Reassessing the basis of economics:
From Adam Smith to Carl von Clausewitz

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This essay's hypothesis is that neglect in the English-speaking world of the ideas on economics of the nineteenth century Prussian strategy theorist Carl von Clausewitz deprives the discipline of very useful knowledge and moral content. Repairing that neglect would enhance the subject's moral and methodological base.

Neoclassical economics has a particular focus and method, which the current soul-searching about its usefulness in resolving today's GFC highlights. The "focus" can be traced to its historical origins in the late eighteenth, early nineteenth century London-centered, world-wide emporium that fixed people's attention on the individual's behavior in the marketplace. This fixation has been an axiom of classical and neoclassical economics ever since (Amsperger and Yaroufakis, 2006). The "method" economists' associate with Cournot, Dupuit, Walras, Jevons, and legions of neoclassical economists in their trail, who have attempted to turn their subject into a prescriptive science (Locke, 1989, Khurana, 2007, Dorfman, Samuelson, and Solow,1958, Neumann and Morgenstern, 1944). Their emphasis on quantities, to achieve scientific rigor, has impoverished economics by drawing its attention away from the complex interactions of norms and rules, and disputes over goals (finance versus production, wealth concentration versus wealth distribution, etc.), thereby making neoclassical economics in the English speaking world, because of this very distraction from the non-quantifiable, part of the problem rather than the solution to our current economic crisis (Dobbin and Jung, 2010, Locke and Spender, 2011).

Enter Clausewitz

If the historian's attention shifts from the British Imperial emporium to late eighteenth and early nineteenth century central Europe, he/she finds people preoccupied with a different set of problems that developed into different types of economic postulates from those that preoccupied classical economists as they set economics off on its long journey. The era of the French Revolution and Napoleon amounted to thirty years of upheaval that brought kingdoms and empires low, and abolished principalities and city states. Survival of political entities became problematic. This is the environment in which Carl von Clausewitz lived, where people's minds focused on the competition of great powers. Clausewitz's own life (1780-1831) was mostly spent as a soldier fighting for Prussia.

A different focus

Since he lived most of his adult life in an era of continuous war, Clausewitz wrote about it; and his unfinished classic, *Vom Krieg* (1832) is arguably the most famous work on the subject (like Adam Smith's *The Wealth of Nations* is in economics) of the past two hundred years. In order to see how Clausewitz developed a different focus for economics, what he meant by war needs to be clarified.

He is famous for having said that "war is the continuation of Politics by another means." By Politics he meant statecraft; he and his followers took the state as their basic analytical unit in war and economics and in this respect they differ fundamentally from Smith and his disciples who concentrated on the individual actor competing in the market place. In Anglo-Saxonia and Francophonia late 20th century economists had grown so use to making the individual the focus of their calculations that they have forgotten that this had not always been the case. Up to 1940 in Germany primarily but also to some degree in Britain and the US, the historical school framed economics in terms of state rivalry. One does not have to look beyond Friedrich List, about whom people in German universities still write PhD theses, but there are others (Gustav Schmoller and Werner Sombart, for examples) who spoke of economics in terms of state rivalries. It's in the language: When Sombart claimed (1925) that "the growth of large-scale nationalistic warfare" is the root cause of economic development, since the "demand for more effective weapons, offensive and defensive, stimulate[s] technology and invention" we have an economist thinking in the Clausewitzian mode – a mode incidentally that goes further to explaining the development of Information Technology in the US than any neoclassical economist's reasoning about how IT's growth is ultimately driven in the marketplace by the search for new ideas by profit-seeking innovators (Castells and Hall,1994, 17).

That neoclassical economics dominates the subject today (and has driven the historical school into the ground) does not mean that the world has lost interest in economics as state rivalry. On the contrary, the language of economic competition is expressed almost exclusively in this way: the economic rise of China, the stagnation of Japan, the de-industrialization of the United States, problems of the Euro Zone, the challenge of the BRIC nations to the hegemony of the mature economies are common reference points in international debate. Talk about state economic rivalry did not stop after Clausewitz's generation focused on it, or after World War II. It is a continuous preoccupation, despite the theoretical orientations of the triumphant neoclassical school. This paper in the first section (The Moral Difference**)** discusses how a Clausewitzian focus on the nation-state enhances the moral dimension of economics; in the second section (A Different Method), it discusses how a Clausewitzian methodology enriches our understanding beyond the knowledge limits of neoclassical economics.

