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## WORD, ACTION, AND ENTREPRENEURSHIP

**Abstract.** The Mengerian-Misesian tradition in economics is also known as the causal-realist approach – in other words, it studies the causal structure of economic phenomena conceived of as outgrowths of real human actions. Thus, it finds verbal descriptions and declarations economically meaningful only insofar as they can be linked with demonstrated preferences and their causal interactions. In this paper, I shall investigate how the approach in question bears on topics such as the economic calculation debate, deliberative democracy, and the provision of public goods. In particular, in the context of discussing the above topics I shall focus on market entrepreneurship understood as a crucial instance of “practicing what one preaches” in the ambit of large-scale social cooperation. In sum, I shall attempt to demonstrate that the Mengerian-Misesian tradition offers unique insights into the logic of communicative rationality by emphasizing and exploring its indispensable associations with the logic of action.

*Keywords:* causal realism; entrepreneurship; economic calculation; deliberative democracy; public goods; communicative rationality

### 1. Introduction

The Mengerian-Misesian tradition in economics is also known as the causal-realist approach (Salerno 2010). This appellation indicates that the approach in question investigates causal relationships obtaining in the context of real economic phenomena, instead of focusing on the analysis of purely hypothetical or idealized constructs, such as perfect competition or general equilibrium, which stands in stark contrast to the typical approach adopted within neoclassical economics. More specifically, causal realists insist that economic phenomena are analytically meaningful only insofar as they can be traced to preferences demonstrated in specific human actions and their various interrelations (Rothbard 1956). In other words, the Mengerian-Misesian tradition conceives of economic data as words backed

by deeds – in the absence of the latter, such data, in the form of, e.g., opinion polls or historical extrapolations, are considered insufficient to bear on issues such as social welfare (Herbener 1997), consumer satisfaction (Hutt 1940), or business competitiveness (Hayek 2002).

This is not to say, however, that such data, even if not useful for the economic theorist, is not useful for various participants in the economic order. On the contrary, it might be thought of as particularly significant for market entrepreneurs, whose role, according to the tradition under consideration, is to exercise business judgment under conditions of uncertainty (Foss and Klein 2012). Such judgment, which aims at imagining future consumer wants, future availability of appropriate factors of production, and future configurations of other relevant data, is necessarily forward-looking, and thus detached from any actually demonstrated preferences, but it can and should rely on supplementary information provided by past market data, including consumer and business surveys. The crucial point in this context is that, first, entrepreneurial judgment is an art rather than an exact science, and second, that it necessarily involves exposing one's resources to potential losses (Salerno 2008). In other words, in contrast to the predictions of neoclassical economists, entrepreneurial judgments neither aspire to quantitative law-like precision, nor avoid the requirement of "skin in the game". Thus, as words backed by deeds, and unlike the abovementioned economic predictions, they are regarded by causal realists as the driving force of the market process – a phenomenon of utmost importance for sound economic science.

This observation underscores another essential aspect of the Mengerian-Misesian tradition – the emphasis that it puts on the entrepreneurial character of all human action, that is, its inherent entanglement with the problems of scarcity and uncertainty. This emphasis allowed its representatives to develop unique insights into subjects such as economic calculation, economic growth, and business cycle theory. More specifically, it allowed causal realists to investigate the role played by entrepreneurial rivalry and competitive bidding for productive resources in the context of developing large-scale social cooperation based on productive specialization and division of labor.

What I wish to argue in the present paper is that an important and perhaps still underappreciated aspect of such insights is that they reveal entrepreneurial action as an embodiment of crucial norms of communicative rationality. This suggests that, contrary to the claims of some of the most notable theorists of the phenomenon in question (Habermas 1984), there exist significant aspects of rationality that cannot be encompassed

by successful communication conducted on a purely verbal and deliberative level (Pennington 2003). Similarly, the aforesaid insights cast doubt on the notion that any genuinely rational substantive standards of fairness can be developed by free-floating wraiths debating behind the “veil of ignorance” (Rawls 1971). The essential reason why this is the case is that all purely verbal and deliberative attempts at determining rational social policies are fundamentally detached from considerations of resource scarcity and economic uncertainty.<sup>1</sup>

This is not to say that such attempts cannot perform other useful roles. For instance, they are absolutely indispensable as far as theory building is concerned, especially when it consciously utilizes the logical-deductive method, as it clearly does in the causal realist tradition. In other words, while pure deliberation and verbal communication cannot solve the problem of rational allocation of resources in a complex economy or generate any one-size-fits-all models of legal and regulatory frameworks, they constitute crucial tools in the context of deducing the general normative and institutional requirements that must be met if the above tasks are to be accomplished.

