

Austrian Economics Newsletter

Fall 1988 ■ The Ludwig von Mises Institute

"Ludwig von Mises"

by F. A. Hayek
Lisbon, May 1977

Foreward to the German edition of Ludwig von Mises's *Notes and Recollections*

Although without a doubt one of the most important economists of his generation, in a certain sense Ludwig von Mises remained an outsider in the academic world until the end of his unusually long scholarly career—certainly within the German speaking world—but also during the last third of his life, when in the United States he raised a larger circle of students. Before this his strong immediate influence had essentially been restricted to his Viennese *Privatseminar*, whose members for the most part only became attracted to him once they had completed their original studies.

If it would not have unduly delayed the publication of these Memoirs, found among his papers, I would have welcomed the opportunity of analyzing the reasons for this curious neglect of one of the most original thinkers of our time in the field of economics and social philosophy. But in part the fragmentary autobiography he left provides in itself the answer. The reasons why he never acquired a chair at a German speaking university during the twenties or before 1933, while numerous and often indisputably highly unimportant persons did, were certainly personal. His appointment would have been beneficial for every university. Yet the instinctive feeling of the professors that he would not quite fit into their circle was not entirely wrong. Even though his subject-knowledge surpassed that of most occupants of professorial chairs, he was nonetheless never a real specialist. When in the realm of the social sciences I look for similar figures in the history of thought, I do not find them among the professors, not even in Adam Smith; instead, he must be compared to thinkers like Voltaire or Montesquieu, Tocqueville and John Stuart Mill. This is an impression that has by no means been reached only in retrospect. But when more than fifty years ago I tried to explain Mises's position in pretty much the same words to Wesley Claire Mitchell in New York I only encountered—perhaps understandably—a politely ironic skepticism.

Essential to his work is a global interpretation of social development. In contrast to the few comparable contemporaries such as Max Weber, with whom he was connected by mutual respect, in this Mises had the advantage of a genuine knowledge of economic theory.

The following Memoirs say much more about his development, position and views than I know or could tell. I can only attempt here to supplement or confirm information



Margit von Mises, Friedrich A. Hayek, and
Ludwig von Mises in 1955

regarding the ten years of his time in Vienna (1921-1931) during which I was closely associated with him. I came to him rather characteristically not as a student, but as a fresh Doctor of Law and a civil servant, subordinate to him, at one of those special institutions that had been created to execute the provisions of the peace treaty of St. Germain. The letter of recommendation by my university teacher Friedrich von Wieser, who described me as a highly promising young economist, was met by Mises with a smile and the remark that he had never seen me in his lectures. However, when he found my interest confirmed and my knowledge satisfactory, he helped me in every regard and contributed much to make my lengthier visit to the United States possible (before the time of the Rockefeller fellowship) to which I owe a great deal. But although I saw him during the first years daily in an official capacity, I had no idea that he was preparing his great book on "Socialism" which upon its publication in 1922 influenced me decisively.

Only after I returned from America in the summer of 1924 was I admitted to that circle, which had been in existence

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for some time, and through which Mises's scholarly work in Vienna mainly exerted its influence. This "Mises-Seminar," as we all called the biweekly nightly discussions in his office, is described in detail in his Memoirs. Mises though does not mention the hardly less important regular continuations of the official discussions that lasted long into the night at a Viennese coffee-house. As he correctly describes, these were not instructional meetings, but discussions presided over by an older friend whose views were by no means shared by all members. Strictly speaking, only Fritz Machlup was originally Mises's student. As regards the others, of the regular members only Richard Strigl, Gottfried Haberler, Oskar Morgenstern, Lene Lieser and Martha Stefanie Braun were specialists in economics. Ewald Schams and Leo Schoenfeld, who belonged to the same highly gifted but early deceased intermediate generation as Richard Strigl, were, to my knowledge, never regular participants in the Mises-Seminar. But sociologists like Alfred Schutz, philosophers like Felix Kaufmann and historians like Friedrich Engel-Hanosi were equally active in the discussions, which frequently dealt with the problems of the methods of the social sciences, but rarely with special problems of economic theory (except those of the subjective theory of value). Questions of economic policy, however, were discussed often, and always from the perspective of the influence of different social philosophies upon it.

