

Capitalism: A Complete and Integrated Understanding of the Nature and Value of Human Economic Life. By George Reisman. Ottawa, Ill.: Jameson Books, 1996. Pp. i, 1046. \$95.00. ISBN 0-915463-73-3

George Reisman was a student of both Ludwig von Mises and Ayn Rand. Yet, Reisman's *Capitalism* discusses few typically Austrian or Objectivist themes. Amazingly, in a more than 1,000-page book, ostensibly influenced by both *Human Action* and *Atlas Shrugged*, there is no index entry for entrepreneurship. Nor will one find entries for the market process, subjective value, or evolution. Austrian business-cycle theory and welfare economics are unexpectedly under-represented. This list of lacuna is brought forward not as criticism, but to emphasize that, particularly in its most original aspects, *Capitalism* stands somewhat apart from any school or living tradition. Mises and Rand have influenced *Capitalism*, but surprisingly, Reisman's greatest influences are Adam Smith, David Ricardo, and John Stuart Mill.

The Division of Labor

Reisman begins *Capitalism* with a classical theme, the importance of the division of labor. In a wonderful section, he mixes standard Smithian themes with ideas from Mises, Hayek, and Rand to achieve important insights into a division of labor society:

What a division-of-labor society represents is *the organization of the total sum of human brain power in a way that enables it to store and use vastly more knowledge than would otherwise be possible...* In those areas, where the overwhelming majority of people live as virtually self-sufficient farmers, each family knows essentially what all the others know about production.... After

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interviewing the first such family in each area, very little additional information would be gained from interviewing the hundreds of millions of other such families. What this means, in essence, is that the sum total of the knowledge used in production in a non-division-of-labor society is limited to what the brain of just one or two individuals can hold.... such a situation is a case of wasteful duplication. It is the wasteful duplication of the mental contents of the human brain—the wasteful use of man’s ability to store and use knowledge. In this respect and in this sense, a division-of-labor society is indispensable to the efficient use of the human mind in production. (p. 124, italics in original)

Continuing on in this vein, Reisman notes that specialization of knowledge in a division-of-labor society increases the total amount of knowledge which is available to society. Perhaps more importantly, a division-of-labor society lets geniuses specialize in the creation of ever more knowledge. The division of labor lets us exploit increasing returns to IQ.

Having established the vital importance of the division of labor for a prosperous society, Reisman turns to showing how the division of labor depends on capitalism. A division-of-labor society requires massive amounts of exchange, and thus requires prices and a unit of account so that economic calculation can occur. Crucially, it is “The consideration of prices which integrates and harmonizes the plans of each individual with the plans of all other individuals and produces a fully and rationally planned economic system under capitalism” (p.137). With an understanding of the importance of prices as coordination devices, Reisman turns in Chapters 6–8 to the formation and operation of free-market prices and the disaster of price controls.

Chapters 6–8 of *Capitalism* are updated versions of Reisman’s previous book, *The Government Against the Economy*. It was praised by both F.A. Hayek and Henry Hazlitt as an introduction to the principles of economics. The value of the book as an original contribution to the socialist calculation debate has, however, been under-appreciated.

Reisman begins his analysis of socialism by analyzing the effects of a single price control in a free-market economy, showing how a price which is controlled below the market price creates a shortage. But Reisman goes far beyond the typical presentation of price controls found in modern microeconomics texts. He demonstrates, for example, how price controls create chaos in the geographic distribution of goods. In a free market, more urgent demanders can outbid less urgent demanders for access to, say, the supply of oil. Thus, a severe winter storm on the East Coast causes individuals on the East Coast to bid up the price of oil in the East, giving entrepreneurs incentives to ship oil to the East from the West where it is demanded less urgently. If the price of oil is controlled, entrepreneurs no longer have an incentive to equilibrate markets. While some individuals in the East freeze for lack of oil, other individuals in the West find they have more than enough oil for even relatively minor uses. Similarly, price controls cause chaos in the functional distribution of factors of production. One would expect that during an oil shortage, the production of oil would be utmost priority. Yet when oil was controlled in the 1970s, oil rigs off the coast of California could not get enough (refined) oil to operate. In a free market, the owners of the oil rigs would have attracted oil by bidding up the price. Instead, because of the price controls, the owners of the rigs were forced to petition the authorities for an increase in oil rations. A single slipup by a bureaucrat can cause absurd misallocation of resources.

