**Introduction**

*Spontaneity* is a concept of general significance across the humanities and sciences, though it is rarely acknowledged as such, and even less often made an explicit object of humanistic or scientific inquiry. *Spontaneous* phenomena are simply those that emerge, to some degree or other, without design. They are (in whole or in part) *unintended* *consequences*. Within the broader class of spontaneous phenomena are spontaneous *orders,* iterated patterns of activities of a set of elements, human or otherwise, that manifest despite none of these elements aiming at their manifestation. Spontaneous *social* orders emerge over time from myriad decisions, actions, and interactions, without being objects of any of the individuals whose decisions, actions, and interactions contribute to their emergence.[[1]](#footnote-1)

Given that natural science is exclusively occupied with phenomena that lack a human designer – and, as David Hume showed in *Dialogues concerning Natural Religion*, need not be concerned with the possibility of a supernatural designer – spontaneous phenomena are the currency of natural science.[[2]](#footnote-2) Inasmuch as the events of human history are not the products of omniscient and omnipotent puppet-masters who design and realize the manifestation of these events as intended – again, Hume, in his *History of England*, is perhaps the best source for the notion that human history is largely a sequence of mostly accidental occurrences at best meagerly controlled by fickle and degenerate, short-sighted and unjustifiably egotistical, fools – spontaneity is a significant concept for historians, as well.[[3]](#footnote-3) Even if its importance is obscured and seldom explicated, spontaneity is involved in natural and humanistic phenomena, and accounting for spontaneity is methodologically essential in related disciplines, if these phenomena are to be adequately explained.

In the social sciences, however, the significance of spontaneity is not only obscured, but frequently denigrated and, if only implicitly, denied. The neglect, if not outright denial, of the significance of spontaneity for the manifestation of social phenomena is apparent in those political-philosophical and social-scientific traditions that Thomas Sowell associated with the “unconstrained” vision of humankind’s causal role in society.[[4]](#footnote-4) The unconstrained vision maintains, among other pertinent premises, that human knowledge – or, at least, the knowledge of an elite technocratic vanguard – is adequate to the purposes of deliberate social improvement. Though the quiet part is rarely spoken out loud, it is frequently assumed, by both mainstream social scientists and the political users of their analyses, that the social sciences (with input as required from the natural-scientific and humanistic disciplines) generate the knowledge that humans need to design society to their liking.

It was the Scottish Enlightenment philosophers – especially Hume (of course), Adam Ferguson, and, most famously and importantly, Adam Smith – who made spontaneity safe for the social sciences at their birth. Yet, with a few significant exceptions, spontaneity has been relatively neglected in the development of these disciplines over the subsequent quarter-millennium, at least, as compared to the dominant role that the enlightened Scots assigned to it. One might note some irony here. The history of social-scientific ideas could not be adequately retold without invoking spontaneity to explain the growth of this neglect, for it was surely not the product of a rational design set down in advance by the founders of economics and the social sciences, e.g., Hume and Smith!

Over the course of this history, particularly since the so-called “marginal revolution” from which it emerged in the 1870s, the Austrian School of economics has been foremost among schools of social science in sustaining and further advancing the spontaneous-order tradition. The Austrian School’s emphasis on the role of spontaneity in the manifestation of social phenomena began with its founder, Carl Menger, who placed the concept at the core of his social-scientific methodology.[[5]](#footnote-5) In the early 1920s, Ludwig von Mises invoked spontaneity to explain the superior performance of markets over planned economies with regard to the goal of promoting economic equilibrium.[[6]](#footnote-6) Mises’ mentee (never his student), F. A. Hayek, probably did more than any of his predecessors (or followers for that matter) to develop the concept of spontaneity and use it to help explain an extensive array of diverse phenomena. Hayek also wrote extensively on the nature of spontaneous orders and, in so doing, deepened Menger’s, Mises’, and other Austrian economists’ contributions to the spontaneous-order tradition.[[7]](#footnote-7)

It is remarkable to note that many of these scholars shared, beyond a common belief in the significant role of spontaneity in the manifestation of various social phenomena (and a preference for classical liberalism that seems almost concomitant with this belief), an interest in money, monetary theory, and monetary policy. Indeed, the Austrian economists’ later contributions to both the spontaneous-order tradition and the theory of money often built, if sometimes only indirectly, on the earlier ideas of the Scottish philosophers.[[8]](#footnote-8)

In the first part of the present essay, I examine this history – the history of the concept of spontaneity in philosophy and the social sciences, particularly as it relates to monetary phenomena – in greater detail. I then offer an argument, based on some of my own recent work, for the general significance of spontaneity.[[9]](#footnote-9) The essay concludes that scholars across the humanities and social sciences, whatever their (disciplinary, political, ideological, etc.) persuasion, would be well-served to further develop the theory of spontaneity and its social effects.

**An Adumbrated History of Spontaneityas a Philosophical and Scientific Concept, especially as it Relates to the Philosophy of Money**

*The Scottish Contribution*

*Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.*

—Adam Ferguson, *An Essay on the History of Civil Society*

This quotation, frequently repeated by Hayek, is perhaps the clearest statement of spontaneity in the literature, which is probably why Hayek returned to it so often.[[10]](#footnote-10) Ferguson makes explicit that there is a class of social phenomena that are *caused*, but not *intended*, by human beings. Social institutions are accidental, “stumbled upon,” rather than first designed and then implemented according to design.

One might wonder why the painfully obvious fact that human beings can cause, that human action can produce, *accidents* required explication at all, and especially why it took till the eighteenth century to be explicated and made a topic of inquiry. Part of the answer would seem to be that, while everyone acknowledges the possibility of *negative* accidents, e.g., of slipping on the ice and breaking one’s neck, the possibility of *positive* accidents, of (in some sense) positively valenced, morally good, or otherwise beneficial consequences that transcend actors’ intentions, is less obvious. The aphorism that “The road to hell is paved with good intentions” is well-known, but there is no counter maxim that one can reach heaven by acting on bad (or even morally neutral) intentions.

Another part of the answer might be the possibility, pointed out by Ferguson, of not merely occasional or one-off accidents, but of accidental “establishments” that persist over time, without anyone aiming at their manifestation, much less their persistence. That many hallowed institutions first emerged unintentionally, without any contribution from human reason, is both counterintuitive and, at least for those inclined to venerate reason, difficult to accept.

Of course, the significant fact that philosophy and science were mostly subordinated to theological conceptions of the world prior to the (late) Enlightenment also bears mentioning here.[[11]](#footnote-11) There are no accidents, positive or negative, in a world the result of God’s will. The explanatory problem in such a world is to trace phenomena back to a divine design, perhaps as partially channeled through human action. There is no place in most theological conceptions of the universe for truly spontaneous phenomena that manifest without any designer whatsoever, be they human or supernatural. Somehow, the conception of a world-designed-by-God was replaced (one assumes spontaneously) by that of a world-designed-by-humans, in which the possibility of spontaneous social, if not natural, phenomena found no more extensive place.

