

## **Economic order, catallactics and entrepreneurship**

**Alina CREȚU**

Bucharest University of Economic Studies, Romania  
b13bbc@yahoo.com

**Roxana Lucia MIHAI**

Bucharest University of Economic Studies, Romania  
roxana.mihai13@yahoo.co.uk

**Irina Florentina BĂJAN**

Bucharest University of Economic Studies, Romania  
irina.bajan@yahoo.com

**Abstract.** *The economic efficiency of entrepreneurship was analyzed by theories on economic growth, production and human order. In order to achieve economic development the entrepreneur must constantly make new combinations or innovative processes that represent optimal responses to a globalized society's demand, which is constantly changing.*

*The main craftsmen of entrepreneurship theories are representatives of the Austrian school of economics that conducted a systematic analysis of Misesian rationalism versus Hayek's spontaneous order. The economic issue is based on knowledge and rational allocation of resources as individuals are not always rational and calculated, since they lack a common appreciation of the heterogeneous results generated by alternative processes in the economy. Friedrich von Hayek introduces in his analysis the concepts of catallaxy and catallactic game, the latter being a wealth creating game that leads to an increase in the flow of goods and opportunities for all participants to meet their needs, the result being essentially determined by a mixture of skill and chance.*

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**REL Classification:** 1I, 8H, 14D.

## **Introduction**

Contemporary society, which is marked by the fluctuating evolution of economic phenomena and by uncertainty, determines entrepreneurs to seek solutions to anticipate future market patterns, different ways to use resources and to determine profits or loss.

Economic order is a state in which multiple types of elements are linked together so that, knowing several parts of the temporal or spatial query we can formulate the correct hypotheses regarding market evolution. The Austrian School of economics has analyzed the role of entrepreneurs in society, their decision-making under uncertainty and risk, and especially their capacity to anticipate their actions based on the importance of self-knowledge and information on economic activity. Entrepreneur's preference involves making decisions by determining the best alternative which can lead to significant and attainable rewards.

## **Economic order, entrepreneurship and economic development**

In human society, the concept of order is assimilated to the entirety of regulations of the organizational superstructure of the national economy and of economic activities, as well as all the institutions which regulate the administration, taxation and economic configuration.

Walter Eucken, representative of the individual-inductive German historical school, considered the economic order as a whole segment of material and spiritual life, in a time and space, starting from ideal types. Therefore, the actual order of the national economy is characterized by the ratio of use of such ideal economic systems.

The concept of economic order must solve three problems that exist in any society: the functionality of the economy, the achievement of the fundamental social and political objectives and the efficiency of all economic activities.

The most important issue is the answer to the question on how to coordinate the economic activity of a multitude of agents, so that the specialized economic process which is based on the division of labor and is institutionally conducted in separate time and space can be as effective as possible?

At the level of the national economy the decisions based on the urgency of needs and their coverage belong to applicants, consumers of goods and services, as a means of production. In the limits of available income the applicants decide freely, according to their needs, on the quantitative and qualitative structures.

Important prerequisites for economic functionality are not only pricing and consumption and production freedom but also freedom of profession and freedom of competition. Effective economic coordination is based on the decisions of economic agents with equal rights in the market.

The social quality of economic order is crucially dependant on how the problem of income and wealth distribution is resolved, on economic power and on the issue of social costs. Consumers' ability to influence production depends on their endowment with purchasing power (available income). Differences between available revenues - incomes from work, from capitalization of assets or from entrepreneurial activity on one hand, and the ownership of factors of production, unevenly divided between individuals on the other hand - and the needs which differ from the production factors, i.e. various supply-demand relationships in the market for production factors. Low budget revenues, which can not cover the needs of life, are one of the reasons why initial private goods, such as: personal safety, education, health, became collective goods. Thus, equity demands the correction of such differences between income extremes and resolving the concentration of wealth issue.

There is belief that the order can be created only through forces outside the system, of an exogenous nature, concept that can not be applied to a balance achieved from the inside, of an endogenous nature. Exogenous order, created deliberately, is described by Friedrich von Hayek as an artificial construction or a strict social field that is assimilated with an organization, and the natural order is a spontaneous order.

The rules of a spontaneous order must be independent of the purpose and be the same, if not necessarily for all members, at least on categories. The general rules underlying spontaneous order tend to an abstract order; however the ones inside organizations serve specific purposes.

Spontaneous order stems from the fact that its components comply with certain rules of behavior, but not every regularly in the components behavior ensures the overall order. Some of the rules governing individual behavior can make it impossible for an overall order to exist.

