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# Karl Mittermaier

## *Economic Theory vs. Reality*

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MICHAEL C. MUNGER

Of course, it would not be necessary to consider presuppositions at all if our science were daily revealing new truths of great intellectual beauty or of great beneficence to mankind. But when the existing paradigms have been explored down to almost the last niche and still sensible men feel there is much room for improvement, then we cannot afford to ignore the philosophy of science.

—Karl Mittermaier (2020, 21)

**K**arl Mittermaier was born in Germany in 1938 and was a child raised in the turmoil of war. He was related to the prominent nineteenth-century German legal theorist and antiquarian Karl Joseph Anton Mittermaier. After World War II, at the age of eleven, young Karl and his family left the increasing dangers of Soviet-controlled East Berlin for South Africa. But he was forever marked by his experience of the centrality of the state and the environment of rules in his approach to political economy.

He graduated from the University of Cape Town in 1963 with a BA and began teaching at the University of the Witwatersrand in Johannesburg in 1967. A productive scholar and congenial colleague, Mittermaier was much more interested in scholarship and writing than he was in publication, and he was cautious about

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saying that anything was finished lest it be dated and narrow. This combination of a sense of his intellectual importance in tension with modesty was a central feature of Mittermaier's career. Michael Stettler put it this way:

Highly respected by his colleagues and setting himself the highest intellectual standards, his academic path was nonetheless not conventional by current norms, caring little for publishing, but still writing for his own satisfaction, and so some of his work is being put to print posthumously. In 1977 he completed a long dissertation, which however was never submitted for examination. When in 1986 he produced a long occasional paper, the Head of Department submitted it to the higher degrees committee, with Boland and Leijonhufvud acting as external examiners. He was awarded a PhD for it, and the book was under contract for publication, but Mittermaier shelved it, thinking that the additions recommended [a case study of Eastern Europe] by the publisher would date the book and detract from its merits. (Stettler 2019, 124)

From 1967 until 2002, Mittermaier met classes on what we would call "history of thought" and "philosophy of science" with a focus on economics. The Wits economics department was ecumenical, to say the least, given that it was chaired for much of Mittermaier's time there by Ludwig Lachmann, whose story (see, e.g., Boettke, 1994) is interesting on its own. Faculty were allowed, even encouraged, to stake out heterodox positions, and Mittermaier was particularly taken by Lachmann's views, meeting with him often until Lachmann's death in 1990, though Mittermaier himself did not share Lachmann's view of the severe requirements of accepting subjectivity in preferences and expectations.

## Models and Things

A number of scholars (see Truran 2013 for a summary) have said, in different contexts, "All models are bad. But some models are bad in an interesting way." But, useful or not, *models are models*, not the phenomenon *being modeled*. This problem of confusing the model of a thing for the thing itself was a lifelong preoccupation for Karl Mittermaier.

Consider the common equating of Adam Smith's ([1776] 1994) contribution in *The Wealth of Nations* with his succinct formulation involving "an invisible hand." At the outset, this sounds discordant to modern ears because we all know that Smith advanced a theory of "the" invisible hand, not "an" invisible hand. This is the sort of thing that drove Mittermaier crazy because Smith never actually developed a theory of "the invisible hand" at all but instead had a much more flexible and nuanced view. As Emma Rothschild (1994) pointed out, the uses of "invisible hand" in Smith (there are only three!) are quite different and were clearly intended sardonically; the pagan belief in "the invisible hand of Jupiter" was not actually a force in Smith's cosmology.

Mittermaier found the “invisible hand” model as a summary of Smith not just inadequate but absurd:

It seems clear (at least to me) that Smith did not, in any of the three cases [of the “invisible hand” figure], use the words aphoristically, as is the rule nowadays. They may not have been altogether incidental to his intentions, but they were nevertheless in the nature of throw-away expressions. Had Smith been asked what exactly his invisible-hand doctrine was, he would surely have been puzzled by the question. (Mittermaier 1994, 138)

His most important monograph, in my view (informed by others who are more familiar with his work), was a book posthumously published by Bristol University Press (Mittermaier 2020) with the intercession of his spouse, Isabella Mittermaier, and two colleagues, Michael Stettler and Christopher Torr. Daniel Klein of George Mason University also wrote a chapter in the book. (See also, Klein 2020).