I. The moral difference

There is no need to explain why neoclassical economics in Anglo-Saxonia avoids questions of morality and is, therefore, of little use to people who wish for economics to have an ethical dimension. As a science it practitioners have proclaimed that it qua science does not deal with ethical questions. Since the neoliberal Chicago school justifies the ideology of greed the debate in neoclassical economics for a long time ended there. Discussions of moral reform since the GFC of 2008 are limited primarily to the ethics of the individual. A Clausewitzian outlook, however, is another matter. To discuss it, the possibility that the state can act as a moral entity has to be entertained.

British people and especially Americans have a real problem with the state. Government is perceived not only as the enemy of freedom but as corrupt and inefficient. Constantly, in the new African nations, for example, we hear about how government officials are bribed and the wealth of those nations squandered; nothing much is said, however, about those who are doing the bribing in the private sector. The study of classical and neoclassical economics grew up in a world beset with these ideas. Government was replaced by markets and the invisible hand in economic calculation. Even in the twentieth century, when the visible hand of management (Chandler) replaced the invisible hand as an arbiter of economic efficiency, the anti-government view persisted because the new managerial hierarchies were in private sector corporations and the schools that trained their management were privately funded, private institutions (Harvard Business School, Wharton, University of Chicago, etc.) that primarily serve private interests, While the mystique of the new visible hand of private sector management grew, a litany of attacks on regulators and civil servants has continued to make government the essence of ineptitude in American minds.

Clausewitz lived in a semi-autocracy that was a Rechtsstaat (a state administered by law). The monarch, his generals, and civil servants did not rule by caprice but through a system of laws and regulations, designed by them to further the well-being and strength of the monarchy in its struggle for survival and advancement in great power politics. Prussian civil servants seldom thought that private businessmen and industrialists were more than special interest groups, and, therefore, not to be trusted with looking after the public interest. That was the job of the state, led by a general class (in France, the *hauts fonctionnaires*, in Germany, the *Beamtentum*) that was especially trained to this task. During the Revolutionary Era (1789-1815) Prussia's destruction by Napoleon's armies convinced the monarch and his advisors that the civilian and military leadership had performed badly. A period of reform ensued, which included reforms of the education of young people destined to be army officers and civil servants. Clausewitz was one of them.

Wilhelm von Humboldt, who took the educational reforms in hand, was a humanist. Although appreciating mathematics, he prized the educational value of classical languages more. Humboldt wrote to his wife Caroline: "It is only through the study of language that there comes into the soul, out of the source of all thoughts and feelings, the entire expanse of ideas, everything that concerns man, above all and beyond everything else, even beauty and art." (quoted in Wertz, 1993, 1). Humboldt espoused classical languages as media for the cultivation of an "inner self," not just for the individual's benefit but to prepare an entire ruling class for leadership functions. That vision inspired his creation of a new Prussian secondary school system (*Gymnasien*) and the founding of the University of Berlin (1810).

The *Gymnasiums* system stressed moral education instead of technical training because it was widely believed that elites fail not through deficiencies in their knowledge and skills but through weakness in their character. As the general class charged with furthering state interest, the education needed to provide fledging civil servants with the moral character that would guide them to serve the kingdom's and not their personal or some group's (like businessmen's or merchants') special interest. The classical education Humboldt fashioned intended to instill in the directing classes a sense of honor, honesty, duty, and patriotism as well as a deep appreciation of culture.

.In nineteenth century Prussia enlightened civil servants carried through the modernization of the country – in promoting a common market (the *Zollverein*), in further educational reforms, which included the technical and later the commercial *Hochschulen*, in implementing state health, accident, and pension schemes, because a secure population is important to state power, and generally in leading the Prussian-German monarchy to world prominence. The impulse did not come from the merchants or the university professors as much as from this general, and much admired, class of state civil servants. The most famous among the state servants, Otto von Bismarck, and his minions, schooled by Humboldt, served the monarchy faithfully. His use of power was the epitome of what Clausewitz meant by the exercise of reason of state. And it can generally be said that their policies advanced the economic well-being of the nation.

But Bismarck is also famous for ***Realpolitik,*** which in the hands of an authoritarian monarchy bred ruthlessness and in a totalitarian state, led to great crimes against humanity. The German *Beamtentum* fashioned in the nineteenth century and educated in Humboldt's *Gymnasien*, did little to stop the Nazis coming to power and pretty much cooperated with the murderous regime to keep their jobs, witness the collaboration of German civil servants out of a sense of the good old Teutonic virtues of loyalty and duty to the state in carrying out the Hitler regime's obscenities. A century of Humboldtian moral education, therefore, did not serve the German nation particularly well.

