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## **Austrian affinities in Luhmann's economic system: towards thinking with social systems theory in the sociology of economic life.**

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### **Abstract:**

This paper traces how the economic sub-system in Luhmann's Social Systems Theory is tacitly based upon an Austrian economics reading of the market economy, and thus liberal thought. The implications of this rendering for sociological research on economic life are explored. It is suggested that future work can take Luhmann's elaborate conceptual architecture and furnish it with empirical research to test its claims and probe its 'blind spots'. This would be a theoretically impure project, the strength of which would be to shift the Social Systems literature from thinking *about* to thinking *with* Luhmann to evaluate whether this theory could enter the major traditions within economic sociology.

*Keywords: Luhmann, economic system, Austrian economics, prices, communication,  
research*

# **Austrian affinities in Luhmann's economic system: towards thinking with social systems theory in the sociology of economic life.**

## ***1. Introduction***

Niklas Luhmann's (1984) social systems theory (SST) presents a unique description of modern societies as comprised of functionally differentiated sub-systems. However, Luhmann's theoretical project is critiqued for evincing a 'tacit endorsement of liberal capitalist societies and 'neo-liberal' policies' (Zolo 1990: 63). While sympathetic to the insights of systems theory this paper considers how Luhmann's rendering of the economic sub-system is indebted to Austrian economics and thus liberal thought; a point noted but not elaborated by Boldyrev (2013: 272). Elsewhere Luhmann's relationship with liberal philosophy (Wolfe 1994) and Foucault's concept of power and liberal governmentality (Borch 2005) has been critically analysed, so the following considers the implications and challenges of Luhmann's Austro-liberalism for the sociology of economic life. First Luhmann's social systems theory is introduced. Second the affinities between Austrian economic thought and Luhmann's economic system are described. The third section discusses how SST's Austro-liberal optic produces a problematic for economic sociology, and asserts the need to shift from thinking *about* to thinking *with* SST through grounded empirical research.

## ***2. Social Systems***

SST posits modern societies are regulated by vertically integrated systems each with their own area of functional expertise (Bausch 2001; Borch 2011; Bruun 2008; King 2013; Luhmann 1989, 1995; Moeller 2006, 2013; Van Assche & Verschraegen 2008). These

systems include law, politics, economy, media, religion, science, the family and medicine. SST differs from the input-output-feedback loop models of the physical sciences and orthodox understandings of systems. The key difference is SST's distinction between system and environment. Here 'the environment' does not indicate the natural occurring environment but the undifferentiated mass of information existing prior to recognition and coding by a social system (King 2013; Moeller 2006). When a social system observes the environment this information is translated into its own form of understanding through a binary code: for example, legal/illegal for the legal system, payment/non-payment for the economic system, true/false for the science system, and power/non-power for the political system (Bruun 2008: 108; Luhmann 1984). These binary codes are unchangeable and serve to reduce environmental complexity by selectively dividing environmental problems into what is seen as relevant to the system's operations and 'everything else' (Luhmann 1984). Luhmann (1997: 45) also claims social systems are autopoietic – self-organising and self-reproducing (Mingers 2002) – through an autonomous and circular process of internal restructuring to maintain the organisation of the code. The law is an exemplar.

Social systems can therefore appear indifferent as the environment contains more possibilities and complexities than the system can manage. Due to the plurality of systems there is no single master or co-ordinating system and neither the government, market signals, the law, scientists, nor media opinion can decide a path of action. Thus no system has greater capacity than another for directing how to address social problems and, moreover, no system can dictate to another how to act, or guarantee more efficient or equitable social outcomes (Schechter 2011: 389, 391). Although system codes do not alter there are institutional-bureaucratic programs within systems designed to perform the code's requirements (Brans & Rossbach 1997: 424). Sub-systems programs therefore co-exist in each other's environment creating 'resonances' and 'irritations' which have to be accommodated. Consequently,

clashes occur as each system views social problems through its own code creating the endemic problem of inter-systemic communication (Luhmann 1989).