Among such requirements are robust property rights, free exchange of property titles, respect for entrepreneurial innovation, and cultural norms that protect all the institutions just mentioned. Only within such a setting can communicative rationality of the verbal and deliberative kind be complemented by its praxeologically active counterpart, whereby concrete simultaneous solutions are devised, implemented, compared, and evaluated in the process of entrepreneurial competition, experimentation, and polycentric empirical learning. In this connection, prices, profits, and losses turn out to be communicative tools no less important than words, verbal arguments, and formal deliberations. In fact, the solutions based on the former can be seen as enjoying greater institutional robustness than those based on the latter (Boettke and Leeson 2004, Leeson and Subrick 2006, Wisniewski 2011), since, first, they are backed by actually demonstrated preferences, thus proving the honest commitment of their implementers, and, second, they are implemented by owners spending their own resources, thus ensuring “skin in the game”.

Having made these general remarks, let me now proceed to a discussion of more specific illustrations of the way in which the entrepreneurial orientation of the causal-realist tradition informs and enriches the notion of communicative rationality.

## **2. Economic calculation**

Nowadays the economic calculation debate can be seen as little more than an intellectual artifact of the Cold War era, when there existed a genuine and heated theoretical discussion regarding the respective economic merits and demerits of socialism and capitalism. Now, one might argue, this debate is long over, capitalism having been declared a clear winner. However, for a perceptive researcher it remains a treasure trove of causal-realist arguments that demonstrate the unique communicative abilities of market institutions.

The earliest of such arguments, which actually predates the tradition in question and goes back to the beginnings of classical political economy, suggests that, since ownership connotes responsibility for and intimate knowledge of the things owned, and since in a free society individual owners prosper insofar as they harmonize their self-interests with the self-interests of others, there exists no argumentatively deducible vision of a good society superior to the one that emerges from the unhindered interplay of voluntary, contractual human actions (Bastiat 1851, Smith 1976). In view of the remarks included in the introduction, it should immediately become clear that while the argument itself can be made in the course of purely verbal deliberation, its recommendations can be implemented only through the kind of cooperation that relies crucially on extra-verbal signals communicated by continuous market data and the underlying judgments of owners-entrepreneurs.

However, while important in its own right, this particular argument does not belong to the essential core of the economic calculation debate inasmuch as it focuses primarily on psychological incentives, not on economic institutions. A far stronger argument against economic organization based on bureaucratic central planning and the abolition of private property, one that constitutes the main contribution of the causal-realist tradition to the subject under consideration, demonstrates that there can be no such thing as purely “declarative” prices, which are detached from entrepreneurial competition for factors of production (Lavoie 1985, Mises 1990). Nor can such prices serve as a useful starting point in a bureaucratic search for their equilibrium equivalents, guided by demonstrated preferences for various consumer goods and the resulting surpluses and shortages. On the contrary, the only prices that can function as credible signals of relative scarcity under conditions of dynamic uncertainty are intersubjective exchange ratios arrived at through actual entrepreneurial choices and culminating in continuously established “plain states of rest” (Klein 2008). Only such exchange

ratios can communicate the relative efficiency (or lack thereof) of various economic solutions in a genuinely rational – i.e., economically meaningful – manner, indicating how closely any such solution measures up against a literally infinite number of potential alternatives (Wisniewski 2015).

The above observation becomes even clearer in the context of the socialist proposal that state-appointed managers could replicate the efficiency of the capitalist price system by pretending to be entrepreneurs and playing competition, speculation, and investment (Mises 1996, pp. 705–710). What such a proposal amounts to is the extension of bureaucratic deliberation into the realm of managerial decision-making, whereby socialist managers may pretend to make authentic entrepreneurial judgments, while in fact remaining within the ambit of purely verbal signaling, which carries no economic meaning as far as rational allocation of resources is concerned. For all practical purposes, a game is a kind of talk – it never crosses over from the realm of declarations into the realm of actions. Thus, playing entrepreneurship is a contradiction in terms, which can never generate the kind of communicative rationality that is necessary to address the challenges posed by scarcity and uncertainty.