Related to this, Hayek argued that the failure to appreciate the reality of spontaneous orders was a consequence of a certain rationalistic epistemology and its outsized influence on modern thought.[[12]](#footnote-12) According to Hayek, “constructivist rationalism,” which he associated with René Descartes’ epistemology, assumes that nothing is closed off to the human mind and, more to the point, that society can be effectively remade at will.[[13]](#footnote-13) There is no third category in constructivist rationalism that splits the difference between the human-made (or “artificial”) and the undesigned (or “natural”); there is no place for human-made-but-undesigned phenomena.[[14]](#footnote-14) Whatever humans have made, the constructivist rationalist insists, they must have intended to make and be able to remake at will. Given that humans have made society, the constructivist rationalist argues (or, less charitably, if more accurately, assumes without argument), humans can remake society as they like.[[15]](#footnote-15)

It is perhaps then less of a surprise that it took the “anti-rationalist” philosophers of the Scottish Enlightenment to finally make spontaneity and, in particular, spontaneous orders, central to their inquiries. This is not to deny them precursors. Joel Kaye, in his contribution to the present *Handbook*, argues that the self-coordinating properties of the emerging monetary order were recognized and emphasized by various 13th- and 14th-century scholars. Ronald Hamowy names Chuang Tzu, a Chinese intellectual of the fourth century B.C.E., Giambattista Vico, and, especially, Bernard Mandeville, as predecessors of the Scots.[[16]](#footnote-16) Montesquieu and his *The Spirit of the Laws* might also be mentioned. It is to stress, however, the Scots’ comparative originality in firmly rejecting the epistemological presuppositions of the preponderance of their intellectual forebearers and especially in assiduously following up the logical implications of this rejection.

The Scots invoked spontaneity in their explanations of several kinds of phenomena. As noted above, Hume established the fundamental methodological principle of (what would later be called) the natural sciences, that a designer is neither necessary nor sufficient to explain natural phenomena, and that natural phenomena are thus to be treated as undesigned for the purposes of their explanation.[[17]](#footnote-17) In his “History of Astronomy,” Smith argued that all inquiry begins with “surprise” and “wonder,” and that the goal of inquiry is the removal or moderation of these sentiments. Successful inquiry “soothes the imagination and [renders] the theatre of nature a more coherent, and therefore a more magnificent spectacle, than otherwise it would have appeared to be.”[[18]](#footnote-18) Put another way, the goal of inquiry is to make the spontaneous emergence of relevant phenomena cognitively and psychologically tractable. Hume offered a famous account of the unintentional development over historical time of the conventional rules of liberal justice, i.e., stability of possession, consensual exchange of property, and fulfillment of promises, while Smith presented a theory of the spontaneous emergence and operations of moral sentiments.[[19]](#footnote-19) Of course, spontaneity is also in the background of the famous “man of system” passage from Smith’s *Theory of Moral Sentiments*; in particular, in Smith’s preference for the “man whose public spirit is prompted altogether by humanity and benevolence,” who “will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people,” over the man of system, who “is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it.” The man of system “seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess‐​board.”[[20]](#footnote-20)

However, it was in thinking about the economy and, in particular, the institution of money– its initial emergence in society, its economic value, and the economic, and other societal, effects of changes in its supply – that the Scots (and later the Austrians) found especially fertile ground for exhibiting and analyzing the significance of spontaneity.[[21]](#footnote-21)

The core insight of the quantity theory of money – that the general price level is directly related to the quantity of circulating media of exchange – has been recognized, if at times only murkily, since antiquity. Hume accepted the notion that an increase in the supply of money would ultimately affect the general level of prices in the long run, but he emphasized the spontaneous path that such a fillip would take as it worked its way through various markets.[[22]](#footnote-22) That a change in the money supply ultimately affected the general level of prices did not foreclose the possibility that it could affect relative prices among specific classes of goods in the interval between the change and its effects on the general price level (and, in the process, as Austrian economists would later argue, set the business cycle in motion).

[T]hough the high price of commodities be a necessary consequence of the encrease of gold and silver, yet it follows not immediately upon the encrease; but some time is required before the money circulates through the whole state and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom.[[23]](#footnote-23)

Indeed, during this interval (but only during this interval), an increase in the money supply can have beneficial – we would now say “stimulating” – effects on commerce. The initial recipients, whoever they might be (e.g., mining “projectors” or, in a more modern vein, private banks with accounts at the central bank), of a new influx of money are advantaged compared to other market participants. As they are better able to pay, at least for the moment, they can bid up prices and attract more resources relative to their competitors. “When any quantity of money is imported into a nation, it is not at first dispersed into many hands, but is confined to the coffers of a few persons, who immediately seek to employ it to advantage […] They are thereby enabled to employ more workmen than formerly.” Likewise, these workmen (or, more generally, the persons with whom the first-order recipients of new money engage in commerce) are in an enviable position relative to their competitors. They are able to bid up the prices of and attract more resources sooner, other things equal. “[The workman] carries his money to market, where he finds every thing at the same price as formerly, but returns with greater quantity and of better kinds for the use of his family.” And so forth. The enterprises with whom these second-order recipients of an influx of new money do business are in a better position to bid up the prices of the specific goods they purchase than are competing enterprises that lack such customers. “The farmer and gardener, finding, that all their commodities are taken off, apply themselves with alacrity to the raising more; and at the same time afford to take better and more cloths from their tradesmen, whose price is the same as formerly, and their industry only whetted by so much new gain.”[[24]](#footnote-24) In this way, an increase in money gradually spreads across the entire economy and eventually affects the general price level, but it is a more complicated process than the traditional quantity theory implies.[[25]](#footnote-25)

More to the relevant point, the new structure of prices that emerges at the end of the process is no one’s objective, though it is produced by each person’s individual pursuit of their respective objectives. It is a spontaneous process, in other words. The exact course of the process that starts with a change in the money supply and ends with a change in the general price level depends not on the fact of a change in the money supply alone, but on the “manners and customs of the people,” not on the “absolute quantity of commodities and that of money, which are in a nation, as on that of the commodities, *which come or may come to market*, and of the money *which circulates*.”[[26]](#footnote-26)

Hume likewise argued for the spontaneous determination of the rate of interest, which is to say, the price of borrowing money. The interest rate “is not derived from the quantity of the precious metals,” but from “three circumstances”: the demand for loans, the supply of loans, and the profitability of commerce. In the case of high interest, “these circumstances are a clear proof of the small advance of commerce and industry.”[[27]](#footnote-27) The demand for borrowing “depends not on the quantity of money, but on the habits and manners which prevail […] Nor is the case different with regard to the second consideration,” the supply of loans. “This effect also depends on the habits and way of living of the people,” namely, “on particular manners and customs, which make the specie gather into separate sums or masses of considerable value.”[[28]](#footnote-28) And this requires, Hume argued, the presence of a merchant class in society: “[w]ithout commerce, the state must consist chiefly of landed gentry, whose prodigality and expence make a continual demand for borrowing; and of peasants, who have no sums to supply that demand […] Commerce alone assembles [money] into considerable sums,” ready for lending and borrowing. The extent of commercial activity in society also accounts for the third circumstance that determines the interest rate, the profitability of commercial activity: “when commerce has become extensive, and employs large stocks, there must arise rivalships among the merchants which diminish the profits of trade itself. The low profits of merchandize induce the merchants to accept more willingly of a low interest, when they leave off business, and begin to indulge themselves in ease and indolence.” Given a choice between investing directly in commerce for profit or lending money on interest to others to invest in commerce, the “indolent” ex-merchant is indifferent and, thus, the rates of profit and interest “mutually forward each other. No man will accept of low profits, where he can have high interest; and no man will accept of low interest, where he can have high profits.”[[29]](#footnote-29)

Also relevant here is Hume’s use of spontaneity to explain the operations of money at the international level, his famous analysis of the specie-flow mechanism, which ensures the international neutrality of money. According to Margaret Schabas and Carl Wennerlind, Hume’s argument is that the interest rate “is not a monetary phenomenon.”