One might read between the lines that Karl’s passing, at nearly eighty, in 2016 removed the last obstacle to publication of the book. In any case, the central argument of the book is that there is a needless, and frankly harmful, divergence between economic dogmatism (abstract theory) and pragmatism (policy advice). Economic theory, at least the kind worth reading and considering, focuses on understanding the spontaneous orders that emerge into what is known as “commercial society,” whereas policy advice accepts the efficacy of planning and central direction as if economic theory did not exist.

The “invisible hand” is the order that arises as a consequence of human action but not as a result of human design or intention. “Natural” orders emerge spontaneously, as a result of decentralized activity, and “artificial” orders are designed, planned, or “laid on” by humans. That would mean that currency and language are “natural,” even though they are social constructs and not biologically necessary, emerging spontaneously and consistently in the context of human interactions, without having a meeting or agreement that they will be selected or managed.

That, for Mittermaier, was where it got more complicated. An “invisible hand” might result from either an intended and planned or an unintended and spontaneous order. And we might wonder about the factors that would cause such an order to *emerge* and those that might cause it to *endure*. They might mix and match: emergence could be unintended or intended, and the maintenance or preservation of the order might be intended or unintended (Munger 2016). For a hand to be invisible, truly invisible, both the *emergence* and *survival* must be unintended. And yet such an order might organize much of the world around us, possibly without our having any substantial understanding of that order’s origins or effects.

In the first chapter of the book, Christopher Torr gives the example of the Burning Man event held in the Nevada desert in the United States. The origin of the event was clearly intentional, or maybe intentionalish, given that founder Larry Harvey

clearly had not the remotest conception of what would happen and what Burning Man would become. The rules and procedures adopted by the event organizers starting in 1996 (the event was largely self-organizing in the 1986–95 period) were general and foundational, providing broad latitude within which individuals could organize themselves. This planning, which is explicit, intentional, and intensive, is operating in the background. The ephemeral citylike structure of Burning Man might appear to emerge spontaneously each year from the desert, but in fact the spontaneity is contingent on an active and intentional “visible hand” of setup and coordination.

That’s why Mittermaier’s question is so interesting and, frankly, so odd. Steeped in the Austrian tradition, longtime lunch companion of Ludwig Lachmann, Mittermaier was nonetheless raising deep questions about the model of markets as “what happens when the state does nothing.” There appears to be a visible hand, operating invisibly behind, or logically prior to, the invisible hand of the market.

When someone wakes up in Paris and goes out for a baguette, they’ll find a cheap, fresh, and remarkably delicious loaf at the boulangerie in the next block; it seems a marvel that this spontaneous arrangement of such a complex division of labor can just be taken for granted. But is it spontaneous, all the way down? Or are there visible, if subtle, rules and choices that operate at an *even deeper* level that empower and unfetter the emergent, highly organized system?

In Mittermaier’s words:

Since institutions vary so much from place to place and from period to period and since not all of them are conducive to an advantageous market order, the question arises how an arrangement of society which constitutes an invisible hand may come into being. Does it simply arise in the absence of the meddling hands or does someone have to turn his hand to the task? Do the rules of conduct which give rise to a spontaneous order arise spontaneously if governments do not interfere—or do governments and others have to bring them about deliberately? *There is a hand behind the invisible hand. The question is: Is that hand invisible too?*

The answer to this question, we will say, shows whether a dogmatic or pragmatic view is held. “Yes” indicates a dogmatic point of view. “No” indicates a pragmatic point of view. (Mittermaier 2020, 25–26, emphasis in original)

In markets, the processes that economists describe about how prices are negotiated and goods and services are exchanged really do play out. But the curves that economists draw on blackboards, and the equations they type into computers, were for Mittermaier only models of markets and not markets themselves. It is not even clear that the models used to represent market processes reflected a good understanding of markets. To understand why, it is necessary to consider the core distinction Mittermaier tried to make, between dogmatic and pragmatic perspectives of the world.

## Dogmatism and Pragmatism

As discussed in the previous section, Mittermaier considered Lachmann a mentor and, in fact, a friend. But Mittermaier was not an Austrian, and he was quite explicit about his rejection of the “kaleidic” view of subjectivity associated with some Austrian thinkers (Stettler 2019). The Austrian school, particularly the a priori or apodictic conclusions argued for by Ludwig von Mises (1949) and some of his followers, were unattractive to Mittermaier.

