wheat as they always have done, planting maize as they always have done, terracing the paddy-fields as they always have done, sailing in the Red Sea as they always have done … And *material civilization* has to be portrayed … alongside that *economic civilization* … which co-exists with it, disturbs it and explains it *a contrario* … This double register (economic and material) is in fact the product of a multisecular process of evolution. … Since the process began, there has been coexistence of the upper and lower levels, with endless variation in their respective volumes (Braudel, 1981: 28).

In this regard, in Braudel's lengthy discussions of the formation of towns or cities all over the world, one can detect the pre-dominance of a spontaneous emergence and gradual evolution of markets out of *social necessity*. When the 'limits of the possible' are reached in material life, a transition starts towards the economic life. Indeed, when the sustainability of self-sufficiency can no more be maintained, the social mechanism starts to give birth to a market economy. Unsustainability of self-sufficiency forces the social mechanism to find a way out. In other words, inadequacy of the existing livelihood possibilities generates the way out in the form of a *gradual* transformation from material to economic life. Towns, as spatial institutions, are crucial within this process:

> Where there is a town, there will be division of labor, and where there is any marked division of labor, there will be a town. No town

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> is without its market, and there can be no regional or national markets without towns (Braudel, 1981: 479-81).
>
> But the decisive step in this long history was taken when the town appropriated these hitherto modest little markets … A city, once it reached a certain size was unable to live off the immediate neighbourhood, usually dry, stony and infertile. It became necessary to look further afield, as the Italian city-states were already doing by the twelfth century, and even earlier. Who was to feed Venice, since the city had never had more than a few poor gardens reclaimed from the sands? (Braudel, 1982: 228, emphasis added).

Not surprisingly, within this transformation processes, the evolution of 'money' accompanies that of the markets. In human history, "[a] rudimentary form of money appears as soon as commodities are exchanged. A *more sought-after*[19] or more plentiful commodity plays or tries the part of money, the standard of exchange" (Braudel, 1981: 442, emphasis added). Such 'more sought-after' or relatively abundant commodities, which served as media of exchange in human history, exhibit a great variety including, for instance, salt, cotton cloth, copper bracelets, gold dust, horses, sea-shells, dried fish, furs, and even slaves (Braudel, 1981: 442-3). Archaic though they might have been, those forms of media of exchange were well able to facilitate and intensify the market transactions then: "[O]ne is obliged to conclude that primitive currencies were indeed forms of money, with all the appearances and properties of money" (Braudel, 1981: 444). As the markets evolved, monies did the same, and vice versa. Put differently, "[b]arter remained the general rule over enormous areas between the fifteenth and eighteenth centuries. But whenever the occasion demanded, it was eked out, as a sort of first step towards money, by the circulation of currencies, such as cowrie shells" (Braudel, 1981: 439). The dual evolution of these two institutions was basically driven by the augmenting set of necessities of the evolving society: "Money only becomes established where men need it and can bear the cost. Its flexibility and complexity are functions of the flexibility and complexity of the economy that it brings into being" (Braudel, 1981: 439).

Such a conception of the emergence of the markets (along with that of money) is most likely to suggest a spontaneous process. If it were possible (or workable) that the transformations had involved conscious human design, the consequences would be obtained presumably much more rapidly. At this point, Braudel's conception of the emergence of the markets is quite akin to that of the above-discussed Mengerian (and thus,

[19] Note the similarity with Menger's terminology, where "more marketable (saleable)" commodities eventually turn out to be generalized media of exchange on the market.

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at large, Austrian) analysis. The Mengerian sequence that runs from 'self-sufficiency' to 'production on order', and thenceforth to 'production for future sale' is compatible with Braudel's historical-evolutionary reasoning. In Menger, it is the problematic nature of self-sufficiency that generates a new way of exchange in the form of production on order; and again the problematic nature of production on order that yields production for future sale and a market economy, and so forth. The notion of *problematic nature*, here, corresponds to what Braudel terms the 'limits of the possible', which, in its turn, is the *primum mobile* of the 'multisecular process of evolution' from material to economic life.

