

## The Ugly Market

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One of the most intriguing paradoxes surrounding modern capitalism is the hate, the fear, and the contempt with which it is commonly regarded. Every ill in contemporary society is invariably blamed on business, on the pursuit of private profit, on the institution of private ownership. Those who have pierced the shrouds of hate and ignorance with which the critics of the market have enveloped it, inevitably come to ask themselves why so valuable a social institution is held in such universal contempt and dislike. The question is one which has a scientific fascination of its own. But the question has significance extending far beyond mere scientific curiosity. As Mises pointed out, “A social system, however beneficial, cannot work if it is not supported by public opinion.”<sup>1</sup>

Those who are convinced that the market system is uniquely capable of mobilizing and developing the resources available to a society in a manner able most faithfully to reflect the wishes of its members, while it protects and nourishes their political and economic liberties, have for a long time been aware of the unfortunate validity of this statement. The ability of the market to serve society has been and is continually being undermined by the attacks levelled by its ideological opponents and by the powerlessness of the public to withstand these attacks. Public opinion has come to be moulded in a direction overwhelmingly antithetical to a market orientation. The “anti-capitalist mentality” has come to pervade the thinking of the masses who are the market’s chief beneficiaries, of the intellectuals and social scientists who might have been expected to be its principal interpreters and exponents, as well as of the entrepreneurs and business leaders who constitute its pivotal instruments. It is surely a tribute to the extraordinary vitality and power of the market system that in the face of such deep mistrust, and the teeth of massive and well-nigh crippling state intervention (deriving largely from this anti-capitalist mentality), the system still continues to support an enormously complex division of labor and to generate an unprecedentedly high flow of goods and services. How long this can be continued in the face of widespread lack of confidence in the efficiency and morality of the system, must seriously trouble those concerned for the very survival of the system.

An understanding of the nature and sources of this anti-capitalist mentality is, therefore, crucially important. If this mentality is to be dispelled, its principal features must be clearly pointed out, and its sources identified. A number of scholars have addressed themselves to this task. A series of papers by various writers was published under the editorship of Hayek two decades ago,<sup>2</sup> drawing attention to the anti-capitalist bias of historians, and relating this to the hostility towards the early emergence of capitalism in the eighteenth and nineteenth centuries evinced at the time by the aristocracy and the intellectuals. Almost four decades ago Hutt<sup>3</sup> brilliantly analyzed the causes, not so much of the existence of the anti-capitalist mentality itself, as of the surprising inability of the economists to influence public opinion towards an appreciation of the beneficent operation of the competitive market process. More recently both Mises<sup>4</sup> and Stigler<sup>5</sup> have sought to explain the emergence of the strong antipathies shown towards the market system by so many, including the intellectuals who might have been expected to be its most enthusiastic supporters. Historians of economic thought have, and no doubt will, chart the vagaries in the attitudes of economists

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<sup>1</sup> Ludwig Von Mises, *Human Action* (Yale, 1949), p. 861

<sup>2</sup> F A Hayek (Ed.), *Capitalism and the Historians* (Chicago, 1954).

<sup>3</sup> W H Hutt, *Economists and the Public, A Study of Competition and Opinion* (London, 1936).

<sup>4</sup> Ludwig Von Mises, *The Anti-Capitalistic Mentality* (Van Nostrand, 1965)

<sup>5</sup> George J Stigler, "The Intellectual and the Market Place," *National Review* (Dec. 1963).

themselves towards the social usefulness of a decentralized system of decision-marketing based on private property.

The following discussion of the anti-capitalist mentality will attempt to identify three distinct levels at which this mentality demands analysis: *First*, we will notice the objections explicitly raised by critics of capitalism. It is through these charges, criticisms and denunciations that the anti-capitalist mentality finds overt expression. *Second*, we will identify the analytical premises which inform (or misinform) the stated criticisms expressive of the anti-capitalist mentality. Any attempt to respond to the criticism raised at the first level must sooner or later search out the weaknesses of the analytical bases—at the second level—for these criticisms. *Third*, we will take note of the deeper attitudes which have inspired the various forms of anti-capitalist mentality. Whatever the stated, specific denunciations of capitalism, whatever the errors in economic analysis which are implicit in these denunciations, a thorough understanding of the anti-capitalist mentality cannot avoid ultimately coming to grips with the deep-seated prejudices and engrained habits of thought which are, both consciously and unconsciously, responsible for the antipathy shown to the market system. We will now take up in turn three levels which we have identified.