Rather, the interest rate indicates the maturation of capital accumulation and the degree of competition in financial markets. Prosperous countries have low interest rates and, while these may be correlated with abundant money supplies, the latter is not a direct cause. National efforts to stockpile gold and silver were therefore futile, insofar as the forces governing international trade and hence the global flow of specie *exceeded the control of any single nation*.[[30]](#footnote-30)

Turning to Hume’s close friend and, in many respects, follower, the core of Adam Smith’s account of the emergence of money is that “money is an epiphenomenon of commerce, a social institution that developed in an attempt to decrease the inconveniencies of the double coincidences of wants and barter.”[[31]](#footnote-31) Prior to the emergence of money, exchange “must frequently have been very much clogged and embarrassed in its operations.” In order to exchange, both parties to a potential exchange had to want what the other possessed:

One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them.[[32]](#footnote-32)

To avoid such circumstances, each individual merchant naturally sought to maintain a supply of some other commodity, “such as he imagined few people would be likely to refuse in exchange.” Many different commodities served this purpose in different places and at different times, but for various reasons (their comparative imperishability and divisibility), metals of one sort or another eventually emerged as near-universal media of exchange.[[33]](#footnote-33) It was only after this spontaneous process was complete, only after unstamped metals had widely circulated and been conventionally accepted that coins were given the literal stamp of governmental approval. Thus, Smith argued that money emerged not from rational design, not as an explicit policy imposed from above by some pharaoh or king, but from the actions and interactions of individual merchants who sought only to make the best of their respective circumstances, without any intention of inaugurating a new social institution.

As leading Smith scholars have argued, his account of the spontaneous emergence of money is a central part of his defense of an economic system of “natural liberty” against a mercantilist system of politically-managed regulations and trade restrictions.[[34]](#footnote-34) For Smith, the accidental development over time of money as a social institution is an example of the beneficial unintended consequences that can follow from a system of natural liberty: “Smith’s theory of money is a central component of his argument staking out this claim.” Smith explained the emergence of money in terms of a spontaneous process and used this explanation in his defense of the superiority of evolved over designed orders. Smith’s theory of money is thus fundamental to the central insight of *The Wealth of Nations*, namely, the relative superiority of a spontaneously-evolved as compared to a purposefully-designed social order.[[35]](#footnote-35)

The Scottish Enlightenment philosophers were among the first to elucidate and emphasize the significance of spontaneity for both the manifestation, and our understanding, of natural and social phenomena. The institution of money was central to their elucidations. In their general concern for the importance of spontaneity, reliance on spontaneity to explain monetary phenomena, and use of money to elucidate the operation of spontaneous orders, they were followed by economists of the Austrian School.

*The Austrian Contribution*

Carl Menger’s *Grundsätze der Volkswirtschaftslehre* (*Principles of Economics*)is the founding document of the Austrian School of economics. Published in 1871, the book is also generally considered to be, together with William Stanley Jevons’ *Theory of Political Economy* and Léon Walras’ *Éléments D'économie Politique Pure*, one of the founding documents of the revolution in economic science that conclusively overturned classical theories of objective economic value in favor of the modern theory of subjective marginal value.

Menger’s subjectivism is in the background of his extension of a Smith-like explanation of the spontaneous emergence of money. Menger offered and later extended his explanation on a number of occasions over several decades. First in the *Grundsätze*, then in his important methodological work, *Untersuchungen über die Methode der Socialwissenschaften, und der Politischen Oekonomie insbesondere* (*Investigations into the Method of the Social Sciences with Special Reference to Economics*), published in 1883, and, finally, in an *Economic Journal* article that first appeared in 1892, the same year that he testified before a government commission on reform of the Austrian currency. For our purposes, Menger’s discussion in the *Untersuchungen* is the most important of these otherwise parallel analyses.

In this book, Menger argued not only for the spontaneous emergence of money, but also that spontaneity plays an essential part in the manifestation of many social phenomena, e.g., natural languages, legal codes, moral rules, the formation of new localities, the original manifestation of government, and “numerous institutions of economy.”[[36]](#footnote-36) Accounting for spontaneity, according to Menger, is a methodological necessity in the social sciences.

Menger’s discussion in the *Untersuchungen* begins with an analysis of the nature and limits of the analogy (“already drawn by Plato and Aristotle in the political sciences”) between social phenomena and natural organisms.[[37]](#footnote-37) In Menger’s opinion, previous attempts to explain various social phenomena by reference to their “organic” nature have missed the mark.

Social structures are analogous, to some extent, to natural organisms in their *natures* and *functions*. The parts of a social structure, like the parts of a natural organism, “are helpful in the preservation, the normal functioning, and the development” of the social structure as a unit, “even conditioning these.” The nature and normal functioning of the parts, in turn, “are conditioned and influenced by the function of the unit” such that, indeed, “the unit cannot be imagined in its normal appearance and function without some essential part or other. Nor, conversely, can such a part be imagined in its normal nature and function when separated from the unit.” Social structures are also to some degree analogous to natural organisms in their *origins*. The functionality of the parts with respect to the organism itself is not “the result of human *calculation*, but of a *natural* process.” Similarly, the functionality of an institution with respect to the broader society of which it is a part does not “prove to be the result of an *intention aimed at this purpose*[,]” it is not “the result of an agreement of members of society or of positive legislation,” but an “*unintended* [*result*] *of historical development.*”[[38]](#footnote-38)

This said, the analogy between society and biology is both limited and, to the limited extent it is appropriate, superficial. It is valid only as far as social phenomena are spontaneous. It is not valid with regard to social phenomena that “are the result of human calculation and [thus] not comparable to *organisms*, but to *mechanisms*.”[[39]](#footnote-39) The analogy is also limited by a certain vagueness in our understanding of *mutual causation* between parts and wholes in both social and organistic environments; it is not “based upon a full insight into the nature of the phenomena under discussion here, but upon a vague feeling of a certain similarity of the function” of organisms and the specifically spontaneously-emergent (non-mechanistic) aspects of social structures. This vagueness is even more profound with respect to the analogy between the origins of natural organisms and social phenomena. We understand the similarity between the “natural” origins of (the spontaneous aspects of) social institutions and of organisms even less well than we understand the likenesses between their natures and functions. Natural organisms “are the result of purely causal processes,” but social organisms “are the result of human efforts, the efforts of thinking, feeling, acting human beings.” The “organic” (i.e., spontaneous) origin of aspects of some social phenomena “thus truly exhibits *essential* differences from the process to which natural organisms owe their origin.”[[40]](#footnote-40)