In a world of great power rivalry where torture and killing is done regularly in the name of the state it is difficult, therefore, to think of a civil service elite as a moral force. No matter how efficiently they serve the nation and how much they speak of service, honor, and country, with them it is as with Lord Acton's dictum: "Power corrupts and absolute power corrupts absolutely, great men are almost always bad men."

Nonetheless, a Clausewitzian view of the state is very different from the American or British, and the difference greatly affects the moral environment in which neoclassical economics has recently functioned. After World War II economics in Germany increasingly fell under the influence of US econometricians and the neoclassical school. But the Clausewitzian state tradition reasserted itself as well, within the framework of a new democratic regime in West Germany that tried to erase the stain of National Socialism. Politicians and civil servants as in Clausewitz's era assumed a prominent role in reestablishing community in the devastated country.

The chief immediate postwar issue was firm governance, what the Germans call Mitbestimmung or co-determination, for if the West Germans turned their back on socialism they wanted to restrict the power of owners and managers within firms because of their cooperation with the Third Reich.. The concept is alien to Americans who have a proprietary conception of the firm, which only gives owners and the management it sanctions a voice in firm governance. Germans and other continental Europeans inherited more of an organic conception of the firm, according to which elements that compose the firm (essentially owners and employees) have a legitimate claim to a voice in governance. A broad coalition of political parties, church groups, and trade unions, supported the co-determination bills the German Legislature enacted in the 1950s and 1970s, which gave employees a strong voice in firm governance. Under co-determination the civil servants act as guarantors that the provisions in the legislation will be administered correctly and fairly in the interest of all co-determinants. Nothing similar happened in America.

When orthodox American and British economists ignore matters of firm governance, they leave the American worker to the tender mercy of a managerial caste that runs the firm first in the interest of top management and second to the furtherance of what is commonly called "shareholder value" The powerless employees' interests are neglected, with the results that since 1979 less and less of the earnings in American corporations have been distributed to non-management employees (Locke, 2012). In fact, US neoclassical economists have witnessed, with scarce comment, one of the most radical redistributions of wealth to the disadvantage of working people and the middle classes in US history (see the RWER's numerous postings on the subject).

There is nothing inherent in neoclassical economics and econometrics that makes this moral cowardice vis-à-vis the radical distributionists in America's leadership elite, necessary. On the contrary, in Germany, a Clausewitzian concern for a morally cohesive society, prompted neoclassical free market economists (Walter Eucken, Franz Böhm, Wilhelm Roepke, etc. centered at Freiburg University) to work closely with government (Ludwig Erhard and Alfred Müller-Arnack) on the implementation of co-determination and the social market economy. The difference between Germany and America, then, is not neoclassical economics but the presence or absence of a Clauswitzian tradition in governance. This tradition prompted the German economists, who understood that there was a great difference between a market economy functioning in a society composed of a small privileged elite and a mass of poor people, and a free market in a society with a large middle class, actively to promote the creation of the latter (Ancil, 2012)

Missing this public service tradition, Anglo-Saxon neoclassical economists let private interests prevail over the public good.

II. A different method

Admirers of Clausewitz assert that his strategic vision, conceived over 200 years ago, adds explanatory power to the discipline because his assumptions about economic actors differ from those of orthodox economists. His state oriented strategic management thinking is expressed in books and papers such as *Clausewitz Strategie denken*, Henning Schildgen's *If Clausewitz had been an economist: Economics as an instrument of Power in Clausewitz's Strategic Management Model* (that borrowed heavily from Rasmus Beckmann's analysis of Clausewitz's strategic model in a contemporary context (Schildgen, 2010, Beckmann, 2008), and in courses and executives seminars taught at the Harvard Business School and other management education venues.

Whereas neoclassical economists in the positivist tradition seek through rigorous scientific method to make economic outcomes predictable, Clausewitz reasoned about knowledge in a different way. He lived in a Kantian-Hegelian environment. G.W.F. Hegel, the most influential philosopher of Clausewitz's mature years, thought dialectically, which means that the purpose of study is to think about things in their own being and dialectical movement. Contradiction does not exist in people's minds (positivism asserts) but in the real world. But to Hegel everything is contradictory, and if natural scientists think otherwise, it results from a logic that is the logic of the moment, the logic of the simplified world. Dialectical thinkers introduced the logic of time. As Marx explained when commenting on dialectical materialism: "Dialecticians insist that non-contradiction in the formal logic sense [occurs because scientists] fix their categories temporarily, which are often inadequate to apprehend the real world, a world in constant motion that cannot and should not be reduced to categories frozen in time. (Marx, *Capital*, Vol. 1, Afterword, 5). How much Clausewitz read of Hegel or any other dialectician is not particularly known; but he was interested in philosophy and logic and, unlike classical economists, thought dialectically with respect to causality and the importance of time.