SST's ontology of the economic sub-system rejects orthodox economics (methodological individualism, equilibrium modelling) and orthodox economic sociology (meaning, institutions, culture and power) to foreground money, prices, and payments as a means of communication. As Luhmann (1989 in Borch 2011: 86) states 'to pay or not to pay – that is, quite seriously, the question by which the existence of the economy is determined'. In SST, money's unique function is to communicate between the environment and economic system by referring to other objects, goods and needs. Echoing classical sociological theories of money's rationalising power from Simmel and Weber (Zelizer 1997), money acts as the ultimate communication: a symbolically generalised medium of communication; a form of language for reducing environmental complexity (Ganßman 1988). Money's communicative function allows the economic system, via market exchange and prices, to 'permit a rapid determination of whether payments are right or not' (Boldyrev 2013: 86). Importantly, the inability to pay also forms a communication constituting the 'double circular flow' of the payment/non-payment code; where payment enables further payments to others but incurs an opportunity cost. Together money, prices and payments allow rational calculations within the economic system. Thus for Luhmann the economic sphere is not about competition, the satisfaction for wants, or power and exploitation. Instead the economic system acts as a 'mirror' communicating through modern accounting and econometric data - a 'second order' observation disseminating information on how others observe the economic system (Borch 2011: 12) - to inform producers and consumers what types of action, and payments, they should undertake (Boldyrev 2013: 276). Luhmann's depiction of the economic system as a communication system based on prices leads to a question of how this theorisation is indebted to liberal economic theorising.

## *2. The Austro-liberal economic system?*

Liberalism is highly durable ideology, maintaining a pervasive influence over contemporary political, economic, and policy thought. While complex and at times contradictory in its means, it evinces a number of consistencies. It is typically individualistic in that it views society as comprised of individuals pursuing self-interests. It is, on one level, egalitarian because each individual has the same rights before a strong, but formally impartial, law. On another level it is highly ideological, positing a situation where social actors pursue freedom through the market economy's 'level playing field' regardless of their real relative economic, social, or cultural power.

Dean (2014) and Peck (2008; 2010) are indicative of the recent sociological literature examining the trajectories and political economic influence of liberalism as a 'thought collective'. This research points to the centrality of the post-World War Two Monte Pelerin Society and 1960s Chicago School Economics in disseminating liberal policy ideas. Austrian economics played a key role in the formation of these 'thought collectives'. The totemic members of the Monte Perelin Society – Fredrick Hayek, Ludwig Von Mises and Milton Freidman - were heirs and active contributors to Austrian economic thought on 'free markets' (Rodrigues 2013; Vaughn 1994). For Austrians the market economy guided by prices, private property and rational calculation is the only institution amendable to ensuring human liberty (Hayek 1948). As Cooper (2011: 375) summarises Austrians see the market as a 'radically distributed price system...adjusting to and incorporating all relevant, partial information held by isolated individuals'. At a fundamental level this market economy, or in Austrian terms the 'catallaxy', is constituted through a multitude of monetary transactions: the 'cash nexus' of nominally free sale and purchase of goods and services animated 'solely by the selfish interest in making profits and acquiring wealth' (Mises 1949: 288).

Luhmann's comments on the economic system are scattered throughout his prodigious and repetitive output (Moeller 2013). Drawing on these my contention is Luhmann's account of the economic system echoes Austrian economic thought. In this regard SST's economic system does not appear unique or sociological for it views the economic problem, the role of money and markets, and the limits to state 'steering' through an Austrian optic.

Borch (2011: 85) notes that for Luhmann the economy system solves problems of scarcity where both goods and money are scarce. The core function of Luhmann's economic system is the regulation of scarcity through communication; not all needs and wants can be met instantaneously (Holton 2013: 12). This definition repeats economics' disciplinary problematic of how to allocating scarce resources to alternative ends (Robbins 1935). In this respect, and despite his disavowal of orthodox economics methodologies, Luhmann's theorizing is situated in a longer orthodox tradition.

In addressing scarcity, money as a medium of communication is central to Luhmann and Austrian economics. For Luhmann the economic system's operations depend on decision-making based on competing alternatives communicated through prices (Luhmann 1988: 110-11). Here Luhmann is rephrasing a Misesian view that the only way for rational calculation is through market prices which reflect a consensus on individual valuations (Vaughn 1994: 42-43). Hayek (1945: 527) too saw the price mechanism as a 'telecommunications system'. Crucially for both Austrians and Luhmann prices can only be calculated through that most distinctive feature of liberal capitalist: private property rights (Luhmann 1984: 453).

Despite money and prices acting as a medium of market communication, Luhmann and Austrian's nevertheless share a view that the economic sphere as indeterminate and messy.

The economic system communicates uncertainty regarding the consequences of other actors' actions (Beckert 2009: 204), while for Austrians the catallaxy functions through the ongoing 'trial and error' (Vaughn 1994: 5, 173). In viewing monetary calculation and payment as communication in the economic system Luhmann (1984: 462) echoes the Austrian ontology of the market as spontaneous order that sends price signals and produces unintended consequences due to complexities of exchange relations (Shand 1990). Nevertheless, Luhmann and Austrians fetishize the market as a social co-ordination mechanism *par excellence*. As intersystem communication is an enduring problem for SST, the economic system intimates that if every social issue had a price then inter-systemic 'irritations' would be significantly reduced: the creation of one giant market (Borch 2011).