The limits of this analogy in turn imply limits to the applicability to the analysis of social institutions of methods appropriate to the investigation of organisms. The method appropriate to the investigation of spontaneous social phenomena “must not simply be borrowed from the natural sciences, but must be the result of independent investigation into the nature of social phenomena and the special aims of research in the realm of the latter.” The “organic” method is appropriate only to the extent that some social phenomena emerge spontaneously and only with respect to these spontaneous elements. Regarding those aspects of social phenomena that result from intentional human design, that are the consequences “of an agreement of members of society or of positive legislation,” a different (“pragmatic”) method that tracks these aspects back to the specific intentions of their designers is required.[[41]](#footnote-41)

Menger sets out the central mystery that spontaneous phenomena, especially spontaneous orders, presents to social scientists: “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 [in the form of either formal convention or legislative agreement] directed toward establishing them?”

Language, religion, law, even the state itself, and, to mention a few economic social phenomena, the phenomena of markets, of competition, of money, and numerous other social structures are already met with in epochs of history where we cannot properly speak of a purposeful activity of the community as such directed at establishing them. Nor can we speak of such activity on the part of the rulers.[[42]](#footnote-42)

Menger presents the “theory of the origin of the [spontaneous aspects of] social structures […] by way of a few examples.” His chief example is “that of the genesis of money.” The problem to be solved “consists in the explanation of a […] homogeneous way of acting on the part of the members of a community for which public motives are recognizable, but for which in the concrete case individual motives are hard to discern.” The social scientist must show how an institution that serves the public interest can emerge from the myriad decisions of individual members of the public none of which intend, aim, or need even be motivated to, or interested in, bringing about the institution. How can a byproduct that ultimately serves the public interest result from individual economic agents’ pursuit of unrelated ends? That “in a market anyone who offers goods for sale is ready to turn these over for a definite other item […] even when he has no direct need for these goods or has completely satisfied his possible need for them, while he nevertheless rejects certain other goods under the same presupposition—this is a paradoxical procedure.”[[43]](#footnote-43)

Menger’s explanation starts from the fact that the requirement of a double coincidence of wants limits the possibilities for economic exchange in a pure barter context. The emergence of money begins when some market participants observe that a greater demand exists for certain goods than for others.

Among the competitors for these goods he more easily found those who offered for sale certain goods desired by him than if he went to market with less marketable goods. […] Thus every individual who brought to market items of slight marketability in the above sense had the obvious idea of exchanging them not only for the goods he needed, but also, when these were not directly available, for others. These others were ones which he, to be sure, did not need at the moment, but which were more marketable than his.[[44]](#footnote-44)

Even though these intermediate goods are not those that the individual ultimately seeks, despite the fact that the individual cannot be said to have fully satisfied their economic interests, by exchanging their less marketable wares for more marketable goods, the individual has been brought nearer their ultimate end. “The economic interest of the economic individuals, therefore, with increased knowledge of their *individual* interests, without any agreement, without legislative compulsion, *even without any consideration of public interest*, leads them to turn over their wares for more marketable ones, even if they do not need the latter for their immediate consumer needs.”[[45]](#footnote-45) The use of some relatively more marketable goods as common media of exchange further increases their marketability relative to other goods, making them yet more attractive to those who have recognized the benefits to themselves as individuals of indirect exchange.

The next step in the emergence of money occurs when other market participants notice the relative advantages bestowed on those willing to mediate the satisfaction of their ultimate demands by exchanging their less marketable for more marketable goods.

This knowledge will never arise simultaneously with all members of a national group. Rather, at first only a number of economic subjects will recognize the advantage accruing to them […] But, as is well known, there 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. Therefore it is also clear that nothing may have favored the genesis of money as much as the receiving of eminently marketable goods for all other goods, which had been practiced for quite a long time on the part of the most perspicacious and ablest economic subjects for their own economic advantage.[[46]](#footnote-46)

The emergence of money is complete when the use in exchange of the “temporarily most marketable wares” has become customary, i.e., when these are “received in exchange for their wares not only by many economic individuals, but ultimately by all. […] [T]he origin of money can truly be brought to our full understanding only by our learning to understand the *social* institution discussed here as the unintended result, as the unplanned outcome of specifically *individual* efforts of members of a society.”[[47]](#footnote-47)

This is not the place to evaluate the adequacy of Menger’s theory as an explanation of the historical emergence of money. Suffice it to say that Menger was explicit that he did not intend to explain the appearance in historical time of any particular currency – he was explicit that the available historical materials would often indicate a pragmatic origin of many individual monies – but the emergence of indirect exchange from direct exchange (barter) in general.[[48]](#footnote-48) In other words, Menger distinguished between 1) money as a social institution, 2) the various forms that money has taken at different times and places, e.g., metal, cattle, hides, tea, salt, shells, and 3) particular instantiations of these forms of money, e.g., officially stamped bills or coins of specific denominations. Although spontaneity might figure in the emergence of all of these institutional phenomena, only the first required an organic rather than a pragmatic explanation, according to Menger, if only because, as a social institution, money appears in history prior to, or without, the conventional or legislative activities required to account for it pragmatically.[[49]](#footnote-49)

Another significant use of spontaneity to account for monetary phenomena can be found in Ludwig von Mises’s *The Theory of Money and Credit*. One of the problems that Mises sets out to solve in the book concerns the determinants of the purchasing power of money. According to the modern theory of marginal value, prices result from the subjective valuations of buyers and sellers. This is no less true of the price of money itself, a reflection of the subjective valuations of the goods that money can buy. This implies, however, “[s]ince there is no direct connection between money as such and any human want,” that “individuals can obtain an idea of its utility and consequently of its value only by assuming a definite purchasing power.”[[50]](#footnote-50) From whence this idea of money’s purchasing power?

Mises observes that today’s purchasing power is linked with both yesterday’s and tomorrow’s purchasing power. Yesterday’s purchasing power is the basis for estimates of today’s, which will serve as the basis for estimates of tomorrow’s purchasing power. This “is to raise the question of what determined the value of money in the first place.”[[51]](#footnote-51) Given Menger’s theory of the emergence of money, the answer can only be that the original value of money was “the value which the goods used as money possessed (thanks to their suitability for satisfying human wants in other ways) at the moment when they were first used as common media of exchange.”

