

# Towards a transmutable economics? A comment on Wynarczyk

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## ABSTRACT

*This note responds to Wynarczyk's recent claim in this Journal that Austrian and Post Keynesian Economics share a similar axiomatic base. It is argued that while both traditions appear to emphasise the nominal importance of money, creativity and uncertainty, if they are indeed committed to taking uncertainty seriously then both must recognise nonergodic constructs such as money denominated contracts. History matters.*

## 1. INTRODUCTION

IN A RECENT article in this Journal Wynarczyk (1999) makes a positive contribution to the debate on the methodological and axiomatic foundations of Austrian and Post Keynesian Economics. I would concur with Wynarczyk's assessment that there are substantial gains from trade to be had if both Austrians and Post Keynesians communicated on a range of issues such as methodology, praxeology, dispersed knowledge, learning, entrepreneurship, speculation, price theory, market process, uncertainty, co-ordination, effective demand, money - its evolution and its endogeneity - as well as the importance of power (cf. Lawson, 1994; Kregel, 1986; Bellante, 1992). As I have argued elsewhere (Dunn, 2000) the future of Post Keynesian economics rests on an extended dialogue with those that appear to employ similar methodological precepts.<sup>2</sup>

In responding to Wynarczyk one would not deny a 'common overlap' and some 'evolving intellectual affinities' between some Post Keynesians and some Austrians, nor that Davidson (1989, 1993) advances 'a very forced and, unsympathetic and uncharitable' appraisal of O'Driscoll and Rizzo (1985). However if Post Keynesians are to engage with the Austrians more extensively than they have done in the past then the fundamental issue of what defines Austrian and Post Keynesian schools of thought must be considered in greater depth. Wynarczyk (1999, p. 32), for example, claims that 'Austrian Economics shares all the axioms highlighted by Davidson so that Austrian economics cannot be reduced to an inferior representation of the mainstream'. If Austrians and Post Keynesians share the same axiomatic base then this raises two interesting and interrelated questions. Firstly, does this mean that it is time to

abandon old prejudices and move towards a new, less partisan economic heterodoxy that recognises nonergodicity, money denominated contracts, firms, and unemployment in the long run? Secondly, if Austrians do accept nonergodicity, what distinguishes the two schools of thought, if anything? To begin to address these questions this comment attempts to move beyond the confines of existing schools of thought and to clarify one of the fundamental differences between immutable theorists and transmutable theorists centring on the status, role and omnipotence ascribed to the market process and the concomitant understanding of the role of money and its nexus to history. The argument developed follows Wynarczyk's delineation.<sup>3</sup> That is that we focus on Davidson's principle complaint against the Austrians and do not consider other important and related Post Keynesian criticisms of Austrianism such as their adherence to methodological individualism, deductivism and neglect of the power and role of large organisations, etc. (see also Dunn, 1998).

## 2. A COMMON METHODOLOGICAL BASE?

Davidson's principal charge is that the *majority* of Austrians fail to recognise the import and salience of nonergodic, i.e. transmutable, constructs. Austrians, according to Davidson, are part of the economic orthodoxy that implicitly (and sometimes explicitly) approve of the ergodic axiom and the auxiliary assumptions of monetary non-neutrality and gross substitution. Is this unfair? Wynarczyk suggests it is. His main thesis is that many Austrians, building on the work of Shackle and Lachmann, emphasise the importance of time, uncertainty and expectations. However the recent debate between Rosen (1997) and Yeager (1997) suggests that it is not altogether apparent that Austrians wish to draw attention to their axiomatic and methodological differences with the mainstream. It is far from clear that *all* Austrians reject the ergodic axiom, i.e. the supposedly self-evident truth that the future is a statistical reflection of the past and waits to be discovered. Prychitko (1993, p. 375) accepts that 'most Austrians hesitate to accept nonergodic constructs'. Many Austrians (and Post Keynesians, for that matter, see below) continue to be uncomfortable with the conclusions of transmutable theorists such as Shackle, Lachmann and Davidson. Even sympathetic Austrians concede that one of the main *lessons that Austrians can learn* from theorists such as Davidson centres on the 'question of ergodicity' (Torr, 1993, p. 404).

Davidson's core contention is that the *a priori* assertion of the superiority of markets *vis-à-vis* other modes of resource allocation is implicitly underpinned by the assumption of an ergodic, immutable, closed theoretical system - a point that Prychitko (1993, p. 375) accepts. Moreover the metaphors of 'discovery', 'actors' and 'equilibrating co-ordination', that typify many Austrian contributions, are suggestive of a predetermined immutable reality that Wynarczyk contends they reject (Kirzner, 1973, 1982, 1999; Clark, 1987-88). Thus it is not surprising that the Austrians, who follow the arguments of Mises-Hayek-Kirzner treat profit opportunities as 'pre-existing' and 'waiting to be unearthed', and draw on the 'ergodic' concepts of Pareto optimality and general equilibrium as benchmarks against which entrepreneurial actions are compared.

In sharp contrast, transmutable theorists employ the metaphors of 'creativity', 'agency' and 'history' and reject the concept of Pareto efficiency as inappropriate for the study of transmutable processes. In the absence of governing ergodic processes, i.e. under conditions of nonergodicity, it logically follows that the efficiency calculus dissolves. If the future cannot

be known in advance of its creation then markets, firms, or governments, cannot select and learn the optimal rules and routines that govern market processes because they are *not yet there to be discovered*. What appears to make sense at one point in time will not make sense over all time. History matters. The expectation of future co-ordination failures allied to the capacity to make 'imaginative, bold leaps of faith, and determination' in the creation of the future must surely open up the possibility that entrepreneurs generate, rather than correct error. (This possibility is not typically entertained by many Austrians, or for that matter by Wynarczyk). Transmutable theorists focus on the inability of the market to harness dispersed creativity about a kaleidic future *that has yet to be originated*.<sup>4</sup> Accepting a transmutable view of economic process suggests augmenting the co-ordinating function of the entrepreneur with an appreciation of their creative and destructive role.