### **The Stated Criticisms**

The list of denunciations of the markets system is both well known and long. They range from those which condemn the system on moral grounds to those which attack it on more narrowly economic grounds. We will make no attempt to do more than merely recite this list. It is not our main purpose here to grapple with these criticisms. Rather we list them to indicate the range of expression of the anti-capitalist mentality, and more importantly, to distinguish these stated criticisms sharply from their theoretical underpinnings, and from the unstated attitudes to which they are, in large measure, so be ascribed.

The market system is indicated as feeding and responsible for the *materialistic aspects* of modern society. It is blamed as promoting and permitting the expression of *selfishness* and *greed*. It is charged with encouraging *fraudulent behavior*. It is denounced as *debasing the tastes of the public* through advertising, fraudulent or other wise, leading them to demand products and services which are in fact *harmful* and *degenerating*. The system is held accountable for the *destruction of the environment*. It is denounced for *destroying* the self-esteem of its workers, for generating profound *alienation, despondency* and *despair* within society, as well as for widespread *insecurity and anxieties*. The *inequality in incomes* which characterizes capitalist countries is denounced as evil in itself and socially deleterious in its consequences. This inequality is condemned as exemplifying the fundamental *injustice* of the market system; it is perceived as expressive of economic *oppression* and *exploitation*. The market system is made to shoulder responsibility for *racism*, for *sexism*, for *imperialism*. The market is given failing grades in its strictly economic functions. It is seen as producing shoddy, dangerous products for *the profit of the businessman rather than for the use of the consumer*. It is seen as generating cataclysmic spasms of *overproduction, unemployment and monetary crisis*. It is seen as *subverting the operation of political democracy*. It is blamed for the corruption of government and for the *concentrations of dangerous centers of economic power in big business*.

No doubt this list is an incomplete one. But it does present the range of anti-capitalist cliches with which we are all familiar. Sooner or later the anti-capitalist mentality expresses itself in one or several of these charges, denunciations and criticisms.

Before reviewing the *theoretical bases* for these criticisms, it is important that one observation be made. This is that while in most cases these denunciations can be sustained only in the context of particular theoretical views (so that the revelation of fallacies in these views renders these objections harmless) the objections themselves are usually raised without benefit of *any explicit*

theoretical framework. An undesirable aspect of capitalist reality is observed, whether it is the prevalence of fraud or unemployment, or racism, or greed. This aspect is then uncritically attributed to capitalism itself. The circumstance that, in the nature of things, undesirable features of capitalist reality—or, for the that matter, of any reality—abound, must in some measure account for the continual reappearance of old denunciations of capitalism in new guises despite their earlier refutations.

### Anti-Capitalist Theory—The Stigler-Zweig Thesis

We now turn, then, to examine the theoretical bases which nourish the overt denunciations of the market system listed in the preceding section. In this, we confine ourselves to those (often merely implicit) views of anti-capitalists which seem most clearly vulnerable to critical scrutiny. It is not, to repeat, our purpose here substantively to deal with the objections listed in the preceding section. Nor, in fact, do we necessarily maintain that each and every one of these objections is entirely without force. But in examining the analytical “vision” expressed by the anti-capitalist mentality, we find it expedient to draw attention only to those aspects of it which, we believe, dispassionate consideration reveals to be flawed. In fact our purpose in setting forth the theoretical underpinnings of anti-capitalism is to illustrate what may be termed the Stigler-Zweig thesis.

This thesis is that the traditional training of the professional economist predisposes him towards a free enterprise view on economic affairs. This thesis has support from more than one quarter within the ideological spectrum. In a well-known paper a dozen years ago, Stigler advanced this thesis: “the professional study of economics makes one politically conservative” (with a “conservative” defined as one “who wishes most economic activity to be conducted by private enterprise, and who believes that abuses of private power will usually be checked, and incitements to efficiency and progress usually provided, by the forces of competition”)<sup>6</sup>. More recently Michael Zweig has expressed, on behalf of the New Left, the similar view long held by socialist critics of orthodox economics: that marginalist analysis (with which orthodox economics is held to be completely identified) is not only “irrelevant,” but that it can be “pernicious,” so that “marginalism is fundamentally counterrevolutionary.”<sup>7</sup> In an essay introducing a volume of reading which includes many contributions from both the New and Old Left, Lekachman, too, has registered his opinion that marginalism is a “highly conservative notion.”<sup>8</sup>

Our survey of the theoretical groundwork of the anti-capitalist mentality will confirm this thesis. We will discover, that is, that this theoretical vision is inconsistent (to say the least) with that which underlies economics analysis. So that *this* level discussion of the anti-capitalist mentality must perceive it, as Mises has insisted again and again, as the *denial of economic science*.