The earliest value of money links up with the commodity value of the monetary material. But the value of money since then has been influenced not merely by the factors dependent on its “industrial” uses, which determine the value of the material of which the commodity money is made, but also by those which result from its use as money. Not only its supply and demand for industrial purposes, but also its supply and demand for use as a medium of exchange, have influenced the value of gold from that point onward when it was first used as money.[[52]](#footnote-52)

This is Mises’ well-known “regression theorem.” The purchasing power of money emerges spontaneously from a long historical process of subjective valuation that starts with individuals in a barter context evaluating some soon-to-be money exclusively as acommodity. Unlike previous theorists (Austrian or otherwise), Mises was thus able to explain the value of money in terms of the modern theory of marginal subjective value: “Just as the original starting point of the value of money was nothing but the result of subjective valuations, so also is the present-day value of money.”[[53]](#footnote-53)

Austrian business cycle theory (ABCT), originally developed by Mises in *The Theory of Money and Credit*, and later clarified and extended by his followers, Hayek, in particular, is the apotheosis of the Austrian contribution to monetary theory, monetary policy, the philosophy of money, and the spontaneous-order tradition.[[54]](#footnote-54) The theory integrates the Menger-Mises account of money and its value, with second-generation Austrian economist Eugen Böhm-Bawerk’s capital theory, and Swedish economist (and Austrian sympathizer) Knut Wicksell’s work on interest theory. Above all, ABCT reflects Menger’s concern for the spontaneous manifestation of many social phenomena and the methodological implications of spontaneity. The theory explicates and highlights the Austrian emphasis on the spontaneous aspects of monetary phenomena, and the often-disastrous consequences of official intervention into their operation.

According to Austrian capital theory, producing goods for consumption is a time-consuming process that proceeds in multiple stages of varying durations. It takes different spans of time, e.g., to acquire and plant grape seeds, for planted seeds to grow into grapes and be harvested, for the juice of harvested grapes to be extracted, fermented, bottled, fermented again, distributed, marketed, purchased, and, finally, consumed by the wine-drinker. The time-consuming (or “roundabout”) nature of production is important because it means that the economic conditions under which the production of a good is started may not obtain when the finished good reaches market. Production decisions are based on expectations that may ultimately prove true or false. What’s more, there is a direct relationship between the temporal length of a production process and its productivity: lengthier, more time-consuming, processes tend to be more productive. This is just to say that more goods can be produced in a longer than in a shorter amount of time. So, other things equal, there is a natural tendency for producers to extend production further out in time by adding new stages to existing production processes.

Austrian economists also conceive of capital goods as heterogeneous and specific to a particular (stage of) a production process.[[55]](#footnote-55) A screwdriver and a machine used to extract juice from grapes can both be capital goods, but only the first is likely to find uses in multiple stages of multiple production processes; the juice-extraction machine is more specific to a particular stage of a unique production process. If a company goes bankrupt that uses screwdrivers in its production processes, those screwdrivers are likely to find other productive uses almost immediately; but, if a winery that uses a juice-extraction machine goes belly up, the machine may well sit idle for an extended period, if it ever finds another productive use.

According to the Austrian way of thinking, the interest rate on bank loans plays an important part in coordinating economic activity across time. Where the currency is “inelastic,” i.e., where the money supply is tied to the supply of some commodity and can be changed only with changes in the supply of this commodity, the demand for loans can be met only out of the supply of savings that income earners have voluntarily set aside for later consumption. In other words, in the context of an inelastic currency, the loan rate serves to coordinate the decisions of consumers about their future consumption with the decisions of producers about their future production. The loan rate is a sign of the relative profitability of shorter- vs. longer-term investments. When consumers shift their present-future consumption mix in favor of future consumption by saving more than they had been saving before, the interest rate falls, which signals producers that consumers are willing to wait longer than before for more consumption goods. Recognizing this signal, producers are encouraged to extend the structure of production further out in time, i.e., to begin new, more time-consuming, but also more productive, production processes. Conversely, when consumers save less than they had been saving before, it is a sign that they are less willing to wait for more consumption goods, that they want consumption goods in the more immediate future, even if this means that fewer goods are produced. The interest rate rises as a result. Seeing this, producers are encouraged to shorten the structure of production, to wrap up more time-consuming projects and focus on the production of goods in the relative short-term. The equilibrium interest rate in an inelastic-currency context is what Wicksell called the “natural” rate of interest.

So far, what we have is a description of the spontaneous processes of a money-using market economy. A state of affairs approximating economic equilibrium emerges from individuals pursuing their subjective interests, even though none of them aim at approaching economic equilibrium. Stated perhaps more vividly, markets near clearance, demand approximates supply, despite the fact that neither producers nor consumers aim at anything other than the satisfaction of their respective economic interests. Of course, nothing in the analysis so far guarantees that these processes work perfectly, without error or loss. Indeed, given that the expectations that prompt a production process may ultimately be disappointed when the finished goods reach market, producers will sometimes make mistakes in their production decisions.

However, the key consideration is that, where the currency is inelastic, there is no reason why producers should make the same kind of mass error all at the same time that we typically observe in business cycle phenomena. There is no reason, for example, why the expectations of so many stock-market investors should have been as mistaken as they were ultimately revealed to be in October 1929 or why the beliefs of home manufacturers in 2007 about the future of the housing market should have been as wrong as they turned out to be. Austrian Business Cycle Theory aims to explain these episodes of mass error, where the producers in a particular market or across multiple markets make the same mistake at the same time. The theory tries to explain why a large proportion of investors happen to make the same kind of – ultimately unprofitable – investments all at the same time, e.g., in industrial stocks in the lead up to the 1929 crash or in the construction of new homes in the lead up to the bursting of the mortgage bubble in 2008.

According to the Austrians, in order to explain these episodes of mass error, one must understand all the ways in which the interest rate’s signaling function and, therefore, the spontaneous functioning of a market economy, can go awry. In particular, it is necessary to recognize that, in various institutional contexts – indeed, importantly, in the institutional context of a modern industrial economy, where the currency is *elastic*, and banks can expand the money supply beyond the supply of voluntary savings by extending unsecured credit – the prevailing loan rate can become dislodged from Wicksell’s natural rate. When the loan rate falls below the natural rate – as it does (*ceteris paribus*) when lending is extended beyond the supply of voluntary savings – the business cycle is set in motion. The link between savings and producing for future consumption that exists where the currency is inelastic – where the loan rate necessarily corresponds to the natural rate – is broken. The prevailing interest rate on loans fails to provide accurate information to producers about consumers’ attitudes regarding present *versus* future consumption. Because of this, producers can more easily engage in the production of goods the demand for which, when these goods finally reach market, will fail to meet the prior expectations that originally prompted their production.

A bit more carefully, when the loan rate falls below the natural rate, when the money supply is expanded and credit is extended, these loans – in keeping with Hume’s modification of the traditional quantity theory of money – are never distributed evenly across the economy, but are always credited to the accounts of specific borrowers. Typically, in a modern industrial economy, the first recipients of new loans are producers, who naturally react to the receipt of credit by extending production further into the future. There is a shift of resources from the later stages of production, those nearer to final consumption, to the new stages of the extended production process. The wages of labor and the prices of capital goods destined for these new stages are the first to increase. The prices of consumption goods purchased by laborers and capitalists then increase too, albeit to a lesser extent. However, unlike in the case of a reduced interest rate in an inelastic-currency context, consumers have not shifted their preferences further into the future; they still want consumption goods in the relative near-term. Unfortunately, in the wake of the extension of production further into the future, production processes are not geared to meet this relative near-term demand. The quantity of consumption goods falls, their prices rise, and consumers are “forced” to save, i.e., curb their consumption.

