

An Austrian Approach to Class Structure*

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Abstract: Recognizing heterogeneity of legal/social status, historical experience, and the resulting variation in the constraints faced by different groups can be a valuable complement to forms of heterogeneity already recognized by Austrian economists. This is particularly true for empirical analyses of caste-based societies, women’s history, and the experiences of other currently or historically persecuted minority populations. When (1) political institutions and/or other emergent social structures establish rules that apply to some individuals but not others, (2) these non-general rules are constructed in such a way that individuals cannot easily move in and out of established groups, and (3) some of the groups created by this process hold authority over others, class structures are created that can be understood without violating methodological individualism and other key tenets of Austrian economics. Like other heterogeneities that have now become incorporated into mainstream economic thought, the development of an Austrian theory of class could advance both the Austrian tradition and economic science in general.

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I. Introduction

Individuals' goals and desires, their plans for pursuing those ends, and the circumstances within which they execute those plans are all heterogeneous. The importance of incorporating these heterogeneities in to analysis has long been part of the Austrian tradition. Mises (1996 [1949]) established diversity of ends as fundamental in his seminal articulation of praxeology and catallactics. The dispersed and varied nature of the knowledge required for coordination is central to F.A. Hayek's theories about the market and society writ large (Hayek 1945, 1973, 1976), and one of the defining features of Austrian capital theory is the incorporation of considerations of heterogeneity (Lachmann 1956). Much modern Austrian scholarship can also be characterized as extending the boundaries within which heterogeneity is acknowledged and accounted for, particularly analyses that focus on the ways that institutional structures vary and the impact of this variation on incentive-based action within those structures.¹ Boettke (2001) conducts such an analysis of the Soviet political system and Coyne (2008) considers the consequences of institutional variation for the effectiveness of nation building. Storr's (2012: 4) work on the relationship between markets and culture specifically highlights the limitations of viewing cultures as "homogeneous and static systems" rather than heterogeneous networks wherein "competing beliefs" coexist.

An entrepreneurial Austrian economist can capitalize on this traditional specialization by further expanding the domain over which heterogeneities are explicitly incorporated into analysis. In particular, Austrian economists may find it valuable to move—cautiously—towards rather than away from

¹ This is different but not inconsistent with the claim that "...the Austrian school has marked its own 'progress' by the degree to which it applied the subjectivist principle consistently" (Lavoie 1991: 470). Subjectivism is the idea that the value of an object or action can be nothing more or less than what the deciding individual deems it to be. Heterogeneity, in contrast, refers not only to differences in valuation of means and ends, but also to observed differences in patterns of behavior or in the institutional/environment characteristics that lead to those behavioral patterns. E.g. if you tell one group that they must do 50 jumping jacks before every time they speak and another group that they need not, the jumpers can reasonably be expected to speak less. This will predictably result in a heterogeneous state of affairs without reference to the concept of subjectivism.

incorporating class structures into analysis. Much past analysis of class structure has taken place from a Marxist perspective that prioritizes the division between laborers and the owners of capital. Austrian economists have traditionally been critical of this type of analysis as violating the precepts of both subjectivism and methodological individualism. Even if people could be divided neatly into groups of laborers and capitalists, this grouping would not be sufficient to determine an individual's goals or their subjective assessments of different plans for achieving those goals. By focusing on wholes rather than individuals, many important internal dynamics are overlooked that compromise the usefulness of these analytical tools for the study of social coordination.

The adoption of methodological individualism has generated significant value in the social sciences. One of the great tasks of social science is to understand how individuals manage to cooperate in pursuit of diverse and at times conflicting ends. When groups are assumed to act with a single unified front—such as when a group of people is presumed to have unified ends because of their common position in a class structure—the question of interpersonal cooperation is removed from consideration. However, methodological individualism is not without its own analytical risks. Specifically, when methodological individualism is defined such that only purposeful individual action can have any causal force, the analyst may overlook important institutional constraints that impact both individual's choices and the consequences of those choices. This can result in a type of misidentification in which the role of institutions in shaping action is neglected and the entirety of causality is attributed to acts of choice that may be necessary to the causal chain but not sufficient.

When social, economic, and political institutions vary systematically with external characteristics like gender, race, caste, place of birth, occupation, or wealth—what Mises (1957 [2007]: 315) called a “real type”—these different groups can become oriented towards different sets of expectations (Lachmann 1971; Lewis 2008; Storr 2012). This does not eliminate subjectivity in individual interpretations of the institutional environment and what that institutional environment means for their

chosen sets of means and ends. Although the perceived value of pursuing a particular plan is never fully determined by external circumstances because of the persistence of subjectivity, a particular group can be systematically discouraged or encouraged from pursuing a particular goal or path.² Consequently trends in expectations—and therefore in plans and goals—can emerge along the same lines as the group identity. This emergent pattern is what enables the social scientist to move beyond analysis of real types and into analysis of what Mises called “ideal types,” groups in which “in some respect these men are valuing and acting in a uniform or similar way” (Mises 1957 [2007]: 316). Pursuing these lines of inquiry is a direct extension of Austrian economics and a source of heterogeneity that can be valuably put towards a better understanding of social interaction.³

The remainder of this paper will proceed as follows. First, I will briefly define the concept of class and the ways in which it has been utilized in social science. Second, I will establish a context for class-based institutional analysis by outlining the relationship between methodological individualism and institutionalism in Austrian economics. If institutions are accepted as having effects on purposive human action, then empirical analysis that does not consider systematic variations in institutional structures along group lines will be limited in its explanatory power. Third, I will outline a set of circumstances under which class-based analysis can be conducted in a manner consistent with the core tenets of Austrian theory. Finally, I will propose three lines of inquiry that may benefit from incorporating class considerations into analysis: the problem of the coordination of expectations, the

² The understanding of this type of phenomena requires what Mises called thymology: “It is what everybody learns from intercourse with his fellows. It is what a man knows about the way in which people value different conditions, about their wishes and desires and their plans to realize those wishes and desires. It is the knowledge of the social environment in which a man lives and acts or, with historians, of a foreign milieu about which he has learned by studying special sources” (Mises 1957 [2007]: 266).