It is to be observed that the Stigler-Zweig thesis, or a variant of it, is relevant not only to the theoretical bases for these anti-capitalist objections which are strictly economic in character, but also to those which underlie the denunciations concerned with the morality of the market system. The habits of thought engendered by economic analysis enable one to avoid ethical judgments which are mutually inconsistent or otherwise rest on logically invalid foundations.

If the preceding section consisted of a list of well-worn denunciations of capitalism, the following pages will turn out to offer a catalogue of those fallacies which teachers of introductory economic theory find themselves again and again forced to unmask.

<sup>6</sup> G J Stigler, “The Politics of Political Economists,” *Quarterly Journal of Economics* (November 1959); reprinted in *Essays in the History of Economics* (Chicago, 1965), pp. 52-53.

<sup>7</sup> M Zweig, “A New Left Critique of Economics,” in D Mermelstein, (Ed.) *Economics: Mainstream Readings and Radical Critiques* (New York, 1970), p. 25.

<sup>8</sup> R Lekachman, “Special Introduction” in Mermelstein, *op. cit.* p. xi.

(a) *One man's gain must be another's loss*: Innocence of economics is often most clearly manifested by the refusal to recognize that free exchange must have been viewed as (at least prospectively) beneficial by both sides to the deal. The error of insisting that gain in the market must be at someone else's expense is responsible for a wide range of denunciations of the market. These include charges of exploitation of sellers by buyers (as in the case of labor), and of exploitation of buyers by sellers (as in the case of landlord relations). This error is responsible for the perennial willingness of critics of capitalism to prohibit exchanges in which they perceive one of the parties to be receiving inordinate benefit. The error is, further, one of the foundations for the condemnation of profits in general, and thus of the entire market system insofar as it is the social manifestation of the profit motive.

(b) *Blaming the waiter for obesity*: Failure to perceive the degree to which the notion of consumer sovereignty manifests itself in the market is responsible for what Stigler has called blaming the waiter for obesity. In the most naïve forms of this fallacy, the market system is condemned for the efficiency and abundance with which it ministers to consumer tastes which the critic does not share. To a large degree the condemnation of capitalism for "materialism" reflects this aberration. (One recalls that not only the market has been condemned for its materialism, but economists have been denounced for their interest in such a debased topic as the material side of human existence.) To some degree the condemnation of business for producing shoddy or dangerous products reflects a failure to understand that consumers are simply unwilling to sacrifice as much as would be necessary to enjoy a higher level of quality and safety. There can be no doubt that current denunciations of capitalism for its effect upon the environment must, to some extent, be seen as reflecting a value placed upon the quality of the environment which is higher than that placed by consumer in general.

To a certain extent, the charges of racism and sexism levelled against capitalism are expressive of the same blindness towards the direction in which causes and effects are related in the market process. At somewhat less naive levels of discussion, the "blaming the waiter for obesity" fallacy resurfaces as an attack on advertising and selling effort in general. If it is not the waiter himself who is to be the culprit, it is the neon sign outside the restaurant, or the tempting aroma of good food escaping therefrom, which are perceived as the villains. It is perhaps because elementary economics in fact generally fails to make clear the role of selling effort in the entrepreneurial process of seeking to serve the market, that this particular form of the obesity fallacy is advanced so triumphantly by economists who ought to know better.