Building on his analysis of a single control, Reisman demonstrates how the negative effects of multiple controls feed into one another and multiply the chaos. As more and more controls are added, we finally reach a situation of universal price controls which, in all essentials, is equivalent to socialism. Under a system of universal price controls, shortages exist for almost all goods, and goods are allocated in an almost completely irrational manner. Reisman's procedure, extrapolation from a single price control to a system of universal price controls, makes brilliantly clear Mises's argument about the impossibility of rational calculation under socialism. It has become

common to explain Mises's argument as an apodictic conclusion from *a priori*-type reasoning. This has led to confusion and endless debate on the status of the term "impossible" in Mises's argument. Rational calculation is impossible under socialism, not in the sense that it is impossible for two parallel lines to ever meet, but in the sense that it is impossible for a man to run a 30 second mile unaided. If 40,000 U.S. bureaucrats armed with the fastest computers and advised by the smartest economists could not rationally allocate a single good, oil, then it is certainly impossible that any group of bureaucrats could rationally allocate hundreds of thousands of goods across space, time, and function. After reading Reisman's analysis in the original, I felt for the first time that I truly understood Mises's argument. Today, I use Reisman's procedure to explain the impossibility of rational calculation under socialism to my principles students.

Price controls also

break the harmonious union of the self-interest of buyer and seller that prevails in a free market and replace it with an altruistic relationship between the two. In this relationship the customer is reduced to impotent pleading for the customary service and customary quality that the seller no longer has any economic motive to supply. Indeed, all of the seller's motives, both economic and non-economic, now work in the direction of reducing the quality of his product and the service associated with it. (p. 239)

Thus, price controls cause a reduction of quality, consumer impotence, and buyer and seller hatred. Building on this insight and others Reisman explains how universal price controls must inevitably lead to slavery and totalitarianism. To Mises's impossibility of rational calculation, Reisman adds the impossibility of benevolent government under socialism.¹

¹Reisman's analysis of socialism belongs to the field of what most economists would call political economy or public choice. Thus, it is rather odd that Reisman insists that economics is the science of wealth, and that Mises is confused when he calls economics a branch of a larger field which studies human action (see, p. 42

Some Problems

One annoying problem with *Capitalism* is that almost everything Reisman says about neoclassical economics is wrong. One particularly painful example occurs at the end of chapter 5, where Reisman argues that neoclassical economics has a circular concept of demand which cannot explain prices. Neoclassical economics, he writes,

explains each individual price on the basis of demand and supply. But the demand curve in each case *presupposes* all other prices in the economic system... Yet if the formation of those other prices is to be explained on the basis of demand and supply curves, then the price of the good in question, which is supposedly first to be explained by demand and supply curves, must already be presupposed. (p. 169 italics in original)

This is the sort of error which is easily corrected by a simple mathematical analysis, but evidently causes great confusion in purely verbal reasoning. Assume that the demand for A depends on the price of B, and the demand for B depends on the price of A, as, for example, in the following equations.

$$Q_d^a = 10 - P_a - \frac{P_b}{2}$$

$$Q_d^b = 17 - 3P_b - \frac{P_a}{6}$$

An equilibrium occurs if supply equals demand in both markets. Assume that the supply of A is fixed at 5 and the supply of B is fixed at 7, then equilibrium occurs when:

$$10 - P_a - \frac{P_b}{2} = 5$$

and

and chap. 2, n. 12). The post-1950 rise and contributions of public choice, social choice, law and economics, and Chicago-school sociology make it eminently clear that Mises's understanding of economic method is correct.