³ Lavoie and Storr (2011) argue that although Mises presented the use of thymology/ideal type analysis as within the domain of the historical and therefore outside the bounds of praxeology, the sharpness of the distinction was intended more to preserve some role for economic analysis than to reject any use of historical methodologies. Rather, contemporary praxeology can (and does) advance through research that combines theory and history.

Austrian theory of social capital, and the development of an Austrian response to contemporary concerns about status-based issues such as income inequality.

II. A Brief Account of Class Structure in Social Economy

A great deal has been written on the subject of class and social stratification, particularly by 20th century sociologists. There are far too many schools of thought and nuances of approach for me to possibly give them their full due; truly the full length of this book would be insufficient. Consequently I will limit myself here to only the briefest introduction of the concept of class in social science.

There are nearly as many definitions of class as there are practitioners of class-based social analysis. Many use the term to refer exclusively to social stratifications that originate through processes of market production and/or exchange (Pakulski and Waters 1996: 3). Others adopt a more expansive definition that allows for other types of class distinctions, including those based on race, gender, ethnicity, religion, legal rights, or social prestige. To those who prefer the latter usage, one criticism of both Karl Marx and Max Weber—the founding fathers of the concept of social class—is that they emphasize the economic sources of stratification at the expense of other potentially more meaningful criteria (Crompton 1993: 45).

For Karl Marx, the defining characteristic of a society is its dominant mode of production, and it is those relationships established through the process of production that form the nature of social interaction. In all times and places, people are divided into two classes: those who own the means of production—in feudal societies, land; in industrial societies, capital; or in slave societies, the laborers themselves—and those who labor. Laborers produce goods that are worth more than they are paid, with the surplus value accruing to the owner of the means of production (Breen and Rottmann 1995: 23). Since, Marx argues, only labor power can transform resources into more valuable forms—the well-known labor theory of value—the owner of the means of production can only gain by taking what

another has produced (see e.g. Crompton 1993: 24; Schumpeter 238-239). Consequently the relationship between the laborers and the owners of the means of production is always exploitative (Breen and Rottmann 1995: 23-24).

In the account of history developed by Marx and his collaborator Frederick Engels ([1848] 2012), Western society in the mid-19th century is characterized by division between bourgeoisie industrialists and the working proletariat. These two social classes, in Marx and Engels' account, have unified interests that are defined objectively in relationship to other classes: "The theoretical conclusions of the Communists are in no way based on ideas or principles that have been invented, or discovered, by this or that would-be universal reformer. They merely express, in general terms, actual relations springing from an existing class struggle, from a historical movement going on under our very eyes" (Marx and Engels (2012 [1848]: 51). Specifically, the bourgeoisie have fully captured the political process. It is only the desire of different groups of bourgeoisie to get the proletariat on their side that ever compels the bourgeoisie to provide concessions to the working class. Marx and Engels do allow for some fluidity between these groups, but only in one direction. Members of the bourgeoisie can be ejected into the proletariat by the development of new technology. However, a member of the proletariat continually impoverishes himself through employment, and can only diminish his own relative status.

Marx was aware that actual societies were more complex than this theoretical dichotomy would suggest. There are two margins of complexity that are particularly worth mentioning. First, Marx did recognize that observable current and historical societies often contained a wide variety of different social groupings (Crompton 1993: 23-24). Second, even though he considered the tension between workers and owners of capital as the primary driving force in society, he was also aware that individuals' perceptions of their roles in society might differ from this narrative. As such, in a Marxist framework, it may be possible for an external observer to correctly identify an individual's class status even while the individual themselves denies it. In particular, "members of the working class can fail to recognize their

own true class interests because of false consciousness arising from the domination of what might be called the 'ideological means of production' by the capitalist class" (Breen and Rottmann 1995: 26). Consequently, Marx distinguished between a "class in itself," defined by the members' status with relation to the means of production, and a "class for itself," in which the members recognize and act in pursuit of their shared interests (quoted in Crompton 1993: 24).

Max Weber's theories about social class and stratification have also been extraordinarily influential (see e.g. Boettke and Storr 2002; Gerth and Mills 1946). In Weberian class analysis, people with similar skills and resources are grouped together in economic classes, the members of which are expected to have "a shared typical probability of procuring goods, gaining a position in life, and finding inner satisfaction" (Weber quoted in Breen and Rottmann 1995: 27-28). There can be many such classes in any given society. Those economic classes amongst which mobility is relatively easy are grouped together into four broader social classes: the propertied entrepreneurs, the petty bourgeoisie, the middle class, and the manual workers. For Weber, economic and social classes are distinct from the concept of status, which is defined by intersubjective perceptions of individuals' relative positions rather than material considerations. The social structure of any particular society might then be best understood through the context of membership in an economic class, a social class, a status group, an ideological party, or a combination thereof (Breen and Rottmann 1995: 29; Crompton 1993: 31). Unlike in Marxist thought, productive relationships are not presumed to always be the most formative.