Because he never occupied a regular chair in his field . . . and had to devote most of his time to other than scholarly activities . . . Mises remained an outsider in academia.

All this seemed to be the rare mental distraction of a man, who, during the day, was fully occupied with urgent political and economic problems, and who was better informed about daily politics, modern history and general ideological developments than most others. What he was working on even I who officially saw him almost daily during those years did not know, he never spoke about it. We could even less imagine when he would actually write his works. I knew only from his secretary that from time to time he had a manuscript typed from his distinctively clear handwriting. But many of his works only existed in handwriting until publication, and an important article was considered lost for a long time, until it finally resurfaced among the papers of a journal editor. No one knew anything regarding his private work methods until his marriage. He did not speak about his literary activity until he had completed a work. Though he knew that I was most willing to occasionally help him, he only asked me once to look up a quote for his work and this was after I mentioned that I wanted to consult a work on the canonists in the library. He never had, at least in Vienna, a scholarly assistant.

The problems with which he concerned himself were mostly problems which he considered the prevailing opinion false. The reader of the following book might gain the impression that he was prejudiced against the German social sciences as such. This was definitely not the case, even

though in the course of time he developed a certain understandable irritation. But he valued the great early German theoreticians like Thuenen, Hermann, Mangoldt or Gossen more highly than most of his colleagues, and knew them better. Also, among his contemporaries he valued a similarly isolated figures such as Dietzel, Pohle, Adolf Weber and Passow, as well as the sociologist Leopold von Wiese and, above all, Max Weber. With Weber a close scholarly relationship had been formed during Weber's short teaching activity in Vienna, in the spring of 1918, which could have meant a great deal if Weber had not died so soon. But in general, there can be no doubt that he had nothing but contempt for the majority of the professors who, occupying the chairs of the German universities, pretended to teach theoretical economics. Mises does not exaggerate in his description of the teachings of economics as espoused by the historical school. Just how far the level of theoretical thinking in Germany had sunk is indicated by the fact that it needed the simplifications and coarseness of the—herein certainly meritorious—Swede Gustav Cassel in order to again find an audience for theory in Germany. Notwithstanding his exquisite politeness in society and his generally great self-control (he could also occasionally explode), Mises was not the man to successfully hide his contempt.

This drove him to increased isolation among professional economists generally as well as among those Viennese circles with which he had scholarly and professional contacts. He became estranged from his cohorts and fellow students when he turned away from the advancing ideas of social policy. Twenty-five years later I could still feel the emotion and anger his seemingly sudden break had caused—when he had turned away from the dominating ideals of the academic youth of the first few years of the century—when his fellow student F. X. Weiss (the editor of the shorter writings of Boehm-Bawerk) told me about the event with unconcealed indignation, obviously in order to prevent me from a similar betrayal of "social" values and an all-too-great sympathy for an "out-lived" liberalism.

If Carl Menger had not aged relatively early and Boehm-Bawerk had not died so young, Mises probably would have found support among them. But the only survivor of the older Austrian school was my revered teacher Friedrich von Wieser, and he was more a Fabian; proud, as he believed, to have provided a scientific justification for progressive income taxation with his development of the theory of marginal utility.

Mises's return to classical liberalism was not only a reaction to a dominating trend. He completely lacked the adaptability of his brilliant seminar-fellow Josef Schumpeter, who always quickly accommodated current intellectual fashions, as well as Schumpeter's joy in "épater le bourgeois." In fact, it appeared to me as if these two most important representatives of the third generation of leading Austrian economists (one can hardly consider Schumpeter a member of the "Austrian School" in the narrower sense) despite all mutual intellectual respect, both got on each other's nerves.