By continually extending credit, bankers can stave off the ultimate day of reckoning, when consumers reimpose their relative near-term preferences on a production structure pitched to deliver goods in the longer-run, forcing many of the new, but finally unsustainable, production processes out of operation. However, credit expansion must eventually cease, either because bankers reach a point where further extensions of credit become unprofitable or because of rampant price inflation. With the cessation of credit expansion, the boom stoked by monetary easing ends and the bust arrives. What we call a “recession” is the economy shedding the wasteful investments of the boom phase and returning to something resembling equilibrium between the supply of voluntary savings and the demand for loans.

Thus, Austrian business cycle theory is a story of how (what we might call) a “positive” spontaneous order – a pattern of economic activity that serves the public good without being the object of any of the individual economic agents – can emerge in a particular institutional context, that of a market economy with an inelastic money supply. At the same time, it is a story of how a “negative” spontaneous order – a pattern of economic activity that undermines the public good without being the object of any of the individual economic agents (for no one, including any bankers who deliberately extend credit in search of greater profits, intends for a recession to follow) – can emerge in another institutional context, that of a market economy with an elastic currency.

There is some controversy in Austrian circles about the possibility of negative spontaneous orders. Indeed, Hayek himself seemed to be of two minds at different times. According to Israel Kirzner, “it is no doubt unfair to attribute to Hayek the categorical assertion that whatever institutions evolve spontaneously are more likely to be socially benign than any deliberately constructed institutions could possibly be. […] Yet the strong impression one gains from Hayek remains that he has profound faith in the possibility, in general, of benign institutional evolution.”[[56]](#footnote-56)

There is one significant difference between Mises’ and Hayek’s respective versions of ABCT that is relevant here. The question is whether it is possible for the loan rate to dislodge from the natural rate, as it were, spontaneously, or whether such dislodgement must be the result of bankers deliberately lowering their interest charges. Mises denied, while Hayek accepted (indeed, emphasized) the possibility of a spontaneous disconnection of the prevailing loan rate from the natural rate of interest.[[57]](#footnote-57)

Where the currency is elastic, Hayek argued, the business cycle must occur, regardless of the decisions of bankers, whether private or central bankers. Indeed, the loan rate can become dislodged from the natural rate without any deliberate action on the part of bankers, if, e.g., changes in the conditions that determine the natural rate – profit expectations, the rate of savings – cause its value to rise above the prevailing loan rate, and bankers fail to note the change and adjust the loan rate accordingly. Importantly, Hayek argued further, bankers *would* fail to note the change. The natural rate of interest – the rate of interest that would counterfactually obtain in an inelastic currency context, where the demand for loans could be met only out of voluntary savings – is not a knowable magnitude in the context of an elastic currency, where both savings and credit are available to satisfy the demand for loans. More concretely, even a banker who wanted to limit their extension of credit to real savings could not do so: “As credit created on the basis of additional deposits does not normally appear in the accounts of the same bank that granted the credit, it is fundamentally impossible to distinguish, in individual cases, between” savings-based and credit-based deposits. Incoming deposits do not arrive at a bank marked from birth as originating either in savers’ voluntary choices or in a competing bank’s credit activities. “[T]his consideration rules out, *a priori*, the possibility of bankers limiting the amount of credit granted by them to the amount of ‘real’ accumulated deposits.”[[58]](#footnote-58) Add to this ignorance the fact that bankers are incented to expand their lending activities as far as profitable and the conclusion of the inevitable spontaneous recurrence of “industrial fluctuations” follows.[[59]](#footnote-59)

**Recognizing the Generality of Spontaneity**

In my own work on the history and philosophy of the Austrian School, I have argued that one can find in Hayek’s later writings a sketch of a more general theory of the business cycle that encompasses his earlier, more famous, theory. According to what I call Hayek’s “epistemic theory of industrial fluctuations,” economic equilibrium (by the time of this later phase of his career, Hayek preferred the phrase “economic order”) is an epistemic condition.[[60]](#footnote-60) A market or an economy is in equilibrium to the extent that market participants can act successfully on their economic plans (more exactly, on the beliefs upon which their plans are based). An actionable plan must meet three conditions: it must be internally consistent (i.e., contain no internal contradictions), interpersonally consistent (contradict no other market participant’s plan), and based on factually correct beliefs with respect to circumstances relevant to the successful performance of the plan.[[61]](#footnote-61) If every market participant’s plan meets these three conditions, each person can act effectively on their plan.

Hayek emphasized that a *state* of equilibrium is a fiction. In the real world, circumstances change too much and too rapidly for individuals to continuously adapt their plans to new data. He also argued, however, that a tendency toward equilibrium exists in market economies that is apparent in the observable tendency toward the uniformity of prices.[[62]](#footnote-62) If there were no tendency toward equilibrium in market economies, one would regularly observe, e.g., two McDonald’s restaurants in the same local community selling identical sandwiches for radically different prices. That this is never observed is an indication of the tendency for the relevant beliefs of participants in market economies to become better coordinated and more accurate in relevant respects.

It is the purpose of a system of freely-adjusting prices to promote this tendency toward equilibrium.[[63]](#footnote-63) Price changes provide much of the data that individuals require to adapt their plans to changing circumstances that would otherwise utterly escape their purview. Indeed, data concerning price changes economize on the information required of effective plan adaptation. Given freely-adjusting prices for, say, coffee drinks, coffee drinkers require no knowledge about the condition of either coffee supplies or the demand for coffee products in order to adapt their plans to these circumstances. They need not know, e.g., whether a severe drought was affecting the harvest of the South American crop or whether a newly-discovered industrial use for coffee beans was affecting global demand. They need only observe the changing prices of their favorite coffee drinks (and their substitutes) and adjust their plans for beverage consumption accordingly. It follows that the price system serves this epistemic function less well and, therefore, that the tendency toward equilibrium is hindered, the more prices are manipulated for reasons and made to reflect considerations other than the supply of and demand for relevant goods.