There are many differences between Marxist and Weberian theories of class. One important distinction is whether or not there are multiple important sources of social stratification. Marx was primarily concerned with the dichotomy between laborers and capitalists, whereas Weber argued for the simultaneous existence of multiple important dimensions (Weber 1968 [1922]). Weber, unlike Marx, was a methodological individualist. He argued that "sociology, too, can only be practiced by proceeding from the action of one or more, few or many, individuals, that means, by employing a strictly

'individualist' method" (quoted in Udehn 2002: 485). Weber was also critical of the Marxist idea of false consciousness described above. He agreed "That men in the same class situation regularly react in mass action to such tangible situations as economic ones in the direction of those interests that are most adequate to their average number is an important...fact for the understanding of historical events," but added, with reference to Marx, that "this fact must not lead to that kind of pseudo-scientific operation which has found its most classic expression in the statement of a talented author, that the individual may be in error concerning his interests but that the class is infallible about its interests" (quoted in Crompton 1993: 30). In short, the Weberian form of class analysis allows for greater complexity, room for subjectivity, and emphasis on the individual. This suggests that it may be more useful from an Austrian perspective.⁴ Mises noted this connection in *Human Action*, suggesting that although Weber "was not sufficiently familiar with economics and was too much under the sway of historicism to get a correct insight into the fundamentals of economic thought...ingenious intuition provided him with a suggestion of a way towards the correct solution" (Mises 1996 [1949]: 126).

There is a debate within the sociological literature on whether or not the appropriate first step in conducting class analysis is the explication of a specific model of class structure. Defining social stratification has usually been accomplished in sociology by either categorizing individuals based on a particular measure of social power, such as income, or by categorizing individuals based on a set of characteristics that are expected to be associated with a particular degree or type of social power, such as their relationship to the process of material production. Theorists who have developed stratification systems based on occupation can be seen as working in the former tradition (Crompton 1993: 11). The latter approach is preferred by others, such as Breen and Rottmann (1995: 12), who argue that the important question is "the bases on which actors come to occupy differential positions of social power."

⁴ Ludwig Lachmann (1971: 1) dedicated an entire volume to "rendering certain ideas of Weber fruitful." Boettke and Storr (2002) and Storr (2012) also draw upon the affinities between Weber and Austrian scholarship.

Even Weber, whose analysis is generally more compatible with an Austrian perspective, attempts to draw up a taxonomy (Weber 1968 [1922]: 302-307).

The position I take in this chapter is that spelling out a particular class structure in detail and then assigning people to it based on observable characteristics is an exercise in begging the question. If class structures are relevant to explaining social behavior, then the identification of the rules and incentives that form the class system are the economic task at hand. The explication of a class structure may be the outcome of an inquiry, but it is by no means an appropriate place to start.

My intent in returning to a discussion of class that many no doubt see as fully exhausted is not to open wounds, but to re-visit the original object of inquiry and bring new Austrian insights to bear on old questions. What Marx, Weber, and other class theorists have in common is that they are seeking to explain the ways in which societies are shaped by interpersonal relationships and structures of authority. Many Austrian political economists share this goal but have been deterred from discussions of social groupings out of a desire to adhere to the Austrian tenets of subjectivism and methodological individualism. However, discussion of class analysis need not be inconsistent with Austrian political economy, and in fact can even represent a valuable advance.

III. Institutions in the Individualist Method

Before turning to the how, when, and why of an Austrian approach to social class, I wish to address a potential pitfall that will be of serious concern to many Austrian economists—specifically, the compatibility of class-based analysis with a discipline that is characterized by its emphasis on the subjectivity of individual experience and the centrality of the individual actor. If this seeming incompatibility cannot be reconciled, there is no point in proceeding further.

One of the defining characteristics of Austrian economics is the consistent rejection of methodological holism in favor of methodological individualism. Mises (1996 [1949]) began his seminal

treatise with a criticism of methodological holism as antithetical to subjective value economics. The practitioners of methodological holism are charged with “setting up quite arbitrarily the ends to which the behavior of such wholes is bound to lead” (Mises 1996 [1949]: 1). When all members of the whole are presumed to share the same objectives and perceptions regarding progress towards those objectives, order and cooperation become assumptions rather than objects of inquiry. Consequently the holistic philosophers “could not satisfactorily answer the question regarding what factors compelled the various acting individuals to behave in such a way that the goal aimed at by the whole’s inexorable evolution was attained” (Mises 1996 [1949]: 1).

In order to address the inadequacies of holistic analysis, Mises sought to limit economic science to the study of deliberate acts of choice. This boundary establishes a distinction between purposive action and instinctual reaction, with only the former belonging within the domain of economics (Mises 1996 [1949]: 11-22). When economics is defined in this way, the only proper method of inquiry is methodological individualism, both because it is a more accurate descriptor of the social world and because it is more likely to generate useful explanations of social phenomena than any alternative assumption. This thinking is apparent in F.A. Hayek’s response to J.M. Keynes on monetary theory and the gold standard: “...neither aggregates nor averages do act upon one another, and *it will never be possible to establish necessary connections of cause and effect* between them as we can between individual phenomena, individual prices, etc.” (quoted in Christainsen 1994: 12, emphasis added). The neoclassical profit-maximizing firm, the concept of ‘household’ decision making, and the simplistic Marxist conception of social classes with unified interests and strategies despite no means of coordination are all examples of erroneous attributions of intentionality to collectives (Hodgson 1986: 215, 221).

