BOOK REVIEW:

**“THE HAND BEHIND THE INVISIBLE HAND: DOGMATIC AND PRAGMATIC VIEWS ON FREE MARKETS AND
THE STATE OF ECONOMIC THEORY”**

BY KARL MITTERMAIER

REVIEWED BY

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Karl Mittermaier, *The Hand Behind the Invisible Hand: Dogmatic and Pragmatic Views on Free Markets and the State of Economic Theory*, Foreword by Isabella Mittermaier (Bristol University Press, 2020), pp. 278. Freely available at <https://bristoluniversitypress.co.uk/the-hand-behind-the-invisible-hand>, ISBN 978-1529209099 (hardback), 978-1-5292-0910-5 (ePub) and 978-1-5292-1579-3 (OA PDF).

In 1986, a 48 years old Karl Mittermaier – born in 1938, he passed away in 2016 –, submitted his doctoral thesis to the University of the Witwatersrand (Wits) in Johannesburg. It was entitled *The Hand behind the Invisible Hand: Dogmatic and Pragmatic Views on Free Markets and the State of Economic Theory*. In 2020, more than thirty years later, the essay is eventually published by Bristol University Press. Many persons were instrumental in this process: Jannie Rossouw, then the head of the School of Economic and Business Sciences at Wits, set it in motion and then Michael Stettler, Christopher Torr, currently of the School of Economics and Finance at Wits, and Giampaolo Garzarelli editor of the *Journal of Public Finance and Public Choice* picked it up. The book contains, in addition to Mittermaier's thesis, a Foreword by his wife, Isabella, and three accompanying essays by Christopher Torr, Daniel B. Klein (George Mason University), and Rod O'Donnel (University of Technology Sydney). These persons should be thanked: *The Hand behind the Invisible Hand* is a useful and even necessary book.

First and foremost, it is valuable because of the message about the nature and definition of economics it conveys. A classical political economist himself, Mittermaier claims that economics is or should not be about market equilibrium, choice and the allocation of resources, but rather about the rules and institutions individuals devise to frame their interactions. That may not be new, but economists tend to forget or overlook this way of approaching their discipline. It is therefore important to repeat it. What makes it even more interesting is that Mittermaier anchors his analysis in the works of past economists – Adam Smith, Léon Walras, Vilfredo Pareto, Henri Simons, Walter Eucken, Murray Rothbard, Milton Friedman and Friedrich Hayek or James Buchanan and a few others. Relying on these economists, citing and quoting them eruditely and profusely – which make reading the book pleasant and lively – allows Mittermaier to show that

there are two traditions that can be said to claim Smith's legacy – those who promote a dogmatic view on the invisible hand and the free market and those who foster a pragmatic view of the same concepts. The purpose of the book is to explain what are these dogmatic and pragmatic views, identify who is on the dogmatic side and who is on the pragmatic side and clarify why the dogmatic interpretation of the invisible hand is flawed – Mittermaier, for his part, favored the pragmatic view.

What is precisely interesting for historians of economic thought. *The Hand behind the Invisible Hand* is however not just another book on economists that have already been extensively studied. Mittermaier does what few have done. He uses history of thought to demonstrate his thesis about economics-as-political-economy. He anchors his demonstration in history of thought. This was actually the only way to make his point, to show that there is a common thread, a continuity in the way certain economists envisage their discipline, and how they used Smith's work. This therefore sheds new light on the works Mittermaier cites, and how they articulate with each other. *The Hand behind the Invisible Hand* proves to be useful for historians and useful for non historians to see how history of thought can be useful.

Paying honor to whom honor is due, Mittermaier devotes a large part of the book to Smith's conception of *an* invisible hand – Smith's original notion in fact refers to *an* invisible hand, not *the* invisible hand. Smith is not important in *The Hand behind the Invisible Hand* only because he was at the origin of the story, speaking of the “invisible hand” for the first time in economics. He matters because his views were of the pragmatic type – although, says Mittermaier, he was caricatured as a dogmatic free marketer. Using textual evidence from Smith's work, Mittermaier leaves little doubt that, indeed, Smith “had a vision of an ideal market order which, like other ideals, and together with other ideals, one has to strive to realize as far as one can.” (21) This was also, as Mittermaier shows, the view of Simons, Eucken, Knight – even if Mittermaier does spend much time discussing his work – Buchanan and even Tullock – that Mittermaier mentions a few times. A set of economists that, Mittermaier notes, did not have much in common except that they were all classical liberals and that there exist a pragmatic element in their work.

Indeed, these economists – and this is what pragmatism means to Mittermaier – all

believed that “The conditions under which the invisible hand may be expected to operate have to be created deliberately.” (2020, 21) They were aware that letting individuals follow their private interest was no guarantee to obtain a free market economy. They admitted that there are economic agents – monopolists, for instance – that would have the desire and means to curb, to orient and even control the economy. They were aware that conflict “must eventually arise both among those with different and among those with similar inclinations” (121). And that “the market mechanism fails in certain respects” (132). In other words, they knew that measures were necessary to stop the “regress of conflict” and solve market failures by adopting “ad hoc measures.” (132) These measures however do not consist in telling precisely and exactly individuals *what* to do, but rather “*how* things are done” (53, italics in original). It is a matter of planning too, but not central planning obviously. “As Eucken put it,” Mittermaier reminds us, “there should be state planning of the economic system (forms) but not of the economic process”. (132) It is a matter of rules, rules of the social game. Then, and only then, after one has “look[ed] to the rules of the economic game, all the rest looks after itself.” (132)