$$17 - 3p_b - \frac{p_a}{6} = 7$$

Contra Reisman, it is a simple matter to solve these equations to find

$$p_a = \frac{24}{7} \quad \text{and} \quad p_b = \frac{22}{7}$$

Mathematically, prices in the two markets are determined “simultaneously.” Economically, they are determined by the market process, a dynamic process of shortages, surpluses, profits, losses, and entrepreneurial actions which push prices towards their equilibrium values (Kirzner 1973). Reisman seems to suggest that the price of one good could somehow be determined independently of all other goods. But this is manifestly false; there is no alternative to “simultaneous” determination via the market process.

A related annoyance is Reisman’s use of the so-called classical theory of price determination. According to Reisman, the classicals conceived of demand “as an amount of expenditure of money, such as \$1 billion, while supply is to be understood as an amount of a good or service offered for sale” (p. 152). To illustrate, Reisman presents the following equation:

$$P = \frac{D}{S}$$

Where D is understood as an expenditure of money and S a quantity of goods.

Whether classical or not, this “theory” of price determination is untenable. How can consumers decide how much to spend on a good without first knowing the price? Are we to believe that consumers choose to spend, say, \$1 billion on Coca-Cola without first knowing the price of Coca-Cola? If, for some unspecified reason, the supply of Coca-Cola falls, will consumers continue to spend just as much on Coca-Cola as previously?² And how do suppliers decide how much to

²This type of behavior can be rational, but only for a limited class of utility functions.

supply without first knowing the price?³ The theory of demand and supply explains the market price, the quantity demanded, and the quantity supplied. Reisman's so-called classical theory explains nothing.⁴

Most of what Reisman says about neoclassical economics can safely be ignored without affecting the value of *Capitalism*. Reisman's use of the classical theory of price is also not a big problem, at least not to anyone who knows to ignore the theory whenever it appears. But the theory does appear sporadically throughout the book, especially in the sections on the quantity theory of money and wage formation. Reisman accepts the classical doctrine of the wage fund which is simply the above equation applied to the price of labor. (Take P as the price of labor, D as the demand for labor considered as a fixed monetary expenditure like \$1 billion, and S as the fixed quantity of labor supplied.) This theory makes no more sense applied to wages than to any other price.⁵ Fortunately, Reisman doesn't take the theory too seriously and manages to argue to the correct conclusion that the average wage is determined by the average productivity of labor.⁶ Unfortunately, he argues against the marginal

³One could argue that S is fixed in the very-short run but then the classical theory is, at best, a theory of very-short-run price determination—not a particularly useful theory.

⁴Of course, in equilibrium, Reisman's equation is correct. As a matter of logic when $Q_d = Q_s$ then $p = p \times Q_d/Q_s$, but the equation tells us nothing about price determination.

⁵To Reisman's credit he quotes at length Mill's famous rejection of the wages-fund doctrine (pp. 664–65). After reading Reisman and re-reading Mill, I continue to side with Mill.

⁶Reisman is incorrect to think that this conclusion is at odds with the marginal productivity theory. Let total output be a function of capital and labor, written $Y = f(K, L)$. By Euler's theorem (see any math economics text) and constant returns to scale, $Y = F_K K + F_L L$, where F_K, F_L are the marginal productivity of capital and labor respectively. Marginal productivity theory says $w = F_L$ and $r = F_K$ where w is the wage rate and r the rental rate on capital (and the output price has been normalized to 1). Substituting we have $Y = rK + wL$ and rearranging

$$w = \frac{Y}{L} - r \frac{K}{L}$$

productivity theory of wages which is accepted by both neoclassicals and Austrians (see, for example, Rothbard [1962]).⁷

Reisman misrepresents the marginal-productivity theory of factor pricing and also the neoclassical theory of price, which in all essentials is the same as the Austrian theory (i.e., the irrelevance of "cost"), because he does not appreciate the difference between partial- and general-equilibrium reasoning. In both cases, Reisman's errors are errors of interpretation. Reisman's own theory of price, for example, is in essence the neoclassical and Austrian theory.