Despite the many benefits of methodological individualism, there is a risk of failing to recognize relevant constraints on human choice if too great a degree of control over outcomes is attributed to the

human chooser (Boettke and Storr 2002; Granovetter 1985). Critics of methodological individualism caution that humans do exist within social structures and should not be conceived of as atomistic islands.⁵ Kenneth Arrow (1994), for example, identifies rules and scientific knowledge as having social components that are distinct and separate from their individual components. Rules are created by individuals, but the process that determines who gets to set the rules and what kinds of rules they are allowed to set is outside of the control of the contemporary acting individual. Consequently, the behavior of individuals is shaped by historically determined forces that may have their roots in individual actions but—in Arrow’s view—can no longer be fully explained with a methodologically individualist approach. Similarly, Arrow argues that the non-excludable nature of much of scientific knowledge makes it a super-individual social phenomenon. The positive externalities generated by the production of knowledge are not controlled by any one individual and as such cannot be analyzed in the context of individual choices (Arrow 1994).⁶

In addition to the charge of excessive atomism, Austrian economists and other methodological individualists are accused of neglecting the importance of institutional considerations. For example, Geoff Hodgson (1986) divides methodological individualism into two components. The first component is the assumption that human action is purposeful.⁷ Although Mises’ statement of this position is well known, the assumption that people act with intent is widely—though not universally—accepted across a

⁵ See Storr (2012: 84-87) for further discussion on the limitations of the strict rational choice position.

⁶ The advancement of scientific knowledge, whether it is intentionally communicated or not, can encourage future development: “When the atomic bomb was new, there was great concern about secrecy; but wise physicists observed that the most important information was that the achievement of nuclear fission was possible, and that could hardly be held secret” (Arrow 1994: 7). Since no specific action is required, Arrow views this situation as outside the bounds of methodological individualism.

⁷ Even though Marx was not a methodological individualist, he too viewed purposiveness as a fundamentally human characteristic. Lavoie (1985: 39, emphasis added) quotes Marx on human action: “He not only effects a change of form in the material on which he works, but *he also realizes a purpose of his own* that gives the law to his modus operandi, and to which he must sub-ordinate his will.”

wide range of methods and ideologies.⁸ The second component is the assumption that the purposeful actions of individuals are “a *sufficient* cause of all social action” (Hodgson 1986: 215, emphasis original). It is this latter component that Hodgson finds problematic. If purposive action is not merely necessary but also sufficient to understanding social organization, so the argument goes, there is no room left for institutional analysis. Institutional structures are ultimately irrelevant to social outcomes because all effects are ultimately caused by individual actions.

Is it true that Austrian economists define methodological individualism in such a way that human choice is the only causal force behind observed social outcomes? It is possible to select excerpts from the works of Ludwig von Mises and other Austrian economists that will seem to prove either side of the argument. Hodgson derives his interpretation from his reading of Mises and Israel Kirzner, citing Mises’ statement that “As an a priori category the principle of action is on a par with the principle of causality” (quoted in Hodgson 1986: 215). The equivalency of action and causality would indeed seem to suggest that only actions can have causal force. However, Mises also unequivocally states

“It is uncontested that in the sphere of human action social entities have real existence. Nobody ventures to deny that nations, states, municipalities, parties, religious communities, are real factors determining the course of human events. Methodological individualism, far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structures, and their operation” (Mises 1996 [1949]: 42).

Ultimately the answer to the question as to whether or not choices are the only relevant causal force depends on how causality is defined. If to cause is to take a purposive action that then sets in motion a series of reactions and consequences, then causality by definition cannot be attributed to non-human objects. However, if causality is defined as any interference that alters a chain of events, then non-human objects—such as social institutions—may reasonably be considered to have causal influence

⁸ Hodgson (1986) finds some irony in the fact that neoclassical equilibrium theory, despite its association with individualism and general emphasis on microfoundations, often loses sight of the purposive nature of human behavior.

(Lewis 2008: 848-849). Despite his emphasis on the centrality of purposive action, Mises' definition of causality appears to be closer to the latter. He explicitly critiques the idea that the goal of researching cause and effect is to "search after the ultimate cause of being and existence" (Mises 1996 [1949]: 22). To the extent that economists have interpreted methodological individualism to imply that causality can only be attributed to the original root cause in a chain of events, they have limited the usefulness of their inquiries. Rather, the relevant inquiry is the "more modest question of where one must interfere or should one be able to interfere in order to attain this or that end" (Mises 1996 [1949]: 22).

The argument that institutionalism and methodological individualism are mutually exclusive inappropriately conflates the Austrian and neoclassical treatments of methodological individualism. For example, Martin (2009) observes that the dominant modes of inquiry in mainstream economics—equilibrium theorizing and statistical analysis—are ideally suited to modeling the behavior of atomistic agents. However, "the real social world is populated by emergent structures whose causal powers are irreducible to the actions of their constituent parts" (Martin 2009: 519). Treating agents as atomistic when they are actually interdependent--and institutions as non-existent when they are in reality consequential—can lead to both over- and under-estimates of causal relevance. Political, social, and economic institutions exert real influence on people's preferences and choices, whether or not that influence is intended or even fully understood. Although "a social collective has no existence and reality outside of the individual members' actions... The reality of a social integer consists in its directing and releasing definite actions on the part of individuals" (Mises 1996 [1949]: 42). Thus while only individuals are capable of conscious, purposive action, the social whole does serve as a constraint independent from those actions.

In his critique of methodological individualism, Hodgson (1986: 217) writes: "Factors such as institutional structure and routine, and social norms and culture, affect not only our eventual actions but also our views of the world and the purposes to which we aspire." There is truth in this statement.

Whether or not it takes a village to raise a child, children do grow up within villages. Preferences and attitudes are shaped from birth by our parents and others we interact with during our formative years and throughout our lives. This does not imply that institutional structures fully determine either individual choices or social outcomes. However, the social structures that have been built by the past choices of purposively acting individuals do have the potential to shape our future choices of both ends and means (Wagner 2010: 7-8). If there is an infinite feedback loop in which a particular action is partly explained by social institutions, which are at least partly explained by individual actions, which are at least partly explained by social institutions, and so on, it is not obvious that the analytical focus should be either only on the individual or only on the institutions (Hodgson 1986). This concern is similar to Elinor Ostrom's critique of spontaneous order theory, in which she questions the "unrealistic chain of causality in which interest begets norms begets rules, even though there is no empirical or theoretical reason why causality should flow in this direction" (Ostrom 1987: 33-35).