Disorganized complexity and the unknowable

Consequently, although he addressed simple problems with Newtonian concepts, Christopher Bassford claims that Clausewitz unlike British, French, and American economists also used new tools of mathematical probability calculations to deal with problems of disorganized complexity (Bassford, 2008). His belief that reality is fraught with the unknowable (*Ungewissheit*), resulted in methods of analysis that were very different from those of orthodox economists. He was careful about simplified model building. As he put it, "The scientific character of [my theory] consists in an attempt to investigate the essence of the phenomenon of war and to indicate the links among the phenomenon and the nature of the component parts. No logical conclusion has been avoided, but whenever the thread becomes too thin I have preferred to break it off and to go back to the relevant phenomena of experience." (Quoted in Bassford).

Genius, esprit de corps, and uncertainty

In the fog of war Clausewitz knew that successful outcomes depend much on the chief executive's genius and on the skill and esprit de corps of the organization he led. Napoleon was famous for his rhetoric; other great commanders, including Napoleon himself, had charisma. Nobody could predict the appearance of these irrational traits in commanders or define what precisely they are, but they are palpable and at times event-deciders.

Among those factors that influence the outcome of military conflict, he included the hate intensity of peoples and the talent of command, categories of analysis that could not easily be included in a mathematical decision model. If he conceded that the irrational shaped war's outcome, Clausewitz did not leave matters there.

Contingency planning, mission directives

Commanders in their work had to cope with uncertainty constantly. He attributed it to the "Friktion" that people encounter when operating with incomplete information. To deal with it he developed a system of strategic thinking that permitted the commander to face the complexity of the unexpected and the irregular, not by simplifying as positivists do, but through contingency planning, which promotes the calculation of the incalculable. Louis Pasteur said that accidents can best be confronted by the prepared. Clausewitz observed that a commander can do this preparation because his reflective eye can perceive, from his position, all possible scenarios, carefully examine them, and arrive at an optimal strategic decision. This strategic thinking, in Clausewitz's words, "Is no more and no less than the search for new ways to clarity" (quoted in "*Management*," 2003, 2).

No amount of strategic thinking could succeed if the army could not carry out its assigned tasks. Organizational capability and strategic thinking went hand in hand. The Prussian General Staff, a nineteenth century phenomenon whose post-Napoleonic reform began in Clausewitz's time, a reform in which he actively participated, worked constantly to cement its relationship with the army organization to make command and rank and file both think and act together. That was very Clausewitzian. As the army evolved, its masters sought cohesion by giving the field commander and the chief of staff co-responsibility in matters of command decision. Empowered with co-responsibility the chiefs of staff developed the policy of issuing "mission directives" (*Auftragstatik*) to subordinates instead of detailed orders, which allowed the man on the spot maximum freedom in deciding how to achieve the assigned tasks. A highly decentralized command system meant that tactical and administrative decisions occur at very low echelons of command by officers in which their superiors placed great trust. At lower echelons officer aspirants did their training in a regiment (Clausewitz did), alongside the soldiers; each aspirant learned, as weaponry evolved, how to use all infantry firearms. Personnel rotated officers regularly between general staff and field positions in order to build like thinking between line and staff that the successful implementation of *Auftragstatik* in war required. The Prussian army introduced war games in its training regimes in the 19th century; in the First World War, whereas the French army left the development of small arms weaponry to the noncombatant staff, in the German the soldiers, who used them in the trenches, participated directly in the design and improvement of their weapons, just as a machine operator in a German factory would be involved in the purchase of the machine he would use; and command also promoted organizational asymmetry in field units, which allowed operations the sort of flexibility that contingent theory and the fog of war demand (Lewis, 1985, Locke, 1999).

When things went well, the gifted group of nineteenth century soldiers who brought about a revolution in military planning and strategic thinking during the evolution of the Prussian General Staff could celebrate the results. This happened, during the wars of German unification in the mid-nineteenth century, carried out under the brilliant Triumvirate, the Minister President, Otto von Bismarck, the Minister of War, Albrecht von Roon, and the Chief of Staff, Helmut von Moltke. Under Molkte's direction the Prussian General Staff proved the value of the strategic "search for clarity" during Prussia's victories over Denmark (1864), Austria (1866) and France (1870). Success bred emulation; armies everywhere set up general staffs on the Prussian model.