According to Reisman, the marginal-productivity theory of factor pricing implies that the price of any factor is determined by the marginal value product of that factor.

Thus, the marginal-productivity theory implies that the price of automobile parts, for example, is determined on the basis of the portion of an automobile's utility that is lost if the part in question is not present.... [But] if one asks how much of a car's utility or value depends on its having a steering wheel, any one of its four wheels, or accelerator pedal, fuel pump, carburetor, and so on, the answer over and over again, is the whole value, or at least the far greater part of the value, of the automobile.... [Therefore] if the value of the parts is to be determined

which says that average wages are equal to the productivity of labor minus the rental rate times the capital-to-labor ratio. Rearranging, we have

$$w = \frac{1}{L} (Y - rK) = \frac{D_c}{L},$$

where the last equality says that the average wage equals the demand for consumer goods (taken *à la* Reisman as an expenditure of money) divided by the supply of labor. The last equality follows by assuming all wage income is consumed, and is similar to Reisman's equation 6 (p. 621). The difference between Reisman's analysis and the one given here is that the above analysis is (a) founded on defensible economic reasoning and (b) far richer in economic content. In addition to being a theory of production, it can easily be extended into a theory of growth and growth accounting, for example.

⁷Oddly, Reisman accepts that factor prices are determined by marginal products (p. 209), but then rejects the marginal productivity theory (p. 666).

by the loss of utility of the product that follows from the absence of the part, the sum of the values of the parts must far exceed the value of the product. (p. 667)

Reisman's error is to believe that marginal-productivity theory applies to each industry and to each firm individually, when in actuality it applies to the economic system as a whole. Thus, the value of a steering wheel (or, more accurately, the plastic and leather which make up a steering wheel) is determined by the utility of the *least* valuable product or service one would have to give up if the requisite plastic and leather were absent. The least value, i.e., the marginal value, of the plastic and leather is not in its use as a steering wheel but in some other use elsewhere in the economy. Suppose an automobile manufacturer needed to purchase an additional steering wheel. To do so would have to draw plastic and leather away from other areas of the economy. Assuming competitive markets, the price the automobile manufacturer would have to pay would just equal the value of the leather and plastic in alternative uses. Leather and plastic have value in alternative uses because they are productive in alternative uses (they produce revenue). The value of the steering wheel is thus equal to its (economy-wide) marginal revenue product (also called the marginal value product).

When neoclassical economists write down and solve a general equilibrium model of the economy, they are representing the above analysis mathematically. Rothbard (1962, pp. 406–9, and *passim*) gives an equivalent verbal explanation. Rothbard writes, for example, that “The price of a unit of any factor will, as we have seen, be established in the market as equal to its discounted marginal value product. This will be the DMVP as determined by the *general schedule including all the various uses to which it can be put*” (p. 407, italics added).⁸

⁸It is not hard to see how Reisman was misled. Most microeconomics texts discuss only how a firm chooses the quantity of each factor to employ on the

Reisman's method of explaining factor prices is to refer to their cost of production. In fact, Reisman argues that the price of any manufactured good is determined in the "first instance" by its cost of production. For many purposes, such partial equilibrium reasoning is perfectly acceptable. It is important to remember, however, that all "costs of production" are ultimately opportunity costs (which means all costs are ultimately subjective). From a general-equilibrium standpoint, the cost of an automobile is the value of the dishwasher, lawnmower, and refrigerator one could have had if one had used the resources necessary to make an automobile in their alternative employments. In a free market (absent major externalities) the money "cost" of an automobile exactly represents the value of goods foregone by the automobile's production. It was Mises's great insight that only free-market prices could accurately represent the value of goods foregone, and that without such prices, rational economic calculation is impossible.