(c) *Petulance at costs (or the denial of scarcity)*: To a surprising extent the criticisms of anti-capitalists turn out to reflect merely an impatience at the costs inevitably associated with the achievement of desired goals. Again and again undesirable features of the economic landscape are cited as evidence of the failure of the market. (Incidentally, the same fallacy is, to be sure, often committed in the course of procapitalist criticisms of socialist economies.) Here it is not so much that the critic ignores or disagrees with the values of consumers, as that he simply refuses to recognize that efficiency in achieving more highly valued goals may necessitate the deliberate renunciation of otherwise important goals which happen to be less urgently valued. Long working hours, poor working conditions, loss of pristine environmental beauty may, elementary economics teaches us, be evidence not of the failure of the economic system (whether capitalist or socialist) to achieve its goals, but of the very efficiency with which it channels resources away from less crucial goals towards those more highly valued. Some aspects of what the critics deplore as worker alienation, or of the anxiety and insecurity felt by market participants, would surely be appraised rather differently were they recognized as the inevitable costs of division of labor or of a social system in which freedom of entry for competitors is the prime motive force. At a somewhat more subtle level, the often deplored garishness and pervasiveness of modern advertising take on a different aspect when perceived as a social cost made necessary by the sheer multitude of

products from which the consumer in successful capitalism must choose. The very affluence of capitalism, it turns out, reveals a new guise in which scarcity manifests itself—the scarcity of information of what to consume out of the available riches. Anti-capitalist critics—it turns out—are ill-equipped to perceive these insights of elementary economics.

(d) *The fear of anarchy*: as Hayek has repeatedly pointed out one of the clichés of our age sees a blemish in anything that “is not consciously directed as a whole,” that this is a “proof of its irrationality and of the need completely to replace it by a deliberately designed mechanism.”<sup>9</sup> In particular, this fallacy is related to “the inability, caused by the lack of a composite theory of social phenomena, to grasp how the independent action of many men can produce coherent wholes, persistent structures of relationships which serve important human purposes without having been designed for the end.”<sup>10</sup>

There can be no doubt that this “lack of composite theory of social phenomena” is the view underlying an enormous volume of anti-capitalist criticism. The anti-capitalist mentality, it is clear, is to great extent, coextensive with ignorance of, or a refusal to acknowledge, the insights into the market *system* which economics theory reveals. Once it is taken for granted that a society unplanned from the top must generate incessant chaos, it becomes easy enough to seize on targets that may be held to exemplify that chaos. Even where critics of capitalism recognize the determinateness of market forces, they see them as nonetheless chaotic in the sense that these forces are believed to lead in socially undesirable directions.

(e) *Fear of the consequences of greed*: Closely related to the preceding analytical prejudice is that which tends to attribute undesirable consequences to the market simply because the market permits greedy or selfish individuals to act out their impulses. Because freedom to trade means freedom to act greedily or selfishly, it is believed the consequences of laissez-faire must inevitably tend to be nasty, brutish and jungle-like. What is being implicitly denied in this respect is the ability of the market process to harness the greed of its participants so as to serve the wishes of the other participants. Refusal to perceive the constraints upon individual actions imposed by the market permits anti-capitalists to interpret those aspects of the economics landscape which they deplore as the only-to-be-expected, sinister consequences of a social system based on selfishness and greed.

(f) *Blaming the market for the results of intervention*: As is well-known, the market system is frequently criticized for features of contemporary economic society which are, in fact, to be attributed to state *interference* with the market. Of course, to the extent that it is *contemporary* capitalism which is being attacked, there can be no objection to this. However, such criticisms of capitalism, it all too frequently turns out, are in fact deployed to attack not the statist interference with the market process, but the market system itself. We have here a simple analytical failure to recognize, within the complex tangle of modern capitalism, the consequences of its market elements, from those of non-market admixtures. This analytical failure manifests itself in many of those objections to capitalism which relate to absence of competition generated by government-imposed barriers to entry (or from limitations on international trade), or to maladjustments arising from government price controls of various kinds or to cyclical maladjustments (including large-scale unemployment) generated by massive government monetary expansion. In all such criticisms, what is at issue is the theory maintained (perhaps implicitly) by the critics that the undesirable features being exposed are to be attributed not to departures from the market, but to the untrammelled workings of the market process itself.

<sup>9</sup> F A Hayek, *The Counter-Revolution of Science* (Free Press, 1955), p. 87.

<sup>10</sup> *Op. cit.*, p. 80 (italics supplied). See also F A Hayek, *Individualism and Economic Order* (London, 1949), pp. 7 ff.