Lewis (2008: 845) suggests that this tension can be resolved by appeal to realist social theory which "strives to avoid the reductionist extremes of voluntarism (according to which social institutions are ontologically reducible to people's current actions) and determinism (according to which human agency is no more than the mechanical product of social institutions, with no independent ontological status of its own)." In this framework, the proposition that choice is meaningful is consistent with the proposition that people would have made different decisions in a different institutional environment. Institutions have a causal but not determinate force. The art of sculpture is a useful metaphor (Lewis 2008: 848). Although the sculptor wields hammer and chisel, she does not fully determine the result of her activities. Any given block of marble will be more suitable to some figures than others. To the extent that the block of marble can be carved into a limited numbers of forms, the marble partly determines the outcome.

The perspective on the role of institutions taken here is similar to Richard Wagner’s neo-Mengerian program in which “Only individuals can act, but interaction among acting individuals generates societal formations that are not products of deliberate choice” (Wagner 2010: 8). The study of the influence of social structures is not pursued instead of the study of purposive action, but rather in tandem. Neither the individual nor society can coherently be understood absent the context provided by the other: “such social configurations as property rights, contractual relationships, and organizational forms...influence the substantive content of mind and hence the objects of human action” (Wagner 2010: 1).⁹ This is similar to Mises’ argument that “the controversy whether the whole or its parts are logically prior is vain. Logically the notions of a whole and its parts are correlative. As logical concepts they are both apart from time” (Mises 1996 [1949]: 42).

In short, within Austrian economics “There has always been implicit recognition of the causal efficacy of social structures, such as private property” (Martin 2009: 522). Austrian economists both adhere strictly to methodological individualism and emphasize the causal influence of institutional structures.

IV. An Austrian Approach to Class Structures

There is no theory—regardless its degree of complexity, room for subjectivism, and emphasis on the individual actor—that can answer every question. It is in this spirit that some critics of class analysis have advanced the thesis that although many societies have been class-based at some point in their history—and some still are—most advanced societies do not have strong enough class structures to justify analytical frameworks based on class. Class-based analysis should be employed only to the extent

⁹ While this statement may appear to counter the Austrian tradition of methodological individualism, Wagner points out the early Austrian economist Carl Menger walked the same line, finding value in the German historical school while simultaneously arguing for a new approach (Wagner 2010: xiv).

that the society in question is itself class-based (Pakulski and Waters 1996: 3).¹⁰ Consequently, *when* an Austrian political economist may wish to incorporate consideration of class is near as important as *how* they might do so. The two questions are in practice quite inextricable; the articulation of an Austrian approach to class is quite worthless if there are no conceivable circumstances in which it might be applied. Consequently, the remainder of this section will outline the conditions under which class considerations become a matter of relevance to Austrian political economy.

I argue that the concept of class structure is useful to the Austrian political economist when (1) political institutions and other emergent social structures establish rules that apply to some individuals but not others, (2) these non-general rules are constructed in such a way that individuals cannot easily move in and out of established groups, and (3) some of the groups created by this process hold authority over others, thus establishing them as having some distinct advantage relative to other members of a society. If all of these conditions are met, then class structures, like other institutions created by human action but not human design, do have a causal influence that shapes—but does not determine—choice.

Given the extent to which ‘class’ is a well-worn term, it may be useful to begin by being very explicit about what I am *not* arguing. First, I am not arguing for a kind of polylogism in which different groups of people or classes are presumed to behave differently because they think in fundamentally different ways.¹¹ Individuals in different groups can logically reason in fundamentally the same way, all pursuing what they perceive to be the most desirable means of achieving their selected ends, yet still be either affected or unaffected by a particular rule depending on their group status. The process of reason

¹⁰ Note that this requires a perspective on class structure that considers individuals’ self-perception to have some degree of relevance. If class structures can be determined purely objectively by assigning individuals to one class or another based on their role in the productive process, then any society subject to the discipline of scarcity will be a class-based society.

¹¹ “No facts provided by ethnology or history contradict the assertion that the logical structure of mind is uniform with all men of all races, ages, and countries” (Mises 1996 [1949]: 38). See Mises 1996 [1949]: 74-89 for a discussion of the role of polylogism with particular application to Marxist thought.

need not vary for people who face systematically different constraints—or believe they face systematically different constraints, whether they actually do or not—to come to systematically different conclusions. Second, any theory of class that takes the Austrian tradition seriously cannot consider individuals' interests to be fully determined by objective external criteria. Such theories are oppositional to the position of both the subjectivist and the methodological individualist. As James Buchanan and Gordon Tullock note, the individual's class interest and personal interest will not always be in alignment (Buchanan and Tullock 1962: 26). Finally, I am also not arguing for a one dimensional hierarchy in which peoples can be easily sorted into layers based on a single characteristic such as occupation, race, gender, or relative wealth. Such an approach suggests that there is a holy grail to the understanding of society that would unlock the complexity of social interaction if only it could be found. Denying complexity will not simplify reality.