Can order in society be established on the basis of universal rules? According to the second law of thermodynamics, and also the entropy law, the tendency of gas molecules to move at a constant speed in a straight line produces a condition that has been termed "a perfect disorder". Similarly, in society, perfectly regular behaviors of individuals can cause chaos. Society itself can exist only if there has been a change in the rules, through a selection process, which causes the individual to behave in such a way that social life can be possible. In the social

order, certain circumstances in which every individual reacts are known only by him. Individual responses in certain situations will result in a comprehensive order only if individuals comply with some rules so an order can manifest itself. Such an order will always be an adaptation to the myriad of circumstances known to all members.

"The catallactic game" (Hayek 1976, pp. 108-109), according to Friedrich von Hayek is a welfare creating game; it leads to an increase in the flow of goods and opportunities for all participants so as to satisfy their needs in accordance with certain rules, skill, power or luck.

It is a game which creates welfare because it provides information to enable each player to meet needs that are not directly known and whose existence could not be learnt using their own means, so that the satisfaction of many more needs can be possible. In the market order, each one is determined by its own gain, to satisfy needs that remain invisible to him so individuals take advantage of certain unknown circumstances that allow them to meet these needs with a cost as low possible, a cost that is expressed in the goods that could have been produced instead. When only a few know of a new event, the crowd of speculators will not take it into account, so the prices will change. In this process current prices are indicators of what is to be done in the present. These direct the manufacturer's efforts, the result of his efforts will be different from his expectations and revenues are determined. Chance can not be separated from market functionality and the amount of information reflected in prices is entirely the product of competition.

More important than the information regarding needs that can be satisfied and for whom there an attractive price is information related to the needs. Each product can be obtained through different combinations of inputs and those that imply the smallest sacrifice expressed in other goods that could have been produced with the same resources, will be indicated by the relative prices of inputs. Through their effort to obtain results as cheaply as possible, manufacturers will make total production in catallactic be as high as possible. The prices for which they can buy various factors on the market are the same because they produce the same marginal result. Thus, the entrepreneurs will be determined to adjust the relative amounts of any pair of factors so that they can have the same contribution to their income, as they are marginal substitutes. If this what it is generally wanted and marginal rates of substitution between any two factors are the same in all their uses, it can be said that the market reaches the catallactic horizon of possibilities where there is the largest amount of specific combinations of goods possible under the circumstances. The contribution of each factor of production to the overall result is determined by the instrumental needs of the only process known

that can ensure a stable approach to this horizon, the material equivalent of any contributions being as high as possible. Therefore, the contribution of each player in the catallactic game is determined partly by understanding, partly by chance, the part will be allocated through this game of chance and skill being truly maximal.

According to Friedrich von Hayek, the rule of correct behavior serves to the agreement of the different purposes of numerous individuals. The interference in national economies can exist only if there is a process that works on the basis of principles and the components respect certain rules. The goal of interference is always to generate a certain result that differs from that which would have been produced if the mechanism had been left to pursue its inherent driving forces. Any act of interference creates a privilege guaranteeing benefits achieved to the detriment of others, in a way that can not be justified by principles that may have general application. A spontaneous order requires, as a limitation of the coercion to apply the general rules of correct behavior, that this coercion is applicable equally to all.

The Austrian School of economic thought assigns an important role in its research to entrepreneurship, which is synonymous with human actions to adjust the present, the future being determined by them. The entrepreneurial function requires the discovery of business opportunities for profit, based on individual skills of forecasting and analysis and on the information acquired. However, this function concerns human actions under uncertainty. In the economy, individuals try to avoid losses and maximize their welfare, in order to improve the quality of life. If the purpose of their actions was contrary, this would create disorder.

Entrepreneurs must produce information and the existence of institutional freedom must lead it in meeting social and economic goals and interests. Human action in terms of entrepreneurship is specific and unrepeatable being determined by the level of knowledge and information acquired at some point, directly related to the competitive environment. Any act entrepreneurial discovers, coordinates and eliminates social inconsistencies. The entrepreneurial process of social coordination continues because the elementary social act consists of the creation and transmission of information. The entrepreneurial function must be correlated to the need to anticipate the future configuration of the context of the action. Entrepreneurial actions that are based on expectations contribute to a viable market as consumers choose goods according to preferences, supply conditions of consumer goods and production. Opportunities for profit, like price differences, are capitalized by entrepreneurs and entrepreneurial loss is due to wrong anticipations of producers and the overpricing of inputs.

## Conclusions

According to the Austrian School of economic thought competitive markets are a social construct, consciously created by human action. Sustainable economic activity implies the existence of incentives for the processes of investment, production and savings, and its effect is equivalent to having a positive sum game. The increase in earnings for some entrepreneurs, while the general economic conditions are worsening, has the effect of gradually reducing revenues' capacity to transform due to the fact that speculation are taking place of real economic growth processes

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