Moreover, and quite strikingly, the embeddedness of the evolution of 'markets' together with 'money', as manifest in Mengerian analysis, can also find support in Braudel's discussion of 'money and credit' as techniques that "become inherited and are inevitably passed down through example and experience" (Braudel, 1981: 477). It is time to recall that "[t]he higher the level of civilization attained by a people and the more specialized the production of each economizing individual becomes, the wider become the foundations for economic exchanges" (Menger, 1981: 239). What is self-evident is that Menger's evolutionary approach is truly akin to that of Braudel:

> The techniques of money, like any other techniques, are therefore a response to express, insistent and often-repeated demand. The more developed an economy became, the wider the range of monetary instruments and credit facilities it employed (Braudel, 1981: 477).

The techniques of money, like any other techniques (such as those of markets, market economy, law, state, etc.), emerge in a spontaneously interconnected mode, and eventually culminate into social routines over time. In this sense, such techniques form social institutions, which come into existence as a response to the *limits of the possible* within *the structures of everyday life*.

Apart from the spontaneous origin of markets and monies, there seems to be another similarity between Austrians and Braudel as to the nature of a 'market economy.' While demonstrating that market economies existed well before the nineteenth and twentieth centuries, Braudel's indication is that the market resembles a process:

> Historically, one can speak of a market economy … when prices in the markets of a given area fluctuate in unison, a phenomenon the more characteristic since it may occur over a number of different jurisdictions or sovereignties. … Prices have fluctuated since ancient times; by the twelfth century they were fluctuating in unison throughout Europe. Later on, this concord became more precise within ever stricter limits. Even the tiny villages of the Eaucigny in the eighteenth-century Savoy, a high mountain region where

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> communication is difficult, saw prices go up and down, from one week to the next, on all the markets in the area according to harvests and needs, in other words supply and demand (Braudel, 1982: 227-8, emphases added).

The distinctive characteristic of the market economy, in this account, can be interpreted to be the harmonious fluctuation of prices.[20] Harmony as such is reminiscent of *converging*, rather than equilibrating, prices. At this point, one can recollect the Austrian conception of the market as a discovery process, through which prices converge towards equilibrium. The Austrians always emphasize the *search for equilibrium* rather than the equilibrium itself. Interestingly, this is more-or-less how Braudel perceives the operation of a market economy: "In an overall structure which had an obstinate tendency towards a routine balance, and which left it only to revert to it, this [is] the zone of change and innovation" (Braudel, 1982: 25). Presumably, the use of a strong adjective like 'obstinate' to characterize the tendency of the market towards equilibrium is to point out that the market leaves the state of equilibrium for tiny intervals of time so as to revert to it immediately. However, unless such deviations from equilibrium were extremely frequent, Braudel would not single out the market as the 'zone of change and innovation.' Therefore, like the Austrians, his foremost emphasis is directed towards the *dynamic nature of the search* towards the routine balance rather than the 'routine balance' itself. Indeed:

> [T]he market complex can only be understood when it is replaced within the context of an economic life and no less a *social* life that changes over the years; and secondly that this complex is itself constantly evolving and changing; it never has the same meaning or significance from one minute to the next (Braudel, 1982: 224).

Consequently, Braudel's authoritative inquiry into economic history tends to reveal that Austrian economics provides us with a serviceable set of conceptions regarding not only the spontaneous emergence and evolution of markets and money, but also the essence of the dynamic market processes. If Austrian economics can break its *a prioristic* mould so as to approve the use of empirics, it seems that Braudel's three-volume *magnum opus* utilized in this study may well serve as a constructive

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[20] For Braudel, not only perfect monetary economies constitute true market economies. His emphasis is on the fluctuation of prices insofar as a definition of a 'market economy' is required. While discussing Colonial America, Braudel regards particular geographies (such as Mexico, Peru, West Indies and Brazil) as *imperfect* monetary economies. "But prices in them did fluctuate–already a sign of a certain economic maturity–whereas up to the nineteenth century prices did not fluctuate in either Argentina or Chile (which nevertheless produced copper and silver). Here they remained remarkably steady, having been so to speak stifled at birth" (Braudel, 1981: 445-6).

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departure point. However, whether the Austrians can find support from Braudel in terms of their categorical pro-marketism remains to be seen.