He saw the Austrians in general, and the Misesians in particular, as being “dogmatic” about economics, not in the sense that they were irrevocably committed to their positions, though that was often true, but rather because they were committed to the principles and dogma that their models were built on. That is, he saw Austrians as he saw most economists: the underlying dogmas might differ, but the dogmas themselves were advanced and adhered to regardless of the context. In short, they were committed to the models of the thing, not the thing.

Mittermaier favored pragmatism. As he put it:

To some it may seem that the simple anti-government prescription is all that is needed while to others it may not be at all obvious that market order, as they understand it, would then come about automatically. We shall say that the former have a rather *dogmatic* view and the latter a more *pragmatic* view of the nature of market order.

The pragmatist is likely to have misgivings, for instance, about the rather indulgent attitude of the dogmatist toward monopolies not enforced by government. “The only viable definition of monopoly is a grant of privilege from the government” [Rothbard 1970, 45]. The pragmatist may appreciate how difficult it is to put one’s finger on monopolistic practices and yet not be persuaded that they do not exist or are entirely benign. . . . We live in an age not only of big government, but also of big business; an age of economic oligarchy in which government is only one of the oligarchs, albeit the chief one. Oligarchs are apt to come into conflict and to make use of whatever weapons are at hand. The dogmatic view on government and the indulgent attitudes towards all forms of combination not sanctioned by government are likely to prove handy weapons for the lesser oligarchs. (Mittermaier 2020, 24, emphasis in original)

It may be worth emphasizing that this was actually written in the 1980s, though it wasn’t published until 2020; it has aged rather well, it seems. The notion that everything in private markets is voluntary and efficient, and everything in the public sector is coercive and inefficient, is in fact dogmatic.

Mittermaier pointed out that “dogmatists” see government as issuing mandatory edicts and enforcing those edicts using violence. Free associations and their sets

of rules are voluntarily chosen by participants, and those participants are free to quit and go elsewhere and join other associations or patronize other businesses: “Whatever [the individual does in a private setting], he does voluntarily and that is all that is needed for the operation of the invisible hand” (Mittermaier 2020, 24). Amusingly, Mittermaier noted as an aside that “Most dogfights we see are between dogmatists of different breeds” (Mittermaier 2020, 136).

The pragmatist, as Mittermaier saw it, takes a step back and believes that some people, and perhaps many people, desire power over others:

Organized government is simply the most convenient channel through which all manner of people force their will on others and, if a government does not oblige, they will find other ways of doing so. If every trade union, professional and trade association, agricultural union, cartel, and so on is to be regarded as engaging in governing activity in so far as it tries to coerce, then the dogmatic anti-intervention prescription is by no means as simple as it may at first appear to be. (Mittermaier 2020, 25)

Of course, one might concede the point that dogmatic schema may be less than perfectly accurate but still wonder “So what? What guides the pragmatist if principles are suspect?”

Mittermaier came down on the side of what he called “free-market pragmatism.” But he admitted that he had “not yet shown in what sense free-market pragmatism is distinctly pragmatic. This will be rather difficult” (Mittermaier 2020, 135). Still, it is possible to distinguish the two positions:

The distinction between dogmatism and pragmatism in the realm of principles is [that] dogmatism is based on one or a few principles, regarded as fundamental, from which are deduced the properties of social and economic order as it should be. . . . Pragmatism in the realm of principles is based on ill-articulated notions of a well-ordered society from which are deduced or extracted various principles in a process of articulation which progressively formulates these notions into ideal institutional compromises. . . .

What makes a pragmatist in the realm of principles into a free-market pragmatist is the insistence that the ideal institutional compromise should include the principle of control by impersonal constraint, the principle of the invisible hand, as the agency of control by which social and economic order is maintained. (Mittermaier 2020, 139)

Mittermaier recognized that this appears to be simply a lot of discussion to cover the fact that he sought to bring decentralized market processes in through the back door, given that in fact “the invisible hand” is thus established as a dogmatic principle. But he noted that there is a difference between imposing a dogmatic constraint to use the “invisible hand” a priori and tolerating no deviation, and adopting a Humean

notion of convention, simply observing that societies that use private property as their organizing principle are happier and more prosperous. As David Hume put it:

For when men, from their early education in society, have become sensible of the infinite advantages that result from it (property), and have besides acquir'd a new affection to company and conversation; and when they have observ'd, that the principal disturbance in society arises from those goods, which we call external, and from their looseness and easy transition from one person to another; they must seek for a remedy, by putting these goods, as far as possible, on the same footing with the fix'd and constant advantages of the mind and body. This can be done after no other manner, than by a convention enter'd into by all the members of the society to bestow stability on the possession of those external goods, and leave every one in the peaceable enjoyment of what he may acquire by his fortune and industry. (Hume 1739)

Mittermaier recognized the value of economic dogmatists because he thought the pragmatic approach, though intellectually more sensible, is ineffective. He thought that young people who come to study economics perceive that

the world is full of burning questions and to them it must also seem that all the equilibrium theorists are fiddling like Nero. They come to humour equilibrium theory as stuff for passing examinations while they regard the Marxian analysis as the real stuff. When they reach this point, in all probability they are pounced upon by political predators dressed up as economic holy men. But political predators have it almost all their own way. Apart from some free-market dogmatists, there are very few in the ranks of economic theorists to gainsay them. (Mittermaier 2020, 204)

## Impact

It may be simply definitional that the impact of “underappreciated economists” is less than it *should* be, at least in the minds of those who do appreciate the contributions of scholars such as Mittermaier. The efforts of Michael Stettler and, of course, Karl’s widow, Isabella Mittermaier, have resulted in the posthumous publication of several important works (Mittermaier 2018, [1994] 2019, 2020), but the work now published deserves to be widely read.

Mittermaier’s contributions center on two areas, each of which is significant. The first is the distinction between dogmatism and pragmatism, a distinction that articulates well with philosophy (see, for example, Rorty 1982) but that has not found much traction in economics. The theories of economics, ranging from Marxism to constrained optimization in equilibrium, to praxeology, all use a priori theory as models to simplify a complex world. Mittermaier did not object to models, but he shared with Ronald Coase a concern for examining the economic world as it actually is.

The second contribution was institutional, and here Mittermaier took up a subject that has divided institutional and theoretical economics for more than a century. The context in which economic activity takes place, the “visible hand,” is so important that the theorizing about the emergent “invisible hand” should always be seen as contingent, even idiosyncratic. I am myself, as a student of Douglass C. North (1990), sympathetic to this view, but Mittermaier was writing about this perspective in the 1980s, before neo-institutionalism became mainstream.

Stettler (2019) argued that Mittermaier was seeking to reorient the way that economics was done, as an enterprise, an objective that is perhaps even more ambitious than the neo-institutionalist goal simply of getting the profession to account for institutions at all. Mittermaier was advocating for “the development of an alternative conceptual framework which could ultimately enable the economic theorist to use institutions as a means of empirical orientation” (unpublished manuscript, quoted in Stettler 2019, 131).

At the risk of oversimplifying, what Mittermaier was after was more along the lines of Elinor Ostrom, whom I have compared (Munger 2010) to Charles Darwin as a searcher for different species. In Ostrom’s case, the search was for examples of private institutions that solve common pool resource problems. For Mittermaier, the search was for the various niche species, or varieties of “market orders,” each of which is adapted to local conditions and the product of a path-dependent process of generating institutions. The idea of a single, general “market order,” which seems to be the goal of modern economics, is for all practical purposes never observed in practice. The goal of economics instead should be to consider “*n* market order,” not “the market order.” Each idiosyncratic market order is manifested as the set of market relations that emerge from the contingent history of times and places.

Calling this view heterodox is an understatement. Not only would Mittermaier’s approach rule out a single monolithic equilibrium theory of constrained optimization; it would reject the Austrian view that assumes that a minimal, but ideal, set of enforcement institutions are operating in the background. Combining the attractions of pragmatism and the focus on institutions as being prior, and causal, would result in a very different “science of economics.” I for one think that would be a very good thing.

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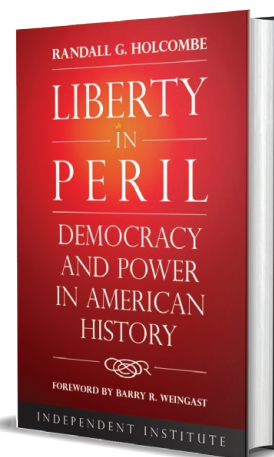
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