The first and most obvious condition is that there must be some rule in force in the society in question that applies to some individuals but not others. Rules can be presumed to emerge from one of two sources (Hayek 1973).¹² First, rules can be constructed by individuals with political authority. This is the common modern understanding of law-making, in which a body of legislators, judges, or rulers deliberately specifies a law to be enforced. The distinction between rules in form and rules in use is important here. It is possible for those with political authority to create laws that are neither obeyed nor enforced. For the social scientist aiming to specify the content of the social structures in place in a particular society, rules that have a purely nominal existence are irrelevant. A rule that is simply ignored does not alter individual decision calculus, and as such cannot be a source of systematic variation in choice behavior among groups of people. Second, rules can emerge over time without having been deliberately intended by any one person or group of people. Manners, morals, and other systems of informal norms generally have emergent properties. Rules that are more formally enforced can also

¹² See especially Hayek (1973: 35-54) chapter two, "Cosmos and Taxis."

have emergent origins. For example, an emergent norm (e.g. individuals' losing their rights to land that is left unoccupied and unmaintained for a sufficiently extensive period of time) can become codified into law (e.g. the law of adverse possession).

Many societies have been governed by rules—whether emergent or constructed—wherein people engaging in identical activities are treated differently under the law.¹³ Perhaps the most extreme examples are caste based societies in which birth determines assignment to a group, membership in which cannot be rescinded and requires submission to the system of rules governing interaction within and between groups. The legal treatment of gender is another particularly notable contemporary example. Out of 143 countries studied by the World Bank in 2014, only 15 had legal codes that were completely gender neutral (World Bank – International Finance Corporation 2013). The detailed study of particular examples is outside the scope of this initial exploration. For now it is sufficient to note that there are rules that apply to some groups of people but not to others and that few would find such an observation controversial.

When different groups within the same society are governed by different sets of rules, the members of each group face different sets of constraints and incentives and can even develop different expectations about the probable outcomes of a particular action. Although the perceived value of pursuing a particular plan is never fully determined by external circumstances, a particular group can be systematically discouraged or encouraged from pursuing a particular goal or path. Consequently trends in expectations—and therefore in plans and goals—can emerge along group lines. In Lachmann's terminology, which is borrowed from Weber, the groups can develop different orientations (Lachmann 1971: 37-40). If the rule in question applies only to individuals meeting a particular external

¹³ One question that might be asked here is whether or not there might also be some laws that emerge naturally that serve a similar social function. For example, a genetic inability to stand on one's tip-toes is arguably equivalent to a law or social convention dictating that one group of people may never do so. The distinction between emergent and 'naturally' occurring laws is particularly blurry given that both are a result of a process of long term adaptation by human beings to the conditions that allow for their survival.

characteristic like gender, race, caste, place of birth, occupation, or wealth, then plans and goals can vary systematically by these criteria. Again this does not imply that the external characteristic controls or determines an individuals' behavior—the lesser, but still significant, claim is that the costs and therefore the likelihood of engaging in particular behaviors can vary along the lines of group identity.

The second condition that is requisite to the establishment of class relationships within a society is that non-general rules are constructed or have emerged in such a way that group membership is not a matter of active choice. One of the challenges with this research program will be developing consistent criteria for determining whether or not any particular rule meets this description. Like the analysis of competitive political institutions, which also often hinges upon the fluidity of group membership, simple cost-based criteria are aesthetically pleasing but empirically unrealistic. For example, consider an evaluative criterion that deems group membership voluntary if entry and exit are costless. The Tiebout model makes such an assumption in order to derive the efficiency properties of political competition (Tiebout 1956). However, when evaluating observed and historical institutional structures, costless shifting between groups may be impossible or require violating the laws of physical reality. Group membership that involves a geographic component may in some situations be changed at low cost, e.g. if relocation is inexpensive relative to potential benefit or geographic boundaries can be altered, but relocation is never costless. Similarly, an individual need not consider their race or gender determined by how they are categorized by others at birth, but rare are the circumstances under which such changes do not come at significant cost. Consequently, if zero exit cost is the criterion used to determine voluntary membership, then all group membership must be considered involuntary. Such a world would not be amenable to analysis by a logical framework that depends upon intentional, purposive choice as its primary operating assumption. At the other end of the spectrum, the criterion that membership is only to be considered non-voluntary when exit is impossible, or infinitely costly, is similarly intractable. Consequently the only reasonable approach available to the economist is to abandon the quest for a

specific criterion and instead focus on directional shifts; something like, if the costs of entry/exit increase, then the probability that membership is voluntary decreases. The implicit proposition is that more voluntary class structures will be both more flexible and less susceptible to criticism.

The third condition that must be met is that some of the groups created by the non-general rule hold authority over others, thus establishing a hierarchical relationship. These hierarchical relationships may be all encompassing but more often will be context dependent. The establishment of a hierarchical relationship in which A has authority over B does not imply that A will have authority over B for all types of decisions. There may be other facets of life in which B has authority over A, A and B are on equal footing, or A and B make decisions that are as independent of each other as any two decisions can be in an interconnected society. For example, consider the relationship between Peter, a bakery owner and father who is active in the Parent-Teacher Organization at his children's school, and Mary, who lives in the same school district and works for a federal agency that regulates Peter's business. Mary, perhaps autonomously but certainly in conjunction with her coworkers, has the authority to prohibit Peter from engaging in particular behaviors. For example, she could forbid the use of a particular type of flour. Peter does not have the authority to create a rule that would limit Mary's choice of flour. This would seem to place Mary and Peter in a hierarchical relationship with Mary in the position of authority. However, the PTA has collaborated with the local public school administration to create a set of guidelines regarding what constitutes a permissible sack lunch. If Mary does not adhere to these guidelines, an alternative lunch will be provided for her children and she will be fined. In the context of the decision about how to provide for her children's mid-day meal, Peter is in a position of authority over Mary.

