

Catallaxy and the City of Water

by Allen Mendenhall



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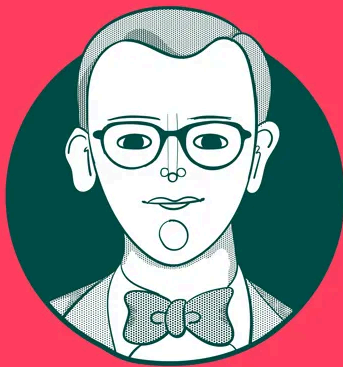


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The bicycle racks of Ogaki told a story that no economist, however learned in the abstractions of market theory, could have written with quite such elegant precision. There stood—or rather, leaned—dozens of unlocked bicycles, their wire baskets

casually cradling PlayStation boxes worth several hundred dollars, left unattended in the autumn afternoon like so many sleeping cats on a sunlit windowsill.

It was 2006, and I, aged 22, lived in this city of water and poetry, this last station on Bashō's [*Oku no Hosomichi*](#), carrying with me the casual suspicion of property that Americans wear like a second skin.

Nobody stole the bikes.

Ogaki, nestled in the Gifu Prefecture where the Ibi and Nagara Rivers converge in a lacework of channels and springs, had been strategically vital during the Tokugawa shogunate precisely because water is both highway and moat. In 1600, the castle town served as a western stronghold for the Toyotomi forces before the [*Battle of Sekigahara*](#), that great hinge upon which Japanese history swung toward two and a half centuries of enforced peace and self-imposed isolation.

The *sakoku* policy that followed, sealing Japan from foreign commerce and ideas from 1639 until [*Commodore Perry's*](#) black ships arrived in 1853, represented perhaps the most extensive experiment in autarky the world has known. And it nearly broke Japan's economic spine.

But the water kept flowing through Ogaki, as it always had, and the city learned what Friedrich Hayek would later articulate with such force: that prosperity flows like

water, seeking its own level, finding paths around obstacles, and creating value through millions of dispersed decisions that no central authority could replicate.

The springs that gave Ogaki its sobriquet as the City of Water carried not just irrigation for rice but the possibility of trust, the knowledge that one's neighbor depended on the same aquifer, the same commons, and that defection would poison the well for everyone.

The [sakoku period](#) demonstrated with brutal clarity what happens when a culture rich in social capital—that intricate web of trust, reciprocity, and moral obligation that makes commerce possible—deliberately cuts itself off from the disciplining and enriching forces of international exchange. Japan possessed, even then, the foundations of market prosperity: a culture of thrift, delayed gratification, respect for contract, and shame-based enforcement of social norms.

Yet these virtues, however necessary, proved insufficient without the competitive discovery process that Hayek identified as the market's irreplaceable epistemological function.

Dutch traders, confined to the tiny island of Dejima in Nagasaki Harbor, served as the narrowest of windows to the world: a pinhole through which Western learning ([rangaku](#)) trickled with agonizing slowness. Japan's artisans and merchants, possessed of extraordinary skill and social trust, found their productivity constrained by

information poverty rather than moral failings. They could not know what they did not know.

The Tokugawa peace, bought at the price of economic stagnation, proved that culture alone, however refined, cannot substitute for the catalytic power of competitive markets to transmit knowledge through the price system.

When Perry's arrival shattered the isolation in 1853, Japan faced the grim arithmetic that confronts all closed systems: adapt or perish. The [Meiji Restoration](#) of 1868 represented not only a political revolution but also a moral reckoning. It was a collective decision that preserving Japanese civilization required embracing the very foreign commerce and ideas that the shogunate had forbidden.

The unlocked bicycles of Ogaki, those PlayStation boxes resting in wicker baskets like offerings at a shrine, represented the culmination of this synthesis: Japanese social capital meeting market opportunity. For what is trust, really, but the reduction of transaction costs to something approaching zero?



When I need not fear that my bicycle will be stolen, I need not purchase a lock, need not spend time securing it, need not maintain the heightened vigilance that urban Americans wear like armor. Such saved time and anxiety represent real wealth.