It is important to realize here that even a full-blooded entrepreneur can be partially reduced to a mere verbal “player” in the unlikely event of becoming the sole user of a non-specific factor of production (Klein 1996). Under such conditions, his situation is, praxeologically speaking, no different than that of a socialist manager. In other words, he can ceaselessly plan to optimize the use of the factor in question, but, in the absence of competitive bidding for its services, all such plans are bound to remain sheer wordplay, not entrepreneurial action informed by the relevant opportunity costs. Thus, investigating the entrepreneurial aspects of communicative rationality demonstrates the inherent instability of “market monopolies” – i.e., cooperative ventures cut off from the signals necessary to evaluate their cooperative performance.

In sum, emphasizing the competitive-entrepreneurial core of sound economic calculation demonstrates that in the ambit of complex social cooperation actions not only speak louder than words, but are indispensable to make words meaningful in the first place.

### **3. Deliberative democracy**

Another area in which the notion of communicative rationality occupies a position of central importance is that of the so-called deliberative democ-

racy (see, e.g., Chambers 2003, Thompson 2008). According to its proponents, social empowerment results from increased involvement in the process of democratic decision-making, which should extend beyond mere voting. The extent and specificity of relevant decisions is variously defined by various theorists in the field, but, insofar as the proposal in question advocates a greater politicization of society, it approximates some form of cooperative economic central planning. Thus, it falls prey to all the problems discussed in the previous section.

Worse still, it generates additional problems of its own. If the deliberative procedure under consideration were to be combined with representative democracy – especially as implemented on a scale typical of contemporary nation-states – then no individual citizen would have an incentive to make his deliberative input genuinely thoughtful and informed. Since a single vote in contemporary large-scale representative democracies has an infinitesimally small chance of swaying the election, and since the successful voters can externalize the costs of their decisions onto the unsuccessful voters, the arrangements in question make it rational for voters to be ignorant of relevant issues (Downs 1957, Matsusaka 1995). Worse yet, some voters may use such arrangements to indulge in expressing their irrational preferences (Caplan 2007). “Empowering” them through their involvement in a deliberative process does nothing to address the above problems, since, regardless of the extent of their purely verbal contributions, their lack of ownership interest in the electoral system and their infinitesimal influence on its outcomes ensures that their decisions are characteristically non-entrepreneurial – that is, devoid of the virtue of prudence and insulated from honest engagement with the issues of scarcity and uncertainty.

On the contrary, such engagement is likely to be seen on the part of various special interest groups determined to game the system to their advantage. Such groups, characterized by uniform interests and capable of pursuing highly concentrated profits, can overcome the collective action problem (Olson 1971, Ostrom 1990) precisely by disregarding the deliberative features of the system under consideration and committing their own financial resources to campaigning, lobbying, bribing and other activities encompassed under the umbrella of so-called political entrepreneurship (McCaffrey and Salerno 2011). In other words, far from enhancing the political influence of disorganized have-nots, the model of deliberative democracy provides an additional illustration of the crucial influence of organized haves, which is largely derivative of their role as owner-entrepreneurs – that is, “rational communicators” capable of backing their words with economically meaningful deeds.

The same observations seem to apply to the deliberative story originated by Rawls (1971), which involves propertyless characters debating behind a “veil of ignorance” about the ideal form of a just social system. Such characters, even though they are conceptualized as facing uncertainty about their natural endowments and social position, are nonetheless completely detached from the problems of uncertainty and scarcity that would arise as soon as they learned about their natural endowments and social position. One of the main lessons of the causal-realist tradition is that the viability and efficiency of various specific institutional arrangements can be evaluated only *ex post* – that is, only as a result of the free unfolding of the rivalrous process taking place among various institutional entrepreneurs (Boettke and Coyne 2009). As a result, it seems inadmissible to suggest, as Rawls does, that the uniquely appropriate shape of a just society can be deduced through purely verbal discussions conducted by disembodied deliberators.

However, one crucial conclusion that can be deduced in such a manner is the one concerning the proper form of the “meta-institutional” conditions under which the abovementioned rivalrous process can operate uninhibited – conditions that include a robust respect for property rights, freedom of association, and entrepreneurial experimentation. Only in such an environment can institutional entrepreneurs not only freely deliberate about their respective organizational projects, but also implement them based on genuinely contractual and unanimous decisions (Boudreaux and Holcombe 1989, Wisniewski 2017). Thus, *contra* Rawls, it appears that the kind of communicative rationality that allows for bridging the realm of organizational deliberations and the realm of simultaneously undertaken organizational actions emerges only in society understood not as a single cooperative venture, but as the sum total of cooperative interactions aimed at the actualization of different competing ventures (Chartier 2014).