Note that the nature of the relationship depends not on the personal identity of either Peter or Mary, but on which particular *action* is being considered. Also, nothing in this example requires Peter and Mary to have ever met. The connection between them is constituted in the rules that each of them

participates in creating, not in any particular personal interaction. It is possible that one person may so often be in a position of authority over the other that they could be described as being in a controlling class. Pure dictatorship might be the most extreme instance of such a structure. However, even such a seemingly obvious example may overstate the ease with which a position of complete authority can be maintained. Gordon Tullock, for example, discusses the many ways in which the dictator's activities are constrained by the risk of a coup and other threats to person and position (Tullock 2005 [1987]: 33-160). It is also worth pointing out that neither Peter nor Mary is eliminating the other's capacity to choose. Peter could exit the baking industry; Mary could withdraw her children from the public school system. However, both are participating in the creation of rules that will exert a predictable directional influence on the behavior of the other. Peter is now less likely to bake with the prohibited flour, and Mary is less likely to send her children to school with a sack full of Twinkies.

The result is a complex network of rule-ordered relationships that can be analyzed to understand predictable variations in behavior across groups of individuals. This type of system—in which there are multiple nodes of decision making connected together by a system of rules and norms—is similar to the concept of the polycentric system as developed by Lin and Vincent Ostrom (Boettke and Aligica 2009; Ostrom, Tiebout, and Warren 1961). The polycentric nature of social structures suggests a level of complexity that is not amenable to description by social schematics in which individuals are assigned to a single relevant group. Similar observations have been made by other methodological individualists working on questions of class; for example, Breen and Rottmann (1995: 17) recognize a multiplicity of dimensions upon which stratification can potentially be relevant: “We can, therefore, consider individual actors as members of many, cross-cutting, strata.”

V. Applications and Implications

So far in this chapter I have sought to demonstrate that there are circumstances within which the study of class structure is appropriate and that such study is logically consistent with the core tenets of Austrian economics. I will now suggest three lines of inquiry that may benefit from incorporating class considerations into analysis: the problem of the coordination of expectations, the Austrian theory of social capital, and the development of an Austrian response to contemporary concerns about status-based issues such as income inequality.

Coordination

Subjectivity and in particular radical subjectivity, Lachmann's insight that expectations about the future are also subjective, is problematic for social coordination because shared expectations serve a valuable coordinative function (Lewis 2008: 833). If some drivers think that a green means go and red means stop, and others think that green means stop and red means go, driving through an intersection would be a dangerous business. Similarly, if market participants do not respond predictably to price changes because of subjectivity in their interpretations of price signals, then the coordinative properties of the price system become less clear. For example, some might interpret a price increase as temporary, leading them to put off their purchase for another day, while others interpret the same price increase as a signal that prices will continue to rise and they should buy as soon as possible (Lewis 2008: 834-835). These kinds of divergences of expectations can lead people to invest in a higher cost method for producing a commodity that is about to drop in price, or to fail to take advantage of profitable opportunities. Yet, despite this potential for plans to go awry, markets generally coordinate and even impoverished or conflict-stricken societies generally maintain some semblance of structure and order.

This raises the question, how can expectations be both subjective and coordinated? In the words of two class theorists, "But if, as we have argued, actors do not have to act in accordance with constraints in a mechanical sense but, rather, are free to act in a variety of ways, bearing in mind the

costs entailed, then the problem is not how to explain change, but, rather, how to account for stability” (Breen and Rottmann 1995: 10). Although Lachmann rejects the idea that expectations are fully determined by the external social environment—a state of affairs that would eliminate the possibility of any degree of subjectivity in interpretation—he contends that “this does not mean that we must give up all hope of explanation. What we may hope to accomplish here is to be able to show to what ends, means, and obstacles human action is oriented. Orientation thus emerges as a concept as fundamental to praxeological study as determinateness is to natural science” (quoted in Lewis 2008: 839). Subjectivity of expectations, and therefore of goals and of plans for achieving those goals, does not imply that the formation of expectations is unbounded. Social, economic, and political institutions reduce uncertainty by serving as focal points around which expectations can converge. Langlois (1992: 166) similarly notes that social structures can lead to behavioral regularities both through unconscious rule-following, as emphasized in evolutionary accounts of social institutions, and by serving as constraints on feasible choice sets. Since institutions generate behavioral regularities, they make it easier for people to predict how others will respond to their choices. In this sense, institutions serve a valuable coordinative function.

Class relationships have the potential to generate similar types of regularities, thereby serving a similar coordinative function. Class structures are formed by rules and the systems of reward and punishment that enforce the rules. Even the most draconian class structure does not fully determine behavior, but the establishment and maintenance of these systems of rules are associated with behavioral regularities. People tend to be more likely to engage in behaviors that are rewarded, and less likely to engage in behaviors that are punished. By unveiling the networks of authority in force within a particular society, the study of class structure can illuminate the process through which coordination takes place, thus contributing to an important fundamental question in economics.

Social Capital

There is also a potentially fruitful connection to an Austrian interpretation of the theory of social capital. The idea behind social capital theory is that people invest in the development of personal relationships and the systems of norms that govern those relationships. Those investments, like investments in any other capital stock, yield a stream of future returns.¹⁴ Chamlee-Wright (2008: 44) describes social capital as “no ‘one thing,’” but rather “a complex structure made up of community norms, social networks, favors given and received, potluck suppers, book groups, church bazaars, and neighborhood play groups.”

