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Stimulate the Catallaxy?

Last fall and winter's brouhaha over the so-called economic stimulus package got me thinking about how far off target most people are when they talk about "the economy." To hear the politicians and commentators tell it, the economy is a big machine located somewhere in Washington, D.C. That machine requires a skilled operator, and elections are more or less occasions for choosing that operator. Sometimes the machine slows down and needs a stimulus—perhaps an infusion of cheap credit, or government spending, or even tax cuts. At other times it risks overheating and needs to be cooled down—perhaps higher interest rates or a tax increase.

This misapprehension is helped along by a good part of the economics profession, many of whose members see themselves as the aspiring mechanics.

To state the obvious: an economy isn't a machine. The term is an abstraction, even a metaphor, and we always get ourselves into trouble by taking metaphors literally. As F.A. Hayek was fond of pointing out, the word "economy" has its roots in the Greek word for household. (Remember those home-economics courses?) Even though a household is composed of individuals, it can usefully be thought of as a unit in the sense that its financial affairs are largely arranged around a single set of ends. (There's a limit, of course, to how far that can be taken.) We go astray the moment we apply this description to larger collections of people. As soon as we begin talking about the city's, state's, or nation's economy we have severed our moorings from reality because those groupings do not have a single set of ends.

That is why Hayek preferred the word "catallaxy" to "economy"; it comes from the Greek word for "exchange." A catallaxy is "not a single economy but a network of many interlaced economies" (*Law, Legislation, and Liberty,* volume 2).

Another economist and Nobel laureate who is sensitive to this matter is James Buchanan, one of the pillars of the Public Choice school of political economy. His concerns are collected in the Liberty Fund volume *What Should Economists Do?* In the title essay (originally an address given in 1963) Buchanan identifies what can only be described as the central collectivist premise of most economics, namely: some entity larger than the individual—usually the nation—must allocate scarce resources. Many heavyweights in twentieth-century economics—not just socialists—regrettably let that premise stand, Buchanan points out: Lionel Robbins never identified the allocator; Frank Knight attributed economic activity to the "social organization"; and even Milton Friedman held that (Buchanan quoting) "economics is the study of how a particular society solves its economic problem." Not that those men did not realize that groups consist of individuals. But as economists, Buchanan fears, they too readily left the impression that economics deals with a collective's solution to an allocation

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problem. It's a short step from a collective to a machine.

That's not how Buchanan sees economics. In contrast to the view that the economy is a "*means* of accomplishing the basic economic functions that must be carried out in any society," he believes "The market or market organization is not a *means* toward the accomplishment of anything. It is, instead, the institutional embodiment of the voluntary exchange processes that are entered into by individuals in their several capacities." He adds: "This is all that there is to it."

Contemplate how different this conception of economy is from the general impression. As Buchanan writes, "Individuals are observed to cooperate with one another, to reach agreements, to trade. The network of relationships that emerges or evolves out of this trading process, the institutional framework, is called 'the market.' It is a setting, an arena, in which we, as economists, as theorists (as onlookers), observe men attempting to accomplish their own purposes, whatever these may be."

In such a conception of economy, where is there room for words like "overheated," "cooled down," and "stimulus"?

Economic Subjectivism

In another essay in his book, "General Implications of Subjectivism in Economics," Buchanan flaunts his affinity with the Austrian school of Hayek and Ludwig von Mises. Here he writes, "The principle that exposure to economics *should* convey is that of the spontaneous coordination [of individuals] which the market achieves. The central principle of economics is not the economizing process." And he warns that economics will "become applied mathematics or engineering" if its practitioners think it is.

Subjectivism in economics is the recognition that economic phenomena emerge from what human beings believe, think, and do, and not from data they may know nothing about or rarefied statistical aggregates and averages. Subjectivism is good insurance against seeing the economy as a machine and the government as its vital attendant. Or as Buchanan puts it, "to the extent that subjectivism tends to concentrate attention on the interaction among persons and away from the 'economic problem,' an understanding of the principle of order is facilitated rather than retarded."

Subjectivism can be seen most starkly in the notion of costs. Much economic theorizing (and bureaucratic meddling) regard costs as objective. That perspective encourages social engineering. After all, if those who would move us about the national chessboard had to confess that they cannot know the costs of their maneuverings, they would have a harder time justifying their power.

But they *cannot* know those costs. "The costs that influence 'choice' are purely subjective and these exist only within the mind of the decision-maker," Buchanan writes. When one confronts two alternatives, one is really confronting two mental projections of what the world *might* be like in the future. Either or both projections could be wrong. At best they are educated guesses. And since one of those imagined worlds will *never* be realized, the chooser will never know if he was wrong about that one. But that world forgone is the true cost of the alternative chosen because that's what the chooser gives up to achieve it. We often think of costs as money paid. But while money is indispensable for making calculations, it does not express the true opportunity cost of a choice. No one wants money for its own sake, but only for what it can buy now or later.

An economy is *people* cooperating to better their situations. Thus a "stimulus package" is fundamentally objectionable not because of anything that may be in the bill. (Tax cuts are always welcome.) It is objectionable because of its rationale. Government should endeavor to stay out of the way of productive activity at all times, not just when various numbers are deemed too high or low. □