Hayek’s epistemic theory explains the business cycle as a consequence of some individuals acting on inadequate knowledge in a way that interferes with the price system’s capacity to convey to market participants the relevant economic knowledge required to adapt their plans to changing circumstances, thereby hindering, if not preventing altogether, the tendency toward equilibrium.[[64]](#footnote-64) In Hayek’s early theory, it was bankers, private or central, who lacked the knowledge (of the natural rate of interest) required to promote equilibrium.[[65]](#footnote-65) According to his later epistemic theory, it was most often economic policymakers who, mistakenly convinced that they possess the knowledge required of effective macroeconomic demand management, intervene in the economy in a way that obstructs the price system’s capacity to convey to market participants the data concerning relevant circumstances outside their observation that they need to adjust their plans to these circumstances.[[66]](#footnote-66) Operating on a false “pretence of knowledge” adequate to the epistemic requirements of countercyclical economic policymaking, politicians intervene in the spontaneous order of the market; but, far from promoting, their interventions prevent, the tendency toward equilibrium.[[67]](#footnote-67) Given that it is not the object of policymakers’ (or anyone else’s) intentions, the economic disequilibrium that emerges from their ignorant decisions is as spontaneous as the more orderly economy it supplants.

More recently, I have argued that the historical development of Austrian thinking regarding the *knowledge requirements* of effective economic policymaking points the way to a full generalization of the Austrian theory of spontaneous order.[[68]](#footnote-68) Long before Hayek sketched his epistemic theory of the cycle, Mises pointed out the impossibility of effective centrally-planned socialism in a context of full collectivization, given the would-be central planners’ necessary ignorance of some of the required knowledge. Hayek later extended this point to less extreme forms of socialism and, as we have just seen, to macroeconomic demand management in market economies. The epistemic theory of fluctuations simply extends Mises’s original epistemic complaint about central planners to economic policymakers in a radically different context.

My contribution has simply been to note that this epistemic complaint can be extended yet further, to other (indeed, to all) forms of policymaking and, ultimately, to all human action. To the extent that we are not omniscient and omnipotent about how to realize our goals, whoever we are, and whatever our goals might be – whether we are presidents, central bankers, kingly tech executives or the lowest of flyover-country peons; whether we aim at world peace, economic equilibrium, silencing the speech of our perceived intellectual inferiors, or simply surviving the day in one piece – realizing our goals requires adequate knowledge. More exactly, we cannot *deliberately* realize our goals when our knowledge is insufficient to bring about the intended state of affairs; we can *only* rely on the operation of spontaneous forces to compensate for the nature and extent of our relevant ignorance, if we are to realize our goals, despite our ignorance.[[69]](#footnote-69)

It should go without saying that ignorance, not omniscience and omnipotence, is the normal state of human affairs. Whether we acknowledge it or not, to realize desired and avoid undesired states of affairs, we are constantly made to rely on spontaneous forces that play no part in our intentional planning. Spontaneity is a concept of general significance in human planning, decision-making, and action.

However, to return to the starting point of the present essay, this fact is too infrequently acknowledged and even less often made an explicit topic of inquiry. As Menger noted almost a sesquicentury ago, it is methodologically inexcusable for relevant sciences to ignore the significance of spontaneity. There is an opportunity here for scholars inside and outside the Austrian School. The intellectual descendants of Menger, Mises, and Hayek have a head start on their peers in other schools of economics and other scientific disciplines, as they have already developed many of the tools, often in the process of analyzing monetary phenomena, that the future development of the analysis of spontaneity, spontaneous forces, and their consequences will require.

**Conclusion**

My purpose in the present essay has been to account for the contributions of members of the Austrian School of economics to the *philosophy of money*. In effect, I have argued that this contribution is the same as the Austrian contribution to *philosophy* more generally. Simply put, this contribution has been to emphasize and draw out the implications for economic methodology, theory, and policy of the spontaneousnature of many economic, especially monetary, phenomena.

Standing on the shoulders of the giants of the Scottish Enlightenment, Menger, Mises, Hayek, and other Austrian economists have further developed the concept of spontaneous order and used it to explain a broader range of phenomena. I have shown how both Scottish philosophers and Austrian economists have used spontaneity to explain money and money to illustrate spontaneity. Finally, I have argued that the general significance of spontaneity has still not been fully appreciated and that this represents an opportunity for today’s Austrian economists.