In sum, while deliberation has its important place as a planning tool, and while its democratic form has its place as an empowering device, neither can help bring about desirable social results when divorced from the realm of entrepreneurial judgment – that is, the realm where words are backed by deeds, and deeds are backed by privately owned resources.

#### **4. Public goods**

The final area which I would like to mention in connection with the importance of looking at the notion of communicative rationality through the lens of the Mengerian-Misesian tradition is that of so-called public goods.

According to the dominant neoclassical exposition, these constitute a distinct category of goods characterized by the criteria of non-rivalness and non-excludability (see, e.g., Willis 2002, pp. 161–3; Arnold 2004, pp. 720–3; Ayers and Collinge 2004, pp. 555–9). This is supposed to imply that such goods cannot be effectively provided on the basis of voluntariness, contractuality, and entrepreneurial competition, since no potential consumer should be excluded from their enjoyment and no actual consumer should be allowed to shirk payment for their enjoyment. This, in turn, is supposed to indicate that the “optimal” amount of such goods can be determined and supplied only on the basis of electoral and bureaucratic deliberation.

However, in view of the considerations from the proceeding sections of this paper, it should readily become clear that neoclassical public goods argumentation begs the question against the competitive-entrepreneurial approach by assuming to know in advance what, according to the causal-realist tradition, can be learned only by utilizing the competitive-entrepreneurial procedure.

This can be demonstrated on a number of fronts. First, since costs are inherently subjective and agent-relative phenomena (Buchanan 1969), the putative non-rivalness of any given good cannot be established in the absence of freely demonstrated consumer preferences. If, for instance, a given individual were to desist from consuming a specific good upon noticing that it is being simultaneously consumed by other individuals, then it would be the clearest possible evidence of the fact that the good in question is, in fact, rivalrous. Such evidence, however, can emerge only from the operation of the competitive-entrepreneurial process (Kirzner 1997). Second, since we do not live in a world of Edenic superabundance, even if we were to treat certain consumer goods as non-rivalrous, we would have to bear in mind that the producer goods needed to bring them into existence are clearly rivalrous. This, in turn, implies that their specific uses are associated with specific opportunity costs, which have to be economized on if the “optimal” amount of the relevant final goods is to be produced. However, what these opportunity costs are can, again, be discovered only on the basis of unhampered entrepreneurial competition and simultaneous experimentation. Thus, whether any given good can be classified as non-rivalrous can be established only with the help of the kind of communicative rationality that appears exclusively in the course of actively managing one’s capital assets under conditions of scarcity and uncertainty (Wiśniewski 2013a).

Third, “external benefits” is not a term that can be economically operationalized, since, just as in the case of non-rivalness, such putative benefits are by definition detached from actual consumer payments capable of re-



vealing the underlying (momentary) preference scales. This need not necessarily indicate that the term in question has to be expunged from economic theorizing altogether, but it does suggest that it may be advisable to reconceptualize it as an element of the general entrepreneurial challenge. In other words, even though it is impossible to construct a praxeological proof that in any given situation a specific individual is affected by positive externalities, an entrepreneur may speculate that the goods he produces do in fact generate such externalities, and that internalizing them may increase his revenues (Block 1983). Again, whether his speculations in this matter are correct or not can be established only retrospectively, through the operation of the entrepreneurial profit and loss system (Mises 2008). Fourth, it is not the case that subjecting the production of supposedly non-excludable goods to electoral and bureaucratic deliberation eliminates the free rider problem. On the contrary, it may be plausibly suggested that it only recreates this problem in a more troublesome form, since, as long as some members of a given deliberative system are net tax consumers, they are able not only to retain their free rider status, but also to solidify this status in an institutional manner, blocking any attempts by entrepreneurs to internalize the relevant externalities. It is only under such conditions that external benefits become an economically operationalizable phenomenon – where institutional compulsion is involved, benefiting without paying is demonstrable in a praxeologically obvious way. Thus, non-excludability can be seen as a free-floating abstraction when analyzed through the lens of the neoclassical framework, but it assumes a concrete economic meaning when looked at from the vantage point of the Mengerian-Misesian tradition (Wisniewski 2013b).