In principle, Reisman understands the above analysis, but because he rejects marginal productivity theory and also the notion of opportunity cost, he is unable to express these insights in a succinct manner.⁹ Thus, he notes that, ultimately, all prices are determined by demand and supply, but this leaves open what determines supply. Only once does Reisman tell us that supply curves are determined in general equilibrium by competing demands (and he seems to restrict this case

basis of a given price. In this partial equilibrium presentation, it is more correct to think of the price of a factor "determining" the marginal product than the other way around. Most texts leave general-equilibrium type reasoning for advanced courses, a decision which can lead to confusion. Rothbard (1962) presents both the partial- and general-equilibrium perspectives.

⁹The phrase "cost of production determines price in the *first instance*" is misleading. Whether money costs determine prices or prices determine money costs is not a question of time but of perspective. For some questions, such as analyzing the effects of a rent control or an increase in demand, the partial-equilibrium perspective is convenient and appropriate. For other questions, particularly deep questions about the nature of prices and costs, only a general-equilibrium perspective will suffice.

to upward sloping supply curves, see p. 165). Instead of using the concept of opportunity cost, Reisman is forced to bring back the classical device of separating goods into reproducible and non-reproducible categories (manufactured goods being an example of the former and Manet paintings an example of the latter). Thus, we have not one but several theories of price depending on the category of good. Costs, in a similar manner, are said to have a "direct" influence on the price of some goods, but only an "indirect" influence on the price of other goods, and so forth. This expansion of price theories and artificial categorization of goods is unsatisfactory, especially when the neoclassical or Austrian theory is available. Simply put, all prices are determined by demand and opportunity cost or, equivalently, all prices are determined by preferences and production functions.¹⁰

At first, I found Reisman's failure to discuss the subjectivity of cost and his closely related abandonment of opportunity cost puzzling. Other choices were also puzzling. For instance, Reisman tends to work in terms of money prices instead of relative prices, and money rates of return instead of goods rates of return.¹¹ Why? Is Reisman trying to banish subjective and unobservable elements like opportunity costs from economics in favor of objective and observable elements like money costs and money rates of return? If this is the explanation for the abandonment of subjective-cost theory, expectations,

¹⁰Opportunity cost is a function of technologies or production functions. The formulation in the text assumes competitive markets but institutions can also affect prices.

¹¹At several points, for example, Reisman analyzes an issue by assuming money is held constant, and then re-analyzes the same issue by assuming the money supply is increased or decreased. These re-analyses can be tedious. Reisman's theory of profit and interest is also a monetary theory; he wishes to explain the difference between total monetary business receipts and total monetary business expenditures. Reisman rejects the time-preference theory of interest primarily because it explains a rate of return in terms of goods. I suspect, but have not shown, that most of Reisman's criticisms of the time preference theory are a result of not fully tracing through the implications of a given rate of return in the goods market to other markets in the economy.

and opportunity cost, it is unfortunate. I am in favor of developing testable theories with observable implications, but one can't make progress in this direction by ignoring the essential fact that economics *does* deal with *human action*.^{12,13} Progress comes only when we face the difficulties inherent in human action and devise, as best we can, methods for overcoming these difficulties.

Macroeconomics

Like the classicals, Reisman focuses his analysis on the long run. In his discussion of wages, for example, Reisman focuses exclusively on the average wage and on the factors accounting for the growth in wages over time. Very little time is spent discussing wages in different industries or at different times across business-cycle frequencies. To explain long-run wage growth, Reisman introduces and explains what in all essentials is the Solow (1957) model. Reisman's explanation is verbal rather than mathematical, and is well done. In Solow's (1957) model, technology enters the production function as a multiplying factor which raises the productivity of the *current* capital and labor stock, i.e., $Y = A \times F(K,L)$, where A denotes technology. Reisman's model differs from this in assuming that (a) technology is embodied in capital, and (b) that as a result, returns to capital are (can be) constant. Technology does not raise the productivity of some homogeneous lump of stuff called K . New technology is inseparable from new forms of capital. Growth is the process of substituting steel for iron, titanium for steel and so on. Reisman's discussion in this section is enlightening and well worth reading.¹⁴ After a long period of quiescence, the theory of growth

¹²Recall that Reisman rejects Mises's description of economics as the science of human action, preferring a definition in terms of the production and distribution of wealth (see note 1 above).