(g) *The "Nirvana Fallacy"*: As the final entry in our (doubtless incomplete) list of analytical fallacies, we present what Professor Demsetz has labeled the "Nirvana Approach."<sup>11</sup> (In fact we will present it in a somewhat broader context than that identified by Demsetz). Demsetz explains that "those who adopt the Nirvana viewpoint seek to discover discrepancies between the ideal and the real and if discrepancies are found, they deduce that the real is inefficient."<sup>12</sup> There can be no doubt that many critics of capitalism are judging its efficiency and/ or morality by comparison with some ideal norm that can have little relevance for real problems. In so doing they overlook the fact that improving an imperfect world must take place against the background of that imperfect world; that it is usually simply impossible to remake whole systems in their entirety; that even where this is possible, the costs of doing so may make imperfection relatively attractive and efficient.

The nirvana attitude of many anti-capitalists manifests itself in various ways. Thus the market is frequently blamed for the distribution of incomes to which it gives rise without regard to the circumstance that the market presupposes some initial distribution of resource ownership (especially in regard to the resources embodied in human beings themselves). Or, where marginal analysis is indicted for accepting without challenge the institutional structure (including the existing property rights system) within which marginal adjustments are contemplated to be made, there is no awareness on the part of the critics, of the *costs* (transaction and policing) of remaking the social system from the very foundations. Or, again, as Demsetz has shown, critics who have pointed to externalities or other circumstances spelling inefficiency, have frequently ignored, in their calculations, the cost of resources that would be required to correct these inefficiencies.

### **The Sources of the Anti-Capitalist Mentality**

Our survey of anti-capitalist criticisms of the market, and our identification of the analytical confusions which have frequently supported these criticisms make it of special interest to review now the underlying psychological attitudes and prejudices which might fuel this mentality. The very recognition of the confusions which abound in the theoretical underpinnings for so much anti-capitalist criticism, makes it clear that such criticism must be nourished by deeply held values and prejudices. The literature cited earlier in this paper, together with several additional sources, yield the following inventory of attitudes from which anti-capitalism might easily be expected to spring.

(a) Mises has dwelt at length on the *resentments* which can arise from *frustrated ambitions*, of the *envy* on the part of the intellectuals and the white-collar workers of the good fortunes enjoyed by successful entrepreneurs.

(b) Similar in important respects must be judged the widespread views that economic inequalities are somehow immoral and seriously undesirable per se. Here the often vicarious envy of the wealthy and sympathy for the poor must be judged as predisposing observers of capitalist inequalities towards "sinister" interpretations of the sources of these inequalities.

(c) Deep-seated contempt for greed and for self-centered activities is clearly responsible for a readiness to believe the worst about capitalism.<sup>13</sup>

(d) An almost similarly deep-seated contempt for the low tastes of the masses and thus for the businessmen who cater to these low tastes is responsible for treating the *market* as vulgar and crass. It becomes, in fact, all the easier to blame the vulgarity of mass tastes upon the businessmen who minister to them.

(e) Closely related to high-brow disdain of mass tastes, must be listed man's love for the natural over the artificial, his preference for more spaciousness over urban congestion and complexity. Since the spectacular success of industrial capitalism was accompanied by the loss of the simple, natural life for which so many of us yearn, capitalism itself has come to be the villain.<sup>14</sup>

<sup>11</sup> H Demsetz, "Information and Efficiency: Another Viewpoint," *Journal of Law and Economics* (April 1969).

<sup>12</sup> *Op. cit.*, p. 1.

<sup>13</sup> One thinks here in particular about Ruskin.

<sup>14</sup> See the above cited *Capitalism and the Historians*.

(f) And again, the yearning for simplicity abuts on the deep-rooted unwillingness of men to be forced to be efficient. Modern capitalism is despised and feared because it successfully mobilizes available resources to serve socially needed purposes.

(g) Widespread *fear of economic power* must be considered one of the attitudes responsible for anti-capitalism. While what Professor Petro has recently called the “economic power syndrome”<sup>15</sup> is often accompanied by an explicit theoretical position which denies the role of consumer sovereignty, it seems clear that in many instances the syndrome in fact *precedes* the theoretical position needed to support it. Thus the very success of capitalism in organizing production in efficient, large-scale productive units is responsible in fact for the suspicions which have led to its being so bitterly attacked.