But things, as Clausewitz knew, could go wrong. A famous example of how *Ungewissheit* (the unknown) compromises the most thorough contingency planning and organizational preparation happened to Germany during combat, under another von Moltke, the great man's nephew, at the outbreak of the First World War. His lack of will (an accident that no planner could foresee) and the mistaken judgments of a subordinate sent out to investigate the situation first hand at a critical juncture, an example of *Auftragstatik*, led to the fatal decision to halt the attack just when the strategic plan might have been pushed through to success by a more audacious and willful commander. The failure eventually brought down the Empire.

In military commanders or in businessmen, Clausewitzians make the same distinction that Nietzsche does in the metaphor of the Dionysian and Apollonian man. In his study of *Young Nietzsche*, Carl Pletsch observed that, for Nietzsche, the Apollonian "is the principle of clearly delineated images, permanence, optimism, individuation and rationality. It is striving for clarity" (Pletsch, 1991, 131-31). This is the ethos of neo-classical economics, and of classical American corporate management. On the other hand, for Nietzsche, the Dionysian expresses "the principle of flux, impermanence, suffering, and pessimism…. an irrational force, impulsive, wild, and instinctive (ibid)." This is the creative power of the great general and the great entrepreneur. On a philosophic plane, while Nietzsche "affiliates Schopenhauer's concept of the 'idea' or 'representation' with Apollo, he associates Dionysius with the "will." Accordingly, whereas the Apollonian vision is timeless and "responsible for the constant formulation and reformulations of the forms of knowledge and rationality that order our everyday life, the Dionysian urge, which is "momentary, exceptional, and counter-intuitive," is "dangerous to any structure of reality." It is the maelstrom of every impulse caught in the flux of time." For this reason, for Nietzsche, the Dionysian is the more profound of the two modes. It is the empiricist's nightmare.

Clausewitz would have ranked the great commanders and Clausewitzians creative business people among the Dionysians; their unaccountable and unpredictable flashes of genius, imagination, and rhetorical flourishes determine outcomes and, as Napoleon said, the fate of empires; so did their ability to fashion a new and unexpected production systems at Toyota, which undermined Detroit. Nonetheless, the organization men and women in a highly-complex globalized economic system, beset with continuous change, increasingly complex networks, and technological innovation, are the ones that make the success of innovative systems, like those invented in contingency planning.

Two examples of how Clausewitzian thinking enriches economic analysis

Foreign trade

The classical formulation of international trade David Ricardo gave in his theory of comparative advantages, which was an elaboration on Adam Smith's comments on the subject in *T*he Wealth of Nations and which is today taught to undergraduates in economics courses all over the world. Comparative advantage appears when a country has a margin of superiority in the production of goods and service. It exports those and imports from countries that have a comparative advantage in other goods and services that it does not have. The theory has had its supporters and detractors but what is striking about the interchange between them is how the discussion takes place in the terms formulated first in the great London emporium where the debate began. Ricardo's argument assumed that two countries and two commodities (wine and cloth) were involved, that there was perfect competition, labor was the only factor in play, labor was perfectly mobile within each country but not between the two, that there was free trade and no technological movement or transportation costs. The critics talk about the shortcoming of assuming that value is determined by labor, or assuming that there is full employment, or that demand is ignored, no evolution of the factors of production are permitted, that Ricardo assumes that there is no free trade and there is complete specialization, etc. – This language is fit for the London emporium but not Clausewitz's continental Europe, not the world of great power politics where the preoccupation of those left behind in the race is how to catch up with and even surpass their competitors, how to prepare the material strength of the state to see it through. This was the preoccupation of Japanese leaders after the war and of imaginative Chinese Communist Party bureaucrats after Mao's death. So the axioms of neoclassical economics do not have much to do with geo-political economic ambitions.

For Clausewitzians the discussion about the theory of comparative advantage is clearly limited. Ian Fletcher wrote about the limitations in his article "Dubious assumptions of the theory of comparative advantage" (Fletcher, 2010). Ricardo's is a "static theory" about how best to use existing factors. It tells economists the "best move today, given our productivity and opportunity costs. It does not tell us the best way to raise productivity. "That, however, is the essence of economic growth [and industrialization], and in the long run much more important than squeezing every last drop of advantage from the productivities we have today" (Fletcher, 103). Comparative advantage, he also notes, is "narrow theory," It is only about the best uses to which nations can put their factors of production. "We have certain cards in hand, the others players have certain cards and the theory tells us the best way to play the hand we have been dealt. Or more precisely it tells us to let the free market play our hand, so market forces can drive all our factors to their best uses in our economy." It does not, however, tell us how to reshuffle the productivity cards; it is not dynamic.