3.2. Market economy and capitalism as exact opposites

Austrians have consistently shown up as uncompromising opponents of socialism and advocates of a free market system. Socialism entails central planning as opposed to the market system of capitalism. For the Austrians, inasmuch as central planning lacks a freely operating price mechanism, it can by no means translate tacit market knowledge into informative signals. In this sense, a 'market system under capitalism' is superior to 'central planning under socialism', whereas the former and the latter are conceived as *exact opposites* by the Austrians. Here, there is a crucial implication that must be emphasized. In the Austrian context, 'central planning' and 'socialism' are more-or-less the same thing. Much more crucially, and more often than not, Austrians also consider the 'market economy' and 'capitalism' the same thing. This Austrian viewpoint becomes crystal clear in a passage where Mises accentuates the spiky distinction between the market economy and socialism:

> The market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labor: the system of social or governmental ownership of the means of production. This second system is commonly called *socialism, communism, planned economy, or state capitalism*. *The market economy or capitalism*, as it is usually called, and the socialist economy preclude one another (Mises, 1963: 258, emphases added).

The seeming peace between the Austrians and Braudel comes to an end precisely at this point. Braudel's analysis yields that market economy is one thing, and capitalism quite another. In Braudel's three-storey edifice, the middle floor corresponds to the *transparent* market economy characterized by *free and fair competition*, whereas the top-layer of capitalism makes its abode from *speculation and calculation*. Rather than a simple categorical demarcation, Braudel, by means of his grand research program, arrives at a sharp difference between the very *mentalities* involved in the market economy and capitalism:

> In this confrontation between model and observation, I found myself constantly faced with a regular contrast between a normal and often routine exchange economy (what the eighteenth century would have called the *natural* economy) and a superior, sophisticated economy (which would have been called *artificial*). I am convinced that this distinction is tangible that the *agents* and men involved, the actions and mentalities, are not the same in these different spheres; and that the rules of the market economy regarding, for instance, free competition as described in classical economics, although visible at

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> some levels, operated far less frequently in the upper sphere, which is that of calculations and speculation. At this level, one enters a shadowy zone, a twilight area of activities by the initiated which I believe to lie at the very root of what is encompassed by the term capitalism: the latter being an accumulation of power (one that bases exchange on the balance of strength, as much as, or more than on the reciprocity of needs) a form of social parasitism which, like so many other forms, may or may not be inevitable (Braudel, 1982: 22).

The first implication of this difference between the market economy and capitalism is as follows: While spontaneous emergence of markets out of social necessity (i.e., out of the unsustainability of self-sufficiency) is quite reasonable an inference from Braudel's scheme, the same may not be true for his conception of the 'world-economies' that are built up at the level of nations as well as at a world-scale. Indeed, "it would be more accurate to think of the market economy as being *built up step by step*" (Braudel, 1982: 228). The transformation from the middle (economic life) towards the top storey (capitalism) is more likely to involve human calculation rather than spontaneity. The higher interface corresponds to the 'commanding heights' where capitalists hold the keys to long-distance trade and communication networks. Being "*sufficiently informed* and *materially able* to choose the sphere of its action", the typical capitalist, regularly and quite *consciously,* has been able to "bend the rules of the market economy" (Braudel, 1982: 400-1). In other words, it is the very mentality of capitalism "to *direct and control change* in such a way as to preserve its hegemony." *Natural* operation of the market economy is invariably and inevitably accompanied by an *artificially* capitalist influence on the way to the establishment of nation- and world-wide market economies. Therefore, a crucial warning to Austrians logically follows: *Some phenomena may owe their existence to complex natural processes involving no human calculation and design, but some powerful circles are prone to engage in truly artificial practices to paralyze the natural or spontaneous orders.* The agents within such powerful circles are commonly called 'capitalists' in Braudel's analysis!

Capitalism is a *shadowy* zone, where exchanges are based on the 'accumulation of power' among capitalists themselves, and against the market economy vertically downwards. The *transparent* market economy, however, operates on the 'reciprocity of needs' between producers and consumers, and between savers and investors. Within this setting, capitalism and market economy are not only different from each other, but also *exact opposites* (Braudel, 1982: 22). To be clearer, the market economy comes "with its many horizontal communications between the different markets: here a degree of *automatic coordination* usually links supply, demand and prices" (Braudel, 1982: 230, emphases

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added). Free and fair competition prevails in the framework of "a normal and often routine exchange economy." On the other side, the *artificial* economy of capitalism is more sophisticated:

> Then alongside, or rather above this layer [i.e., above the market economy], comes the zone of the *anti-market*, where the *great predators roam and the law of the jungle operates*. This—today as in the past, before and after the industrial revolution—is the real home of capitalism (Braudel, 1982: 230, emphases added).