In political normative terms, the autopoietic and bounded features of Luhmann's economic sub-system and the Austrian market economy ideations portrays state intervention as futile. There is no external political logic to the economic system and neither should be confused with the other (Boldyrev 2013: 271, 273; Moeller 2013: 27). For Austrians, such as Hayek (1948), the catallaxy's complexity is based on individual preferences so it cannot be known or planned for (see also Cooper 2011). Thus Luhmann and Austrian economics, albeit in different languages, offer a normative argument against state coordination and planning claiming the economic sphere as a buttress against totalitarianism. A view elaborated by the Chicago School nihilism towards government regulation and intervention (Peck 2010). However, there are subtle differences. Hayek saw the market as a state-institutional construction (Peck 2008), but SST rejects the economic sociology view that the state and economy are co-constituted (Boldyrev 2013).

For all these affinities Luhmann (1984: 382) was critical of liberal ideology's overreach. The Austro-liberal belief in the power of the market to act as social integrative force for SST is misguided as the market is continually de-centred by environmental complexity. And while

Austrians celebrate the market as promoting freedom and liberty, Luhmann remains circumspect. Market competition does not create maximal freedom as actors have prices imposed from the outside – whether by the market or bureaucratic authority (Boldyrev 2013: 278-279). Therefore Luhmann does not map smoothly onto Austrian economics but there are enough affinities to suggest SST's intellectual debt is to this specific and pervasive form of economic theorising. What then are the implications for the sociology of economic life?

### **3. Thinking against and with economic systems**

Luhmann's Austro-liberal inflected rendering of the economic system produces theoretical and practical problems, and opportunities, for a Luhmannian sociology of economic life. The first critique is Luhmann's scholarship. Admittedly his theoretical project was to construct a meta-theory of society and hence is highly abstract drawing on eclectic sources of inspiration including cell-biology. However, this theoretical output is selectively referenced, and where ideas are not attributed – as in the case of his economic system – there is a sense Luhmann is restating 'doxic' knowledge. This lack of positional reflexivity leads to a 'god's eye' everywhere and nowhere description of economic systems (Haraway 1988). So while SST is innovative, and the difficult prose may appear to be adding new theoretical insights on the economic system, on closer inspection it reproduces Austro-Liberal thought. What other vestiges of liberal thought, notably in the political and legal system, infuse SST?

A practical problem for the sociology of economic life is the constitution of money, which is central to inter-systemic communication and the catallaxy directed by prices. Luhmann and Austrians see money arising from within the economic system and market exchange (Hutter 1999). This view is challenged by neo-chartalists and Modern Monetary Theory following Knapp and Keynes, and whose theoretical debates have been informed by legal and political theory (Wray 2012) and empirical work on managing financial crises (see Cooper 2011). In

this regard the couplings and porous boundaries between economic and political systems illustrated by money creation, and a host of other core state functions, remains a blind spot in Luhmann's economic system; if payments create payments, where then do payments come from?

Luhmann's economic system unintentionally points to a theoretical problem for economic sociologists: how can we think about economic phenomena beyond imported concepts? One way is to expand the Weberian tradition within economic sociology through detailed empirical studies of actor's *verstehen*; or explore Polanyian co-existing systems of non-market exchange; or Granovetterian network-institutional configurations. However, what could a Luhmannian economic sociology offer? The idea of prices and money as a means of inter-systemic communication is promising but would require furnishing with empirical material, which presents its own challenges. Luhmann's high theory downplays the role of empirical research in theory formation (Borch 2011). This neglect reprises the *methodenstreit* for if social systems make observations of society, how are these observations framed by *a priori* judgements. If the theoretical edifice of SST's economic system is based on undisclosed Austrian affinities it forecloses alternative forms of sociological, rather than economic, thinking on economic phenomena. Would a SST framing of research circumscribe the analysis to fit a predefined theory, with all the political and ontological presuppositions this implies? What may need to happen is a refinement of SST's convolutions through an exploration of the tensions between empirical data and Luhmann's claims. The wealth of historical and contemporary economic data offers a starting point. Such work would be step in towards making SST a living theory – thinking *with* rather than thinking *about* SST - one which gains vigour through a dialogue with messy on the ground 'realities'. Admittedly this project would be theoretically impure but it could start to evaluate money's complexity reducing function at those moments where the environment 'overloads' the economic

system's capacity to communicate. For example, during times of rapid *natural* environmental change.

Of course SST, Austrian economic theory, and liberalism are more complex than can be accounted for here. However, this paper highlights their affinities and thus some implications of using Luhmann in the sociological analysis of economic life. Empirical work teasing out the tensions in economic systems theorising will be an important first step in evaluating whether Luhmann can be incorporated into the major traditions of economic sociology.

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