The theory of comparative advantages is, therefore, not very helpful to people involved in strategic thinking about great power rivalry. And today, governing elites in America need help, inasmuch as very little about US international trade policies, if they can be called that, results from strategic thinking. In the US an ideology of egoist self-interest prevails in orthodox economics, and trade policies are set by lobbyists to the advantage of special interests. The result: capitalists like the high profits and consumers the low prices when imports replace domestic produced goods, but the workers lose their jobs as low tech jobs move overseas, high tech jobs do as well, the trade imbalance with China increases and the Chinese amass huge amounts of US treasury bills with which to finance their overseas expansion, while the tax base erodes in the US as special interests avoid taxes; the American people accumulate a huge private and public debt, and the strategic interest of America and its allies suffers through this demoralizing cascade of events.

To recover US politicians and civil servants need not just to ward off the special interests when setting trade, fiscal and monetary policy, but to obtain better input from economic theory. That science cannot be exclusively the positivism of orthodox economics. A move away from Ricardo to Clausewitz permits the observer first to focus on the state and not the individual and second, because his theory engages in contingency planning that minimizes the effects of the unknown and unexpected, allows the observer to deal better than the neoclassical economic theorist with the complexities of purpose, goals, and means in the accidental world of great power struggle. This thinking process opens the door to non-positivist arguments about economic outcomes; it turns to the situational roles of the thinkers and policy makers themselves, to their moral education, their esprit de corps, their sense of the nation's purpose, in order to usher in an economics that better copes with change in a trade world continually in flux. It allows economics more to serve commonwealth than special-private interests.

Firm efficiency

The second subject selected to illuminate the usefulness of a Clausewitzian compared to a neoclassical outlook is firm governance. American and British neoclassical economists are very practical when they approach this topic. They consider the firm to be a money mill whose efficiency can be calculated by Return on Investment rates or annual profits. If the firm is listed on the stock market, then efficiency can be measured by a stock's market performance. These numbers provide objective data that fit mathematical analytical models. When the subject was extensively discussed among German business economists in the 1920s, most thought "the 'efficiency yardstick' should not be the greatest income to the capitalist at the least expense but the greatest benefit to the community (Locke, 1984, 160). But such a measurement, however desirable, could not be objectified, so the money mill calculators prevailed, especially with the triumph of capitalism after WWII.

The trouble is that results reporting does not reveal much about how results are obtained. The firm remains a black box about whose inner workings and nonfinancial relationships with the outside world neoclassical economists and investors are not especially concerned, because in neoclassical economics the management efficiency problem is resolved in the competitive market place where badly managed individual firms are eliminated. But for people like Clausewitz, who are preoccupied with the state's economic performance, the question of just how management performs is of paramount importance because the inefficient management systems in one state, especially their own, can lose out in industrial and manufacturing state rivalry to different but superior management systems in other states..

Managerialism

In the author's work this Clausewitzian concern has been a prime focus. The system on whose deficiencies attention is focused is American management to which neoclassical economics is wed. The system is called managerialism and. is defined as

> "What occurs when a special group, called management, ensconces itself systemically in an organization and deprives owners and employees of their decision-making power (including the distribution of emoluments) and justifies that takeover on the grounds of the managing group's education and exclusive possession of the codified bodies of knowledge and know-how necessary to the efficient running of the organization" (Locke, 2009, 1).

It use to be thought, and still is by a decreasing number, that managerialism gave the US an edge in economic performance and hence amounted to a wealth-fostering plus in the economy, the so-called "fourth productive factor" (Hartmann, 1963, 149). Currently its detractors claim that managerialism is not only immoral (because it mal-distributes the wealth) but inefficient in that it puts US firms at a disadvantage in their competition with firms in other advanced countries, i.e., Germany and Japan that do not have systems of managerialism. This is a Clausewitzian argument because it asks the investigator to come to terms with the nonmonetary aspect of efficiency in an organization's and a state's work culture, i.e., the relationship between management and the work force, its relationship with extra-mural training and educational institutions, its esprit de corps, etc.

Obviously, these arguments do not appeal to neoclassical economists, not least because they do not like the evidence upon which they are based. To describe institutionalization and how it develops requires researchers to read extensively in the archives, in secondary literature, and private letters, and to conduct interviews. Neoclassical economists do not trust this research, which produces argument by example, anymore than they do comments of people in historical records or the subjective judgments of historians perusing the record. Clausewitz certainly appreciated rigor in research, but with an appreciation of the cunning of reason, the unrepeatable, the irrational, unknowable, and inexplicable, he would neither ask us to turn a deaf ear to the historian's or biographer's record or to accept the rigor of neoclassical prescriptions that have failed repeatedly properly to predict processes and outcomes. Accordingly, Clausewitz's methods are historical not scientific, which is hardly a shocking admission because it is also true of neoclassical economics. As Hollanders notes,

> "[the economist] Hicks stated that 'as economics pushes on beyond 'statics,' [as did Clausewitz in the dynamic of time] it becomes less like science and more like history.' Similarly as econometrics pushes beyond repeatable events, it becomes more like history. … In those cases econometrics is a case of historical statements (Hollanders, 2011, 126)."