This major aspect of Braudel's work is in sharp contrast with the Austrian viewpoint. Braudel's analysis is indicative of the impossibility of 'pure' *laissez-faire*. 'Let them do, let them pass' may well be interpreted as follows: *let capitalists stampede on the market as they please!* Put differently, if the capitalist mode of action is not controlled or regulated, capitalists tend to give up competing, and engage in monopolistic practices. *Laissez-faire* relies on competition, but competition can be maintained only through regulation of and control over the market:

> Price control … has always existed and still exists today. … In theory, severe control over the market was meant to protect the consumer, that is competition. One might go so far as to say that it was the 'free' market, such as the 'private marketing' phenomenon in England, that tended to do away with both control and competition (Braudel, 1982: 227).

At this point, one may identify two opposing functions of the state in Braudel's analysis: "the state as regulator, as protector of 'competition'" and "the state as 'guarantor' of the very monopolies" (Wallerstein, 1991: 360). In this sense, it is the capitalist mentality *per se* that has preferred and still prefers to get rid of the *true* free market by way of converting the 'regulator state' into a 'guarantor state.' In order to "bend the rules of the market economy" (so that they can engage in hugely profitable businesses in terms of a concentration into monopolistic structures), what capitalists badly need is 'unchecked' markets. So long as the capitalist mentality prevails over the market economy, true competition can by no means be maintained without genuine intervention. In this connection, it would be interesting to carry out a mental exercise as to what Adam Smith would think of Braudel's analysis. To be sure, Smith had lived at a time when it was somewhat early to directly pronounce such terms as 'capitalist', 'capitalism' or 'capitalist mentality.' However, only after we take Braudel's standpoint seriously, only then can we find that, in the following excerpt, the father of economics was telling about a mentality of a similar family:

> The interest of the dealers … in any particular branch of trade or manufactures, is always in some respects different from, and even

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> opposite to, that of the publick. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the publick; but to narrow the competition must always be against it, and can only serve to enable dealers, by raising their profits above what they would normally be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens (Smith, 1976, Vol. 1.: p. 267).

3.3. By way of conclusion: Money under capitalism

While Braudel defines a market economy in terms of harmonious fluctuation of prices, he identifies capitalism with its ability to adapt to varying circumstances:

> Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to present-day West, it is here above all that such unity must be located and observed (Braudel, 1982: 433).

But where on earth has capitalism been able to find the tool to preserve its unity for about seven centuries until today? How was it so successful to adjust and by means of what? Braudel gives us the hint:

> The more developed an economy became, the wider the range of monetary instruments and credit facilities it employed. And in the wider international unity that money represented on a world scale, each society had its place, some favored, some backward, some heavily handicapped. *Money gave a certain unity to the world, but it was the unity of injustice* (Braudel, 1981: 477, emphases added).

Capitalism as a historical system exhibited a protracted survival thanks to the utilization of money as a 'power pivot.' The role of money in the market economy is to serve to the 'reciprocity of needs' as a medium of exchange that facilitates and accelerates transparent and competitive transactions. However, money under capitalism turns out to be a tool of 'power accumulation' to be employed in large-scale businesses and long-distance transactions, which yield reward in the form of speculative monopolistic profits. But, how were the capitalists time-and-again so successful in maintaining their hierarchical superiority to shape their sphere of action at will, presumably oftentimes at the expense of the non-capitalists? Interestingly enough, the search for an answer to this question brings about another difference between Braudel and the Austrians.