Therefore, linked to this pragmatic view on the invisible hand is the idea that economists only define a frame in which individuals make their choices. Put differently, they do not impose their values on the individuals who participate in the economy. This is what Mittermaier expresses in terms of “endogenous” – vs “exogenous” – values. The pragmatic view holds that the “analysis of economic order may nominally be based on endogenous values only ... namely the values which people in the system under consideration reveal by their actions.” (43-44) What matters for a pragmatic are “the wishes and the values of the people involved.” (43) Not the exogenous values of the economist who is analyzing the economic order. This is, one would have recognized it, exactly what Buchanan put forward in his famous “Positive Economics, Welfare Economics, and Political Economy” (1959), in which he insisted that economists should be “non normative”, remain positive and limit themselves to “discovering "what is the structure of individual values."” (1959, 137) And that the only means economists have to avoid being normative is to restrict themselves to suggest institutional changes.

The parallel with Buchanan is striking. Mittermaier could have made more of it. He could also have insisted on Knight, mentioned Ronald Coase, Rutledge Vining, Elinor and Vincent

Ostrom as having pragmatic views on the market order. He could also have referred to the Virginia School of Political Economy and to the Bloomington school as good instances of pragmatic heirs of Smith and the invisible hand. That Mittermaier did not mention them is understandable. Recall the essay was written in 1986. Buchanan had just been awarded the Nobel Prize in economics. Coase still had to wait a few years and even longer for Elinor Ostrom. These economists were not part of history yet. They were making it. It was less easy to identify them than it is now.

As opposed to the pragmatic view, Mittermaier presents those who hold dogmatic views on the concept of an invisible hand and the free market. These are the economists who think that “the beneficial guidance of the invisible hand may always be relied upon” (17) or that the hand behind the invisible hand is invisible too. According to the “dogmatic laissez-faire views ... a natural order, a grand harmony of interests, establishes itself of its own accord under the guidance of the invisible hand, provided only that governments do not meddle in economic affairs.” (21) Indeed, individuals can be left alone in their pursuance of their private interests – provided that the government does not interfere with their actions and that property rights are guaranteed. It is not even necessary to establish rules to allow the social game to be played. These rules also emerge spontaneously – “the rules of conduct which give rise to a spontaneous order also arise spontaneously if governments do not interfere” (26). Hence, in terms of prescriptions, the dogmatic view on free markets holds that the government should play no role in the economy – “the simple anti-government prescription is all that is needed” (24). This is what has to be prevented. As Mittermaier puts it, the dogmatic invisible hand needs no more than “rapp[ing] ... politicians and bureaucrats ... over the knuckles.” (21)

There are three groups of economists who, according to Mittermaier, belong to this tradition. First, there are the libertarians and, more specifically, Rothbard – on whom Mittermaier insists –, but one could also include the physiocrats who share with the libertarians a belief in the existence of a natural order. Then, there are also the spontaneous order theorists for whom order, although not natural, nonetheless occurs independently from human intervention. Hayek is one of the most important and most obvious to mention here – even if, Mittermaier admits, Hayek was “less dogmatic” than Rothbard, his last works on cultural evolution and the “ethics of success”

seem to indicate a dogmatic bias. And, third category, among the dogmatic heirs of Adam Smith one finds the ... general equilibrium theorists who believe in the ineluctability of the order of the market. These economists believe that order – natural, spontaneous or market – obeys to laws that are indeed “immutable” (132), law that “are just there and beyond our control, like the law of gravity.” (132) The economics who can be linked to one of these three groups believe that there is no need to intervene to solve market failures or to stop the regress of conflict. To them, “the principles of market order are treated as objective and independent of shifting conflicting opinions.” (123)

Mittermaier doubts that order may arise spontaneously, that is without rules, just by preventing government intervention. More precisely, he does not believe that the social arrangement that will spontaneously arise from individual interactions could correspond to a free market order. He insists: “It is not clear whether the principles of a free society, if applied, would always lead to a free-market system.” (128) Indeed, there are always individuals who are against such a free market order – “it is not really in anyone’s private interest to promote free markets.” (26) As said above, Mittermaier is even convinced that individuals will do their best to curb the order in their interest to the detriment of others’s. In addition, how can we be certain that what results – be it natural or spontaneous – is the most desirable possible order? Many orders are possible – “there is no longer any presumption that there is a unique order in the nature of things but rather that cases of spontaneous order arise as the joint and *unintended* consequence of the pursuit of individual interests.” (44; italics in original) Which is the best one? Someone has to decide what is desirable and what is not. This is where the economist becomes normative, as would have said Buchanan, or exogenously imposes his values as Mittermaier writes (44) – even if he also argues that the general equilibrium theorists hold “denormatized” views on free markets. Another major difference with the pragmatic view on the invisible hand and the free market.

Indeed, there are many ways to be a free market economists. Mittermaier convincingly distinguishes between those who think that there is (almost) nothing to do and those who believe that a minimum has to be done. Certainly, the way he presents the history of Smith’s legacy is controversial and can hardly be accepted without a discussion. This is one of the main reasons

why *The Hand behind the Invisible Hand* is interesting and important: it creates the condition for an *erudite* discussion. This is what – doubly – makes the difference for historians of economic thought. First, because Mittermaier's book is a history of the idea of a free market and of the invisible hand. Second, because it evidences that history of thought can be a means to make a useful point about economics. Historians are aware of that. Non-historians may not. There are worse reasons to recommend a book.

Alain Marciano