A Clausewitzian comparative nation-state approach to matters of firm efficiency, therefore, permits an analysis that goes beyond neoclassical economics and even associates it, as part of managerialism, with the efficiency problem. To illustrate, In *Confronting Managerialism* and other studies the author makes three points about firm efficiency when comparisons are made between a regime of managerialism (USA) and regimes without managerialism (Germany and Japan).

The first is the stated purpose of business. Alfred P. Sloan, Jr., long-time head of General Motors, whose name is on the business school at the Massachusetts Institute of Technology, famously said: "We are not in the business of making cars; we are in the business of making money." (Quoted in Rother, 2010, 62) Money for whom? It might be asked. Not for the shareholder, that is a myth, because US firms are managed under a director primacy regime, in which the CEO and the board of directors he/she appoints, run things, including distribution of emoluments. The money is primarily for them. And at GM, elsewhere in Detroit's Big Three, and in other Fortune Five Hundred Firms, top management implemented centralized financial reporting systems "based heavily on analysis of reported management accounting data" (Rother, 2010, 63), which allowed headquarters carefully to chart how much money they were making . This is pure managerialism, installed in US corporations when moneymen (accountants and controllers) replaced engineers in the boardrooms during the second and third quarters of the 20th century.

By contrast, Peter Lawrence in his study of West German Management noted that when the German manager is asked about the purpose of his enterprise, he never says that it is to make money (Lawrence, 1980, 166). If he is pushed on the subject, he will simply say that profit-making is incidental to the greater purpose of the firm, which is to provide superior products and services to customers. Lawrence observed that American management is skeptical; they think that they are being more frank and honest when they state the purpose is money but the truth is Germans do not share their values. Whereas, Lawrence continued, Americans believe "if you can pay you're equal," Germans think "if you are *leistungsfähig* (capable of performance) you're equal." (Lawrence, 1980, 98). German management expresses this value and Japanese managers uniformly echo these sentiments. They place customer satisfaction high on the list of their firm's "mission statements." Such mission statements, surveys' affirm, were and are not empty rhetoric (Locke, 1996, 212).

The second point is about business education systems, about how they came in the US to support and institutionally express managerialism, and about how in non-managerialist regimes business education traditions work against the institutionalization of managerialism. Since the issue is firm efficiency and the contention is that industrial firms run by a management caste were (are) less efficient than those in Germany and Japan that were (are) not, systems of management education especially for manufacturing become by extension factors in evaluating firm efficiency.

In the US before WWII business education was primarily vocational; after it was transformed into a pseudo science that supported the rising managerialist caste (Khurana, 2007; Locke, 1989 1996, Locke and Spender, 2011). The most obvious example of this change is the postwar explosion in MBAs, non-specialist generalist management degrees, meant for students in elite business schools being fast-tracked in their careers into the management caste. Concurrently, after the war the prominent philanthropic foundations (Carnegie and Ford), in cooperation with business school deans in elite management education institutions seriously upgraded the scientific content of management studies. In this reform neoclassical economists and econometricians, while reforming at the same time their own studies, played a significant role, which means that the financial and reporting systems that Johnson and Bröms blame for the poor performance of US automobile firms and the financial models that brought on the GFC of 2008 were designed by them. Under their tutelage, moreover, the business schools did not take up the challenge of the Quality Revolution in US manufacturing, but shifted their research interests to finance economics and increasingly streamed their students into the investor sector of US capitalism (Locke, 1996, 228, Locke and Spender, 158-168).

This should not surprise people because there was nothing Clausewitzian about US business school reform. It was not carried through by enlightened civil servants in the public interest but by the private sector that pushed business education vigorously as the names of the rich businessmen, which adorn these institutions and the names on the endowed chairs of the professors within them demonstrate. These business schools ideologically and practically do not serve broad community interests but the particular interests of free enterprise and the management caste. As the prescient Thorsten Veblen in 1918 foresaw, in the infancy of business (commercial) schools, they came to incorporate the predatory instincts of managerialist businessmen (Kemp, 2011).