In the light of Braudel's analysis, one may argue that the transparent market with fair and free competition (i.e., without capitalism) actually harbors a reasonable level of uncertainty. Austrian insistence that

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speculation is a virtual ability diffused within the context of market process becomes trivial in Braudel's scheme. Once the abode of speculation and calculation is singled out as capitalism (i.e., the anti-market), the Austrian attribution of uncertainty to the market ceases to be valid. At least some market knowledge is not tacit. However, it is rendered tacit by the very capitalistic practices. Even since the 15th century, capitalists have been able to manipulate the *status quo* in accordance with their interests. Converting the 'regulator state' into a 'guarantor state', capitalists have always managed to get rid of control and competition while establishing a coalition with the state power. In turn, they were incessantly successful in bending the 'spontaneous' rules of the fairly and freely competitive market economy through converting competition into monopolistic and privileged practices; *thus through converting the legible market data into the 'tacit' knowledge of the privileged few*:

> In the course of this book, the reader will have noticed that reference is often made to the underlying notion of gambling, risk-taking, cheating; the rule of the game was to invent a counter-game, to oppose the regular mechanisms and instruments of the market, in order to make it work differently–if not in the opposite direction (Braudel, 1982: 578).

In this respect, the market economy under capitalism has hardly ever been a true process of discovery for all participants. By using money as a means of coercion at the commanding heights, capitalists have invented their own native language, which the 'true' market process could never understand and translate:

> [C]urrencies are languages…: they make dialogue both necessary and possible and they only exist when the dialogue itself exists. … To hold a conversation one has to find a common language, some common ground. The merit of long-distance trade, of large-scale commercial capitalism, was its ability to speak the language of the world trade. … Long-distance trade was the source of all rapid 'accumulation'. It controlled the world of the *ancien régime* and money was at its command, following or preceding it as necessary … Money too is a means of exploiting someone else, at home or abroad … (Braudel, 1981: 440-1).

Hence, the market as a discovery process could never be as superior as Austrians supposed. However, the state has usually been against the market, as the Austrians rightly insisted. But, interventionism as such has been against the market not because of a tendency for central planning; but because of state's being usually hand-in-hand with capitalism. Under these circumstances, the market system under capitalism implies a refracted conversion of individual self-interests into social-well being.

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Indeed, the market has usually implied the maintenance of capitalistic privileges. As we argued elsewhere (Özveren and Özçelik, 2001), the market is like a neutral container. What it actually contains under the capitalist regime is a set of economic power differentials. Such differentials are dictated to the market process prior to the operation of the process. The market thus continues to reproduce such differentials.

Consequently, an irony with respect to Braudel and the Austrians deserves to be the concluding paragraph. For Braudel, the distinction between the market and capitalism finds expression in the sharp contrast between *the natural* and *the artificial*; indeed, between *the good* and *the bad*. For the Austrians, however, capitalism is almost the mirror image of the *natural* and *spontaneous* market process. In the final analysis, thus, Braudel would not reject the Austrian motto that *spontaneity* is superior to *human design*. Of course, it matters a great deal what is truly *natural* and what is not.

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Özet

İktisadi liberalizmin farklı bir eleştirisi: Fernand Braudel'in ışığında Avusturya Okulu'nu yeniden değerlendirmek

Avusturya iktisat okulu 'kapitalizm' ile 'piyasa ekonomisi'ni özdeşleştirme eğilimindedir. Bu okulun tanınmış bir üyesi bir zamanlar şu uyarıyı dile getirmişti: "İnsanların kapitalizmi küçümseyip hor görmesiyle ve hoşlanmadıkları her şeyi 'kapitalist' diye nitelemesiyle ilintili psikolojik sorun … tarihin ilgi alanına girer ve tarihçilere bırakılmalıdır." "Tarihin Papası"nın başyapıtını, yani Fernand Braudel'in *Uygarlık ve Kapitalizm*'ini okuyup anlamak için tarih uzmanı olmaya gerek yok. Braudel'in tüm ayrıntıları göz önüne alarak geliştirdiği tarihsel çözümleme, şaşırtıcı bir sonuca ulaşır: Kapitalizm ve piyasa ekonomisi 'zıt kutuplar'dır. Kapitalistler, herkesin kolayca anlayabileceği piyasa verilerini ayrıcalıklı bir azınlığın yararlanabileceği 'örtük' bilgiye dönüştürmek için piyasanın 'spontane' kurallarını her zaman tahrif etmiştir. Sonuçta, 'para', basit bir değişim aracı olmaktan çok, bir 'güç' ekseni olarak kullanılmış; 'piyasa süreci' ise bireysel çıkarları toplumsal yarara dönüştürmekten çok, servet/güç farklılıklarını çoğaltmak durumunda kalmıştır. Bu yorumumuz liberal iktisadi düşünceye büsbütün yeni bir görünüm kazandırmaktadır.

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