1. On the relationship between spontaneous phenomena and *emergent properties*, especially as Hayek understood these concepts, see Lewis, “Emergent Properties.” On the relationship between Austrian economics and *evolution*, another concept related to both spontaneity and emergence, see Beck and Witt, “Austrian Economics,” and Vanberg, “Carl Menger.” [↑](#footnote-ref-1)
2. Hume, *Dialogues*. [↑](#footnote-ref-2)
3. Hume, *History*. [↑](#footnote-ref-3)
4. Sowell, *Conflict*. The unconstrained vision is closely associated, if not identical, with the philosophy that F. A. Hayek called “constructivist rationalism.” More on constructivist rationalism anon. [↑](#footnote-ref-4)
5. Menger, *Untersuchungen*. [↑](#footnote-ref-5)
6. Mises, “Economic Calculation.” [↑](#footnote-ref-6)
7. Hayek, *Market and Other Orders*. [↑](#footnote-ref-7)
8. For Menger, at least, the influence of the Scots seems to have been mediated through the German Historical School of jurisprudence, especially Karl Friedrich von Savigny (see Hayek, “The Results of Human Action,” p. 298). [↑](#footnote-ref-8)
9. Scheall, *F. A. Hayek*. [↑](#footnote-ref-9)
10. See esp. Hayek, “The Results of Human Action.” [↑](#footnote-ref-10)
11. Many thanks to Louis Larue for raising and encouraging me to address this point. [↑](#footnote-ref-11)
12. Hayek, “Kinds.” [↑](#footnote-ref-12)
13. Hayek, “Kinds,” 42. [↑](#footnote-ref-13)
14. Hayek, “The Results of Human Action.” [↑](#footnote-ref-14)
15. Hayek “Kinds,” 43. [↑](#footnote-ref-15)
16. Hamowy, *Scottish Enlightenment.* See Vico, *New Science*, and Mandeville, *Fable*. [↑](#footnote-ref-16)
17. Hume, *Dialogues*. [↑](#footnote-ref-17)
18. Smith, “History.” [↑](#footnote-ref-18)
19. Hume, *Treatise*, and Smith, *TMS*. [↑](#footnote-ref-19)
20. Smith, *TMS*, 233-234. [↑](#footnote-ref-20)
21. I make no effort to evaluate the soundness of Scottish and Austrian arguments in this regard. My concern is more with how they used the concept of spontaneity to explain money and illustrate its operations than with the correctness of their analyses. [↑](#footnote-ref-21)
22. Hume, “Of Money.” [↑](#footnote-ref-22)
23. Hume, “Of Money,” 37-38. [↑](#footnote-ref-23)
24. Hume, “Of Money,” 38 [↑](#footnote-ref-24)
25. Conversely, a decrease in the money supply is “pernicious to industry” during the interval between the change and its effects on the general price level. See Hume, “Of Money,” 40. [↑](#footnote-ref-25)
26. Hume, “Of Money,” 41-42. Italics added. [↑](#footnote-ref-26)
27. Hume, “Of Interest,” 48-49. [↑](#footnote-ref-27)
28. Hume, “Of Interest,” 50-51. [↑](#footnote-ref-28)
29. Hume, “Of Interest,” 54-55. [↑](#footnote-ref-29)
30. Schabas and Wennerlind, *Philosopher’s Economist*, 21. Italics added. [↑](#footnote-ref-30)
31. Hanley and Paganelli, “Smith on Money,” 189. [↑](#footnote-ref-31)
32. Smith*, WON,* Book 1, Chapter 4 [↑](#footnote-ref-32)
33. Smith*, WON,* Book 1, Chapter 4 [↑](#footnote-ref-33)
34. Hanley and Paganelli, “Smith on Money.” [↑](#footnote-ref-34)
35. Hanley and Paganelli, “Smith on Money,” 185-186. [↑](#footnote-ref-35)
36. Menger, *Untersuchungen*, 157. Menger (see *Untersuchungen*, 146) was careful to distinguish between 1) social institutions in general, e.g., the price system or the loan market, 2) the temporally- and geographically-specific manifestations of a social institution, e.g., the German price system in 1922 or the American loan market in 1929, and 3) particular instantiations of related institutional phenomena, e.g., the specific price of a bratwurst sold on a Heidelberg street corner in the spring of 1922 or the interest rate paid on savings accounts by a particular American bank on a certain date in early October 1929. Spontaneity can and typically does figure in the manifestation of all three kinds of institutional phenomena, but only the first two constitute (what modern Austrians would call) spontaneous orders, while the third constitute one-off spontaneous events. [↑](#footnote-ref-36)
37. Menger, *Untersuchungen*, 131. [↑](#footnote-ref-37)
38. Menger, *Untersuchungen*, 130. Italics in the original. [↑](#footnote-ref-38)
39. Menger, *Untersuchungen*, 131. Italics in the original. [↑](#footnote-ref-39)
40. Menger, *Untersuchungen*, 134. Italics in the original. [↑](#footnote-ref-40)
41. Menger, *Untersuchungen*, 136. [↑](#footnote-ref-41)
42. Menger, *Untersuchungen*, 146. [↑](#footnote-ref-42)
43. Menger, *Untersuchungen*, 152. [↑](#footnote-ref-43)
44. Menger, *Untersuchungen*, 154. [↑](#footnote-ref-44)
45. Menger, *Untersuchungen*, 154. Italics in the original. [↑](#footnote-ref-45)
46. Menger, *Untersuchungen*, 155. [↑](#footnote-ref-46)
47. Menger, *Untersuchungen*, 155. [↑](#footnote-ref-47)
48. Menger, *Untersuchungen*, 153-155. [↑](#footnote-ref-48)
49. Menger, *Untersuchungen*, 153. [↑](#footnote-ref-49)
50. Mises, *Money and Credit*, 130. [↑](#footnote-ref-50)
51. Mises, *Money and Credit*, 131. [↑](#footnote-ref-51)
52. Mises, *Money and Credit*, 132. “This link with a preexisting exchange value is necessary not only for commodity money, but equally for credit money and fiat money” (Mises, *Money and Credit*, 132). The original value of non-commodity monies (“at the moment when they were first used as common media of exchange”) must depend on the value of the commodity monies that they replace, no less than the original value of commodity monies must depend on their pre-monetary values. [↑](#footnote-ref-52)
53. Mises, *Money and Credit*, 143. [↑](#footnote-ref-53)
54. For brevity’s sake, I will summarize the most famous exposition of ABCT, namely, Hayek’s statement of the theory in his influential books, *Monetary Theory and the Trade Cycle* and *Prices and Production*. I will then draw a few relevant comparisons with Mises’s early statement of the theory. [↑](#footnote-ref-54)
55. This assertion should be qualified. As traditionally conceived, Austrian capital theory runs in terms of heterogeneous capital *goods*. However, there are prominent Austrians, Menger and Mises among them, who came to prefer a “financial” conception of capital “broadly defined as money invested in businesses by owners or shareholders” (Braun, “Carl Menger,” 558). On Menger’s theory of capital and his rejection of Böhm-Bawerk’s physical conception of capital, see Braun, “Carl Menger.” For a recapitulation of Austrian Business Cycle Theory in terms of the financial, rather than physical, conception of capital, see Braun, Lewin, and Cachanosky, “Mises’s Approach to Capital.” [↑](#footnote-ref-55)
56. Kirzner, “Economic Planning,” 89. Also see Buchanan, “Law” and “Cultural Evolution.”

    For what it’s worth, it strikes me as difficult, if not impossible, to consistently maintain the exclusively benign, if not beneficial, nature of spontaneously-evolved institutions. Indeed, to the extent that “systemic” or “structural” racism exists, it would seem to be a paradigmatic example of a malignant spontaneous order, the unintended consequences of individuals pursuing their own subjective interests in the given institutional context, none of whom aim at the respective racial disparity or outcome. [↑](#footnote-ref-56)
57. See Mises, “Money and Credit,” and Hayek, *Business Cycles, Part 1*. [↑](#footnote-ref-57)
58. Hayek, *Business Cycles, Part 1*, 131. [↑](#footnote-ref-58)
59. It should be noted that, for Hayek (*Business Cycles, Part 1,* Lecture Four, “The Case for and against an ‘Elastic’ Currency”), at least, if not necessarily for other Austrian economists, the negative consequences of an elastic currency did not necessarily imply the superior wisdom of an inelastic currency policy. There were also benefits to an elastic currency – e.g., the aforementioned “stimulating” effects, emphasized by Hume, of an increased money supply – that would have to be sacrificed in an inelastic currency regime. Every decision involves tradeoffs, including monetary policy decisions. [↑](#footnote-ref-59)
60. Scheall, “Hayek’s Epistemic Theory.” See also Hayek, “Economics and Knowledge.” [↑](#footnote-ref-60)
61. Hayek, “Economics and Knowledge.” It should be apparent that beliefs can be inconsistent with other persons’ beliefs or wrong in various respects without hindering the possibilities for successful plan-based action. Every person might hold a unique religious belief, mutually inconsistent with every other person’s unique religious belief, all of them wrong, without these facts hindering the actionability of these individuals’ economic plans (at least, not in *this* world). [↑](#footnote-ref-61)
62. Hayek, “Economics and Knowledge,” 67-68. [↑](#footnote-ref-62)
63. Hayek, “Use of Knowledge.” [↑](#footnote-ref-63)
64. Scheall, “Hayek’s Epistemic Theory.” [↑](#footnote-ref-64)
65. Hayek, *Business Cycles, Part 1*, 131. [↑](#footnote-ref-65)
66. Scheall, “Hayek’s Epistemic Theory.” See also Hayek, “Pretence.” [↑](#footnote-ref-66)
67. The question of the source of policymakers’ false beliefs about their capacity to effectively manage the macroeconomy falls outside the scope of this essay. Suffice it say that the answer concerns the inadequacy for policy purposes of both Keynesian macroeconomics (as a theory of the economy) and national account statistics (as an empirical snapshot of the current state of relevant aspects of the economy). See Hayek, “Pretence.” [↑](#footnote-ref-67)
68. Scheall, *F. A. Hayek*. [↑](#footnote-ref-68)
69. Scheall, *F. A. Hayek*. [↑](#footnote-ref-69)