Although Americans believe in convergence (which has occurred partially on their system in the UK, Belgium, Holland, Scandinavia, Spain, and France), in Germany and Japan neither managerialism nor the managerialist educational model have prospered. Germans and Japanese think that management is not a generic subject; it is specific to business type and place. Consequently MBA educational programs have not flourished in either country. Since firms serve the specific needs of the customer, they prefer to recruit specialists (in marketing, finance, cost accountants, etc.) in Germany and graduates in arts and sciences from good universities in Japan and train them in-house or in special courses organized by nonacademic associations, like the Japanese Union of Scientists and Engineers (JUSE), the German Engineering Association (VDI) or in other employer sanctioned training groups. Besides, in Germany, where employees elected representatives sit on supervisory boards and works councils that participate in firm governance, management is more diffuse. There is much less of a social-ideological or legally defined specific management caste.

The third point that these studies about managerialism emphasize is the relationship between leadership and the rank and file in organizations. This relationship was very important in Clausewitz's appraisal of the efficiency of organizations, but something that neoclassical economists, because of their method or just plain indifference, mainly ignore. For Clausewitz high employee dependent system of management succeeded; for managerialists, because of their appreciation of the knowledge and intelligent of their elite, systems with low employee involvement in management, they did not. Most believed that the formal budgeting programs and reporting system the elite learned in business schools was the key to success. So they installed them. The evidence shows that the managerialists are mostly wrong. Germans not Americans make better cars, and more money, too. In German factories where there are broader spans of control and fewer managers than in American the German foreman and skilled workers plays key roles in shop floor and work process decision-making. Lawrence observed that in the factories he visited views about

> "Who should do what and how is remarkably free from stereotyping. The sort of antithesis, which is often felt to exist between theory and practice, thought and action, specialist knowledge and generalist judgments, commercial and technical aptitude, even line and staff do not seem to bother the Germans. They do not show much zeal for putting people in boxes. [They] do not seem to see any incompatibility between intellectual ability and educational attainment on the one hand, and working in industry, on the other…. They do not seem to fear that clever people will be bad at action." (Lawrence, 1980, 111).

In other words, the educational and the high employee-dependent systems of German management do not drive a wedge between management and non-management employees typical under managerialism, which milks the system to its advantage, but alienates the rank and file.

Comparative studies of the Japanese and American firm governance systems arrive at similar conclusions (Fruin, 1992, Liker, Fruin, and Adler, 1999, Johnson and Bröms, 2000, Rother, 2011). Proofs of efficiency are not to be found in the rigor of orthodox economists' "scientific" analysis of a firm's short-term profitability, but in analysis of a firm's sustainability -- a Clausewitzian yardstick for measuring efficiency, since it looks at the subject from the viewpoint of community not immediate monetary reward paid out to the managerialist caste or to the slash and burn predatory investor capitalists who often profit at the expense of the firm's community to the point of its bitter dissolution (Locke and Spender, 133-156).

Conclusion

When the wealth and public welfare of the state replace the wealth and welfare of the individual as a principal focus in economic reasoning, new analytical vistas open up. Just as the Prussian Army's concern about the physical and mental health of recruits from the new working class districts of the nineteenth century occasioned sustained study into the Kingdom's economic as well as its military strength, Edward Fullbrook's statistical presentations today about the comparative performance of nations in matters of income, education, health services, and other factors of well-being are not just interesting in their own right but because they provoke further inquiry into the institutional and social factors that create them. A Clauswitzian concern about how social conditions (income and debt levels, private and governmental, educational attainment, etc.) affect markets and how orthodox economics neglect the subject shows that there is a basic methodological incompatibility between the traditional neoclassical economic focus on the firm or individual economic agent (which is then aggregated into macro) and a preoccupation with the welfare of nation states.

However, the dark side of this analysis for today's economists is the nation state itself. If during a century of relative peace (1815-1914), national rivalries spurred unprecedented technological and economic expansion worldwide, total war made them a bad word in the twentieth century. The necessity is for a move beyond state rivalry to a more coordinated non zero-sum approach in the pursuit of state interests, monitored by global public organizations. This limits the usefulness of geo-political power calculations, but the full panoply of Clausewitzian analytical methods in economics can be adapted to this international work just as it has been used to clarify economic conditions within the nation state. The need to act is urgent for two reasons. First, the shortcomings of neoclassical economics as a science, whose assumptions and procedural methods show contempt for the welfare of community, prevents it from disciplining the appetites of the rich and powerful that Clausewitzian analysis exposes. Second, because orthodox economists serve regimes of managerialism in powerful states and are entangled as economic experts in international organizations like the WTO, the World Bank, the IMF, and in the work of multinational corporations, their influence and the influence of the organizations they dominate must be curbed if economics as a profession is to do anything publically useful.

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