¹³It is worth emphasizing that there is no contradiction between objective value theory in ethics and subjective value in economics. The two theories deal with entirely different questions and have no bearing whatsoever on each other. See, for example, Rothbard (1962, pp. 63–64), and Tabarrok (1990).

¹⁴As usual, with the exception of Samuelson and Nordhaus's principles

has reclaimed the center stage of the macroeconomics literature, and Reisman's analysis reads as quite modern in flavor. Other highlights in the macroeconomics section of *Capitalism* include a discussion of Say's law which is very good, if somewhat long and tedious.

Most of *Capitalism's* macroeconomics section is given over to a lengthy discussion of Reisman's theory of long-run profit or interest, which is built upon a re-conceptualization of the national income accounts. Reisman's discussion of the national income accounts is very similar to that of Skousen (1990), who bases his theory on Rothbard (1962), Hayek (1935), and others in the Austrian tradition. For example, Reisman writes that

the contemporary concept of GNP is not only, in actuality, a highly netted-product concept, but it goes so far as to seek to obliterate both the production and the productive consumption of the so-called intermediate products. (p. 678)

While Skousen (1990, p. 188) writes,

the gross private investment figure in GNP is not really a gross number after all. It is actually a net measure and purposely excludes "intermediate goods" that are purchased to be used as inputs in producing other goods and services.

Rothbard (1962, p. 343) agrees, noting,

Current "gross" figures, however, are the height of illogicality, because they are not gross at all, but only partly gross. They only include gross purchases by capitalists of durable capital goods.... [but] it is inadmissible

textbook, which Reisman cites incessantly and negatively, he appears unaware of neoclassical economics. Solow (1960) published a model with technology embodied in capital a scant three years after his classic paper on growth. Hulten (1992) cites the modern literature and assesses the evidence for and against the embodiment hypothesis. Modern theories of growth are surveyed in Barro and Sala-i-Martin (1995).

to leave the consumption of nondurable capital goods out of the investment picture.

Reisman, Rothbard, and Skousen also agree that it is primarily gross savings by capitalists which maintains the capital structure. To prove this point, Reisman (p. 686) asks us to assume

that businessmen and capitalists, who sell their goods and services, use the full amount of their sales receipts to make purchases for their own consumption.... In such a case, there would simply be no source of a demand either for capital goods or for labor by business firms.... What would happen under such conditions is that the division of labor would revert to the most primitive level.

Rothbard's (1962, p. 341) discussion is similar. He asks us to suppose

that the capitalists decide to break up the smooth flow of the ERE by spending all of the 100 ounces for their own consumption rather than investing the 95 ounces. It is evident that the entire market-born production structure would be destroyed....[The] economy would revert to barbarism, with the employment of only the shortest and most primitive production processes.

Despite the close connection between Reisman's theory of aggregate accounting and that put forth by Rothbard and greatly elaborated and extended by Skousen (1990), there is only a footnote reference to Skousen and no references at all to Rothbard.¹⁵ Instead, Reisman cites as his inspiration Adam Smith and John Stuart Mill. The problem is not primarily a failure to reference predecessors. The problem is that Reisman's discussion mostly recounts earlier work in the Austrian tradition without building much upon that work.¹⁶

¹⁵Rothbard (1962) is referenced elsewhere in *Capitalism*.

¹⁶To be sure, to the extent that *Capitalism* is understood as a textbook, covering old ground is fully appropriate.