(h) Professor Hutt has pointed out that opponents of economics are often the victims of what he calls “custom-thought”<sup>16</sup>—intellectual inertness. To be sure custom-thought may work in more than one direction. But the long list in the preceding section of this paper of economic fallacies subscribed to by anti-capitalists suggests that intellectual inertness might indeed play a not insignificant role in the anti-capitalist mentality.

(i) Finally we notice, as an explanation for the persistence of so many elementary fallacies, the role of the “corruption of opinion by interest.” Professor Hutt<sup>17</sup> has provided a full review of the role of “power thought” in this regard. Here again, of course, opinion can be corrupted by interest in more than one direction. But when one thinks of the businessmen who stand to gain from governmental protection against domestic or foreign competition and of the many who, rightly or wrongly, believe that a different order of things would redound to their benefit, it cannot be denied that this must be counted an important source of anti-capitalism.

### **Wresting with the Anti-Capitalist Mentality**

Traditionally apologists for capitalism have addressed themselves to the specific stated objections and accusations advanced by the detractors of the market. In attempting to do this they have, of course, found it necessary to search out the logical fallacies which support these objections. At the same time awareness of the more deeply rooted prejudices which seem to be responsible for the continued vitality of the anti-capitalist mentality, raise doubts as to the efficacy of this strategy for the ideological defense of the market. Recognition of the three-level character of the anti-capitalist mentality emphasized in this paper can be of help in identifying what must be faced. At the level of stated objections, there is an enormous variety of possible manifestations of the mentality. Refutation of one particular objection in one form does not prevent its reappearance in some other form. Clearly, for this reason, theory has crucial role to play in refuting the analytical fallacies responsible for entire group of possible objections and denunciations of the market. On the other hand, the very generality of theoretical discussion makes it possible for critics of capitalism to fail to see how the theories relate to *particular* features of the market which seem to invite criticism. The proper *application* of theory is, of course, in many ways more difficult than theorizing itself.

Moreover, economic theory is for various reasons not well-adapted for the task of combating anti-capitalism. Theorists are scientists whose attempts at maintaining *value-freedom* in their work seem to render them unprepared to serve as apologists for a particular system of social organization. Again, the *sophistication* of modern theory is hardly conducive to the correction of popular misconceptions. (We recall that Edwin Cannan, for this reason, appealed for *simple* economics). There are grounds for believing that the character of much contemporary theory, especially in its emphasis on equilibrium conditions, is not well-suited for the explication of the

<sup>15</sup> See Sylvester Petro, “The Economic-Power Syndrome,” in *Toward Liberty (Mises Festschrift)*, Vol. II, p. 274.

<sup>16</sup> *Economists and the Public*, p. 50.

<sup>17</sup> *Op. cit.*, Chapters III and IV.

social function of the market.<sup>18</sup> At the ideological level defense against the anti-capitalist mentality seems to require continual new applications of fundamental theory to new situations.

But on the other hand, our awareness of the role of theoretical fallacy and of the impact of the multitude of specific denunciations of the market, must make us cautious in imagining that the anti-capitalist mentality can be dispelled by any device that fails to come to grips with each of these levels of its manifestation. No matter how successfully one or more of the underlying anti-capitalist prejudices may be neutralized, the possibility of logical error yet remains and the availability of apparently undesirable features of capitalism ready to be used in its denunciations has not yet been eliminated. Moreover, the formidable list of anti-capitalist prejudices must raise doubts concerning the likelihood that they can be successfully neutralized by any simple means. To be sure, any advance is desirable if its costs are acceptable. But the degree of advance needed to make a visible dent in the anti-capitalist mentality must require the most careful examination of the costs involved in any proposal.

Many students of capitalism have pointed out that, despite its advantages, there may well be grounds for predicting its replacement by other systems. One thinks of Schumpeter's thesis in this regard. One possible reason for arguing that capitalism is unstable is that it is a social system which generates a negative public opinion so powerful as to spell its ultimate death. This paper has attempted to identify the sources of this tendency. Only by recognizing the nature and the power of these forces can we hope, through patient teaching and discussion, to dispel the hate and the ignorance which surround the free market.

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<sup>18</sup> One thinks here in particular of Professor Buchanan's plea that economics be understood as a sophisticated catallactics, the theory of exchanges and of markets. See his "What Should Economists Do?", *Southern Economic Journal* (January 1964).