The Japanese concepts of [wa](#) (harmony) and [giri](#) (duty) created an understanding that today's defection brings tomorrow's ostracism. In a society of high trust, the invisible hand works with extraordinary efficiency because the visible hands of neighbors are already cooperating.

Japan's cultural virtues have enabled extraordinary economic achievement precisely when married to market openness and have been stifled when divorced from it. The post-war Japanese economic miracle—from the rubble of 1945 to the bubble of 1989—occurred during Japan's most intensive period of engagement with global markets.

Yes, this engagement was imperfect, hedged with protections and industrial policy that Hayek would have deplored. Yet compared to the *sakoku* isolation or even the militarized autarky of the 1930s, post-war Japan represented relative openness, and the results spoke with statistical thunder.

Hayek understood that economic order emerges from the bottom up, through what he called *catallaxy*: the spontaneous coordination of plans through the price system. But he also recognized that market civilization depends upon moral traditions that cannot themselves be rationally designed. Japan's historical oscillation between closure and openness demonstrates this truth: the same cultural substrate produced stagnation under *sakoku* and dynamism under Meiji modernization and post-war reconstruction.

The difference was not the Japanese character, which remained remarkably consistent, but the institutional and economic context in which that character operated.

Free markets are efficient *and* morally serious operations that reward prudence, encourage innovation, and punish waste. The Japan I encountered in Ogaki embodied this moral seriousness: a society where stealing was illegal *and* shameful, where the short-term gain of bicycle theft was overwhelmed by the long-term cost of communal

dishonor. Yet this moral culture, however admirable, reached its full flourishing only when combined with the dynamism of market competition and international trade.

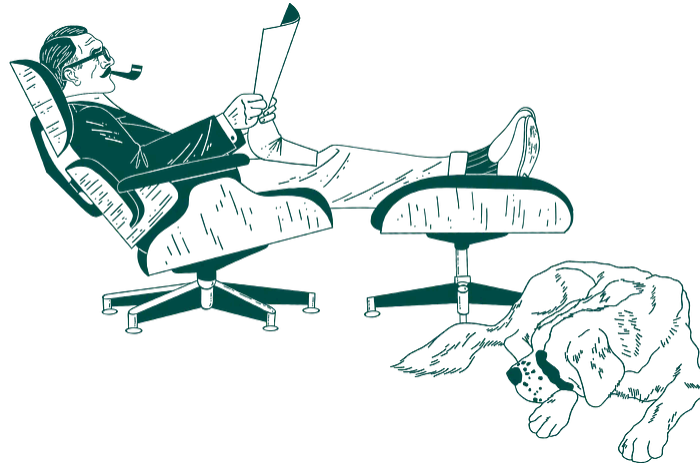
The tragedy of contemporary Japan—aging, indebted, struggling with decades of stagnation—suggests that the synthesis remains incomplete. The cultural foundations remain strong; one still does not need to lock one's bicycle in Ogaki, or so I'm told (I haven't been back in almost 20 years). But the economic dynamism has faltered, strangled by debt, demographics, and a retreat from the bold openness that characterized the Meiji and early post-war periods.

The Bank of Japan's endless monetary expansion, the government's perpetual stimulus programs, the resistance to creative destruction—these represent, in different forms, a new kind of closure, a turning inward that Hayek would have recognized as fatal to sustained prosperity.

Japan's historical greatness has flowered precisely when it has balanced its deep cultural virtues with openness to foreign commerce and ideas. When it has closed itself off—whether through *sakoku* or contemporary drift—those same virtues, however beautiful, have proven insufficient to sustain rising prosperity.

Indeed, nobody stole the bikes. But neither did anyone need to. In a truly free and open market society, built upon the moral foundations that Japanese culture so richly provides, theft becomes both immoral and unnecessary. That's the promise of the

synthesis: culture and commerce, morality and markets, tradition and dynamism, flowing together.



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