In today's world Mises and his students are regarded as the representatives of the Austrian school, and justifiably so,

although he only represents one of the branches into which Menger's theories had already been divided by his students, and the close personal friendship between Eugen von Boehm-Bawerk and Friedrich von Wieser. I only admit this with some hesitation, because I expected much of the tradition of Wieser, which his successor Hans Mayer attempted to advance. But these expectations have not yet become fulfilled, even though those stimuli may perhaps still prove more fruitful than they have been so far. Today's active "Austrian School," almost exclusively in the United States, is at base a Mises-School which goes back to Boehm-Bawerk, while the man in whom Wieser had set such great hopes and who had succeeded him in his chair never really fulfilled the promises.

Because he never occupied a regular chair in his field, in the German speaking world, and had to devote most of his time to other than scholarly activities until his late fifties, Mises remained an outsider in academia. Other reasons contributed to isolating him in his position in public life and as a representative of a great social-philosophical project. A Jewish intellectual who advocated socialist ideas had his respected place in the Vienna of the first third of this century, a place that was accorded to him as a matter of course. Likewise, the Jewish banker or businessman who (bad enough!) defended capitalism had his rights. But a Jewish intellectual who justified capitalism appeared to most as some sort of monstrosity, something unnatural, which could not be categorized and with which one did not know how to deal. His undisputed subject-knowledge was impressive, and one could not avoid consulting him in critical economic situations, but rarely was his advice understood and followed. Mostly he was regarded as somewhat of an eccentric whose "old-fashioned" ideas were impracticable "today." That he himself had constructed, in long years of hard work, his own social philosophy was only known by very few and perhaps could not be understood by distant observers until 1940, when in his *Nationaloekonomie* he presented for the first time his system of ideas in its entirety. But by this time he could no longer reach readers in Germany and Austria. Apart from the small circle of young theoreticians who met at his office, and some highly gifted friends in the business world who were similarly concerned about the future and who are mentioned in the following, he only encountered genuine understanding among occasional foreign visitors like the Frankfurt banker Albert Hahn, whose work in monetary theory he smiled at, however, as a vain sin of youth.

Yet he did not always make it easy for them. The arguments by which he supported his unpopular views were not always completely conclusive, even though some reflection could have shown that he was right. But when he was convinced of his conclusions and had presented them in clear and plain language—a gift that he possessed to a high degree—he believed that this would also have to convince others and only prejudice and stubbornness prevented them from understanding. For too long he had lacked the opportunity of discussing problems with intellectual equals who shared his basic moral convictions in order to see how even small differences in one's implicit assumptions can lead to different results. This manifested itself in a certain impatience that was easily suspected of being an unwillingness to

understand, whereas an honest misunderstanding of his arguments was the case.

I must admit that I myself often initially did not think his arguments to be completely convincing and only slowly learned that he was mostly right and that, after some reflection, a justification could be found that he had not made explicit. And today, considering the kind of battle that he had had to lead, I also understand that he was driven to certain exaggerations, like that of the a priori character of economic theory, where I could not follow him.

For Mises's friends of his later years, after his marriage and the success of his American activity had softened him, the sharp outbursts in the following Memoirs, written at the time of his greatest bitterness and hopelessness, might come as a shock. But the Mises who speaks from the following pages is without question the Mises we knew from the Vienna of the twenties; of course without the tactful reservation that he invariably displayed in oral expression; but the honest and open expression of what he felt and thought. To a certain extent this may explain his neglect, even though it does not excuse it. We, who knew him better, were at times outraged, of course, that he did not get a chair, yet we were not really surprised. He had too much to criticize about the representatives of the profession into which he was seeking entrance to appear acceptable to them. And he fought against an intellectual wave which is now subsiding, not least because of his efforts, but which was much too powerful then for one individual to successfully resist.

That they had one of the great thinkers of our time in their midst, the Viennese have never understood.

F.A. Hayek is one of Mises's greatest students and the recipient of the 1974 Nobel Prize in Economic Science. This article was recently translated from German by Professor Hans-Hermann Hoppe and is published here for the first time. It will also become part of the series now being compiled by the Hoover Institution that will incorporate all of the works of F. A. Hayek. This "Introduction" was written by F. A. Hayek in May of 1977 for publication in the new German edition of Mises's *Notes and Recollections* (*Erinnerungen von Ludwig von Mises*, Gustav Fischer Verlag: Stuttgart, 1978).