Indeed, in many respects, Skousen's (1990) analysis is more rewarding. Skousen, for example, provides estimates of U.S. national income using the correct concepts of gross investment, gross savings, and so forth. Skousen's review of the literature on aggregate income accounting is comprehensive and useful. He points out, for example, how tools like Leontief's input and output tables can be used to develop better measures of the national accounts. Unfortunately, few Austrians have an empirical bent, and Skousen's (1990) estimates are only cursory. Real progress will occur on these issues only when Austrians (a) actually use their theory to improve the national income accounts, and (b) show how the improved accounts help us understand growth, business cycles, and other issues in macroeconomics.

Policy

Capitalism is much closer in style to Mises's *Human Action* or *Socialism* than it is to Rothbard's *Man, Economy, and State*, which is to say that the text is punctuated with applications, historical observations, and analyses of policy, rather than being a single, sustained praxeological argument. Reisman's analyses of policy are skillful both in terms of economics and rhetoric. As an example of rhetoric:

The environmental movement maintains that science and technology cannot be relied upon to build a safe atomic power plant, to produce a pesticide that is safe, or even to bake a loaf of bread that is safe, if that loaf of bread contains chemical preservatives. When it comes to global warming, however, it turns out that there is one area in which the environmental movement displays the most breathtaking confidence in the reliability of science and technology, an area in which, until recently, no one—not even the staunchest supporters of science and technology—had ever thought to assert very much confidence at all. The one thing, the environmental movement holds, that science and technology can do so well that we are entitled to have

unlimited confidence in them is *forecast the weather*—for the next one hundred years! (p. 88)

It might seem odd that a book on economics should devote considerable space to an attack on environmentalism, but Reisman argues quite convincingly that environmentalism is to our time what socialism was to Mises's.

Reisman's analysis of socialized medicine is also worth quoting:

In what is perhaps the supreme irony of the system, in efforts to control costs, the government ends up actually *opposing advances in medical technology*. It comes to regard such procedures as the implantation of artificial hearts as a major threat to its budget... In addition, in further cost-containment procedures, the government begins to restrict or prohibit whole categories of procedures, from cosmetic surgery to bypass operations.... Thus, people who under private medicine could have obtained such procedures by spending their own money for them are denied the ability to obtain them. They are denied this ability because taxes to pay for the medical care of others, and simply to squander, drain them of the necessary financial resources.... Thus it should not be surprising that under socialized medicine in Great Britain, for example, bypass operations are made difficult to obtain for people over fifty-five years of age, and an elderly person who breaks a hip is likely to die before being able to obtain corrective surgery. (p. 149)

Other aspects of *Capitalism* I will only mention briefly include a defense of the gold standard, a critique of anti-trust laws, and an attack on Keynesian economics. The latter is well done although somewhat dated. Regretfully, *Capitalism* has nothing to say about issues in information economics like moral hazard, adverse selection, signaling, and so forth. In the right hands these ideas constitute a strong critique of the market (although not necessarily a defense of the state). Joseph Stiglitz's (1994) book *Whither Socialism?* is today

the cutting edge of market critiques, at least among economists. A capitalist manifesto for the twenty-first century will have to take up new Keynesian concerns.

Conclusion

In conclusion, *Capitalism's* treatment of the division of labor, price controls, economic calculation, and Say's law are likely to remain definitive for a long time. The sheer size of *Capitalism* makes it a superb reference work; there is hardly a critique of free-market economics which is not here analyzed and demolished. I would enjoy using much of *Capitalism* as a text in an advanced undergraduate economics class. Reisman's resurrection of the classical approach to macroeconomics, however, is fundamentally misguided. Austrian economics provides valuable insights into entrepreneurship, the market process, and welfare economics (insights which, for the most part, Reisman does not avail himself of). Austrian capital theory and national income accounting could perhaps form the foundation of a revised Austrian and neoclassical macroeconomics. But on other issues, like growth theory, financial economics, and pricing in general equilibrium, Austrian economics has no well-developed body of thought. On these issues, Austrians are well advised to adopt the neoclassical approach rather than to attempt a resurrection of classical thinking.

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Alexander Tabarrok
Ball State University