The concept of social capital is particularly useful when combined with an Austrian approach that emphasizes the heterogeneous nature of capital. Any given unit of capital—a seed, a truck, a microchip—has the potential to generate returns in many different ways. That same unit of capital might be completely useless in other contexts. If expectations about future returns are subjective, different people will rank alternative possible capital combinations in different ways. Consequently the entrepreneur serves the important function of identifying and implementing superior combinations (Chamlee-Wright 2008: 43-44). Similarly, any given unit of social capital—a rule, a norm, a relationship—has the potential to generate future returns in many different ways. When a new rule or relationship is added to the existing network of rules and relationships, it can either add to or detract from the returns expected from the existing stock of social capital. Further, when people are engaging in the active construction of rules, norms, or other relationships, they will be making individually subjective estimates about the expected returns of doing so. Consequently there is a role for a social entrepreneur who can specialize in the development of rules and relationships that will increase the productivity of social capital (Chamlee-Wright 2008: 46).

¹⁴ See Chamlee-Wright (2008: 41-43) for an accounting of various criticisms that have been levied against this metaphor.

There are a number of implications of taking an Austrian approach to social capital theory. Most relevant to the subject at hand, Chamlee-Wright offers a resolution to the apparent tension between scholars who focus on the development of social capital at the individual level and those who view the most important forms of social capital as expansive institutions that extend beyond the actions and choices of individuals. Specifically, she suggests that neither the role of individual actors nor established institutions should be ignored. “By excluding collective forms of social capital from the analysis, network theorists miss a valuable opportunity to explain the emergence, maintenance, and changing composition of the social capital structure;” however, neither can the individual “arbitrarily change the social capital context” without regard to previously developed institutional structures (Chamlee-Wright 2008: 55).

There are potentially significant complementarities between this social capital framework and the study of social classes and other structural relationships. The first and most direct is that classes and other social structures are potentially a significant part of the structure of social capital. Access to social capital may be controlled by rules that are non-general, specify particular groups, and have a hierarchical component. These social capital resources cannot be understood without reference to class considerations. Second, the Austrian theory of social capital also has implications for understanding the formation and evolution of class structures. The situation is analogous to the relationship between market entrepreneurs and the regulatory environment. The effect that rules have on the costs and profit expectations faced by entrepreneurs is an important part of the economic analysis of innovation. Similarly, the nature of the class structure can impact social entrepreneurs’ perceptions of potential rule changes and their ability to bring them about, thus altering the course of social reform.

Inequality, of income and otherwise

Income inequality is a hotly discussed issue in both academic and popular circles. Consider, for example, Piketty (2014: 1), who opens *Capital in the Twenty-First Century* by asking “Do the dynamics of private capital accumulation inevitably lead to the concentration of wealth in ever fewer hands, as Karl Marx believed in the nineteenth century? Or do the balancing forces of growth, competition, and technological process lead in later stages of development to reduced inequality and greater harmony among the classes, as Simon Kuznets thought in the twentieth century?” This question is framed in the context of class theory—not class theory as one alternative, but as the only option. Piketty is asking which of two predictions about relationships between social classes is right. A perspective on social class is the price of admission to the debate, and this chapter is a step towards the development of such a perspective.

Further, a developed perspective on class puts the Austrian political economist in the position to open conversation and respond to discourse about other potentially relevant forms of inequality. For example, debates about income inequality are often framed in terms of groups defined by income percentiles (top vs. bottom quintile, the top 1% vs. the bottom 99%, etc.) rather than relationships between groups of people who face different rule environments. Defining the relevant social divide in terms of distributions rather than in terms of institutionally determined roles means that analysis begins at the end of the process and necessarily obfuscates the process that generates inequalities. Or in other words, “The membership of the class or type must be known before the statistician can start investigating special features and use the result of this investigation for the establishment of an average;” consequently, “it is logically impossible to make the membership of a class or type depend upon an average” Mises (1996 [1949]: 60).

An Austrian approach to class analysis, in contrast, puts the heterogeneities among social groups created by non-general rules at the forefront of analysis. This is important because “Where man does not see any causal relation, he cannot act” (Mises 1996 [1949]: 22). By illuminating a more complex

array of relationships, the Austrian approach can enhance our understanding of hierarchical relationships and the interactions between people at different points in a structure of authority.

VI. Conclusion

Richard Langlois (1992: 167) argued that the “hierarchical nature” of institutions “has received too little attention in the literature.” This chapter is submitted in the service of correcting this deficiency. Recognizing heterogeneity of legal/social status, historical experience, and the resulting variation in the constraints faced by different groups can be a valuable complement to forms of heterogeneity already recognized by Austrian economists. This is particularly true for empirical analyses of caste-based societies, women’s history, and the experiences of other currently or historically disadvantaged minority populations.

Despite the focus on the choices and fortunes of groups of people, considering class does not mean rejecting methodological individualism. Rather, robust methodological individualism—particularly as employed within the Austrian tradition—has long acknowledged the causal influence of institutional structures. What is less often acknowledged is the fact that different groups of people often face different institutional structures based on gender, ethnicity, place of birth, religion, occupation, or other observable external characteristics. Rules often do not apply equally to all. When this variation in the rules give particular groups or types of people authority over others, the institutional feature most commonly described as a class structure emerges.

Although sociologists and economic sociologists are often viewed as having a thicker, more life-like description of individuals and the situations they face, one of the ways in which many have oversimplified is in conceiving of these class structures too narrowly. Every rule-governed action creates the opportunity for another set of rule-ordered relationships. As such the structure of a class system is complex to the point that it is impossible to assign individuals to particular class memberships. Rather,

an individual might be in one position in a class structure with respect to occupational choice, another with respect to geographic mobility, and another with respect to bodily autonomy. Treating class structures as complex networks rather than linear hierarchies is one way that Austrian economists can contribute to advancing this area of study.

Like other heterogeneities that have now become incorporated into mainstream economic thought, the development of an Austrian theory of class has the potential to advance both the Austrian tradition and economic science in general.

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