In sum, while the notion of public goods in its standard formulation appears to be encumbered with a number of conceptual difficulties, its reformulation in the spirit of the causal-realist approach allows for turning it into an element of the mental toolkit that can be profitably utilized in the context of designing entrepreneurial strategies.

## **5. Conclusion**

It seems rather uncontroversial to suggest that we live in a world of rapidly increasing economic dynamism, social interconnection, and informational complexity. Hence, it goes without saying that the notion of communicative rationality should be seen as ever more pertinent and worthy of investigation. However, as illustrated in the present paper, it is also crucial to realize that in such a world a purely deliberative understanding of

communicative rationality is increasingly inadequate, if not outright misleading. As I attempted to demonstrate, the Mengerian-Misesian tradition in economics is uniquely suited to embed the notion in question in the realm of praxeology, thus tying it with the issues of scarcity, uncertainty, profit, loss, ownership, and personal responsibility, and allowing it to assume a causally realistic form. Only having assumed such a form can it then illuminate a number of essential economic phenomena characteristic of today's cultural, institutional and organizational environment.

For instance, in the contemporary informational milieu, consisting of innumerable many independent, horizontally integrated contextual nodes, it is increasingly important to realize that information asymmetry is not a defect to be rectified by communal deliberation and bureaucratic equalization of access to “intellectual opportunity”, but a necessary condition of specialization, division of labor, and entrepreneurial discovery (DiLorenzo 2011). In other words, the relevant social information, especially that of a highly contextual and tacit nature, can be unveiled and utilized only by means of engaging not in political deliberation, but in market action – and the more complex and information-driven the economy, the more essential this realization becomes.

Furthermore, in a highly interconnected social and economic environment, large-scale mistakes tend to generate destructive domino effects. This is why, if the fragility of the system is to be minimized, the ability to make such mistakes cannot be institutionalized and their perpetrators have to be personally burdened with the associated risks. It might be argued here that deliberative democracies, public-goods-driven interventionisms, and other politico-bureaucratic forms of social organization are particularly prone to institutionalizing such errors, known under the umbrella term “moral hazard”, since they centralize power, monopolize crucial decision-making channels, encourage rational ignorance and rational irrationality, and forcibly externalize the costs of their actions onto others. In other words, it might be argued that it is asymmetry of power and responsibility, not asymmetry of information, that is particularly conducive to the emergence of moral hazard and the resulting systemic fragility (Hülsmann 2006). This, in turn, implies that a maximally decentralized, competitive, entrepreneurial, and private-property-based system of social organization – that is, one that requires backing words with deeds and maintaining “skin in the game” – should be seen as especially resistant to institutionalized moral hazard and systemic fragility (Taleb 2012).

Finally, as the informational complexity of the economy grows, even the quintessentially deliberative elements of the operation of entrepreneurial en-

tities – such as boardroom meetings – increasingly have to be supplemented by the “intrapreneurial” initiative of hired managers and other non-owning employees, encouraged to undertake creative actions through the exercise of “derived judgment” (Foss, Foss, and Klein 2007). As a result, the competitive discovery procedure and the attendant entrepreneurial experimentation can take place not only among institutional market participants, but also within their organizational structures, further enhancing their ability to discover and create socially useful knowledge and communicate it in an effective manner.

Thus, it appears that, in contrast to the beliefs of the proponents of communal deliberation as the best way of generating solutions to complex social issues, the more information-driven the society, the more it has to rely on the kind of communicative rationality that transcends a purely verbal and deliberative level and tackles the problems of scarcity and uncertainty by utilizing the distinctly entrepreneurial aspects of the logic of action. Taken to its logical conclusion, this observation indicates that the approach in question applies not only to “playing the game” of large-scale social cooperation, but to specifying its rules as well (Wisniewski 2013c, 2014). It has been my contention here that only the Mengerian-Misesian tradition in economics, which identifies entrepreneurship as the crucial bridge between word and action in a world of scarce resources and uncertain outcomes, makes this observation sufficiently clear and intellectually fruitful. When combined with the theory of communicative rationality, it allows for formulating a causally realistic vision of practical reasoning that can serve as a solid foundation for the extended order of rational social cooperation (Salerno 1990). It is high time to recognize these gains from trade and use their potential to the fullest.

#### N O T E

<sup>1</sup> Rawls’ proposal takes into consideration the uncertainty surrounding one’s transition from the world of deliberation behind the veil of ignorance to the world of actual social interaction, but it is detached from the far more important uncertainty pertaining to the world of actual social interaction.

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