Nevertheless it would be a *non sequitur* to infer that because many Austrians do not reject the ergodic axiom, Post Keynesianism is necessarily more coherent or superior. For it is by no means clear that *all* Post Keynesians reject the ergodic axiom. Sraffians, for example, who have traditionally been associated with the Post Keynesian project, typically employ closed system, ergodic modes of reasoning. The implication is that traditionally defined schools of thought needs rethinking (Dunn, 2000). If Austrians and Post Keynesians, as well as Institutionalists and other like-minded theorists, posit a transmutable conception of economic processes they must adopt and develop theory that is *consistent* with this view. This will involve redrawing existing lines of demarcation. As Davidson (1989, p. 473) argues, if theorists 'share the identical axiomatic foundation ... then if they ask the same questions, they should reach the same answers'. Wynarczyk side-steps such central issues in an otherwise worthwhile endeavour to promote a more discerning dialogue. Accordingly, the theoretical differences that Wynarczyk alludes to either represent faulty logic, or axiomatic differences. Economists must either reject the ergodic axiom, or they must recognise that they share a very different methodological base than those who espouse a transmutable conception of economic processes.<sup>5</sup> To illustrate this issue we now briefly turn to some of the pivotal theoretical differences that divide transmutable and immutable macroeconomic theorists.

### 3. THE ROLE AND RELEVANCE OF MONEY DENOMINATED CONTACTS

Wynarczyk (1999, p. 41) acknowledges that 'one of the key weaknesses of the Austrian approach is its failure to include such messy real world elements as debts, money contracts, wage agreements and sticky prices into their analysis', but then argues that Austrians accept nonergodicity. But either Austrians accept fundamental uncertainty, i.e. nonergodicity, and the historical institutions that have arisen to deal with it, or they do not. Wynarczyk cannot have it both ways. This is important because from a transmutable, historical perspective unemployment is not a product of co-ordination failure. As Davidson (1996, p. 20) notes 'a nonergodic setting provides the analytical basis for the use of fixed money contracts and therefore provides for the possibility of the existence of long-period unemployment equilibrium - and the possibility of the non-existence of a general (i.e., full employment) equilibrium in the absence of deliberate government policy to assure there is never a lack of aggregate effective demand'.<sup>6</sup>

Unemployment increases as the demand for liquidity expands in response to an increase in uncertainty. As the future becomes more uncertain, sensible economic agents recognise that holding non-reproducible, non-substitutable, liquid assets enable them to defer con-

tractual commitments, and permit them to make a decision on another day. Some implications of this discussion can now be noted. Accepting nonergodicity, i.e. that the processes of history matter, allows for the possibility that different policy positions and analytical conclusions will be reached by transmutable, open system theorists. A focus on history, uncertainty and the socio-political and institutional context is likely to give rise to a diverse set of policy prescriptions, pricing procedures, systems of industrial relations, fiscal systems, cultures, labour market institutions and so on across different countries over different epochs in time. An approach that deals with historical processes that are constantly in flux, is unlikely to propose consistent and uniform policy prescriptions or interventions. This all stands in contrast to an *a priori* acceptance of the efficacy of market organisation that can be associated with Austrian thought.

#### 4. CONCLUDING COMMENTS

Wynarczyk's failure to address what characterises the different schools of thought usurps his contention that Austrians necessarily share the same nonergodic, open-system, 'world view' as some Post Keynesians. The principal distinction between theorists, as opposed to schools of thought, is whether they accept or reject the ergodic axiom. By rejecting the ergodic axiom, transmutable theorists recognise the salience of money denominated contracts, their nexus to unemployment and the potential role for socio-political institutions in supporting the level of demand in an economy. Nonergodic theorists recognise the nexus between salient historical, institutional realities such as debts, money contracts, wage agreements, sticky prices and uncertainty. This suggests the need to transcend existing lines of debate between schools of thought.

### ENDNOTES

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2. Wynarczyk (1992) has also previously suggested that a degree of intellectual overlap exists with the Institutionalists. Clark (1989, 1993) suggests that the Institutionalists are closer to the Post Keynesian conceptualisation of market processes than the Austrians. Clearly this underscores the need for an increased dialogue on such issues, which I wholly endorse (see Dunn, 2000).

3. For example Lawson's (1997) distinction between open and closed systems is broadly similar to Davidson's distinction between immutable (ergodic) systems and transmutable (non-ergodic) systems. We follow Wynarczyk's discussion and thus do not discuss such overlaps further.

4. For Keynes's account of the importance and relevance of the distribution of uncertainty see Cameron and Ndhlovu (1999).

5. See Selgin (1988) who argues *contra* Wynarczyk that the axiomatic foundation of Austrianism rests upon the enunciation of 'praxeology', the axiom of action. The metaphor of action, as opposed to agency

that Post Keynesians typically adopt, is suggestive of a pre-determined, immutable world.

6. As Davidson (1996) records, Arrow and Hahn (1971, p. 361) have demonstrated that 'all general (full employment) equilibrium existence proofs are jeopardized in a world with fixed money contracts over time; no general equilibrium may exist.'

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