Ludwig von Mises: Fountainhead of the Modern Microeconomic Revolution

by Eamonn Butler
Gower Publishing, 1988

Reviewed by Richard M. Ebeling

When Friedrich A. Hayek was sorting through the unpublished papers of Carl Menger after the death of the founder of the Austrian School in 1921, he found the following note: "There is only one sure method for the final victory of a scientific idea, namely, by letting every contrary proposition run a free and full course."

A hundred years ago economists were offered two variations on the emerging marginalist theme: the "Austrian" and the Walrasian. Both insisted that economic analysis needed to begin with the economizing acts of individual men; both emphasized that choice involved decision making at "the margin"; and both argued that only from such beginnings could a theory of market phenomena be successfully constructed.

But their conceptions of the methods most appropriate for fulfillment of this task sent each school in its own direction. Starting with Menger, the Austrians stated that the tools of analysis should be constructed to fit the nature of the subject matter under investigation. Those who took their inspiration from Walras argued that the tools that had served so well in the natural sciences should be applied to the social sciences as well.



Looking for those characteristics that distinguished human action from other types of phenomena, the Austrians focused on the intentionality of man. To order and understand the logic of human action, the analyst's starting point had to be the subjective meanings of men—meanings that gave structure, orientation and intelligibility to everything that men do in a setting of competing ends desired and limited means available.

Searching for what human activity shared in common with other types of phenomena, the Walrasians focused on the quantitative dimension of human choices. The logic of choice was cast in the mold of mathematical relationships. The crucial questions became those concerning points of maximum benefits and minimum costs; states of equilibrium between various magnitudes; and whether these states existed and were stable and unique.

The appeal of mathematical determinateness in an intellectual climate heavy with Positivism meant that the vast majority of economists took the Walrasian path throughout most of the twentieth century. Now, at the threshold of the twenty-first century, the mathematical variation of the marginalist theme has run a free and full course. The finish line has been found to be a dead end. The prize awarded has been the present crisis in economic theory and policy.

Austrian economics, after a long eclipse, has again entered the arena of legitimacy and respectability in the eyes of the economics profession. The types of questions asked and methods proposed that were long denigrated as "Austrian"

have slowly been approaching the center of attention. And, at the same time, a new generation of young Austrian economists has entered the arena as well.

A reflection of this resurgent interest in the Austrian approach has been a series of books summarizing, elaborating, and critically evaluating the contributions of various members of the Austrian School. Yet, in the fifteen-year renaissance of Austrian economics, not one comprehensive study dealing with the contributions of Ludwig von Mises has appeared. A student of Boehm-Bawerk before 1914, a leading figure of the inter war generation of the Austrian School, and the major force and inspiration for the preservation of the Austrian tradition in the decades after World War II, Ludwig von Mises and his writings have set the tone and direction for practically all work in the Austrian approach for sixty years.

This is what makes Eamonn Butler's *Ludwig von Mises: Fountainhead of the Modern Microeconomic Revolution* such a notable volume. For what Mr. Butler offers is nothing short of a comprehensive summary of practically every aspect of Mises's writings. Whether it is Mises's discussions of socialism and interventionism, his analysis of entrepreneurship and the competitive process, his theory of capital and interest, money and the business cycle, or methodology and nature of the social sciences, the author demonstrates a wide reading and mastering of all of Mises's principal works. Equally evident on almost every page is that the author has approached his subject with a sympathetic eye, wishing to make Mises both intelligible to the reader and demonstrably relevant to problems of the contemporary real world. In less than three hundred pages, Mr. Butler has constructed a volume that comes close to being a detailed encyclopedia of the contributions of Ludwig von Mises.

Unfortunately, comprehensiveness does not mean thematic. And it is in these areas—analytical integration and thematic interpretation—that Mr. Butler, as important and as useful as his book is, falls short. This is in contrast, it should be said, to his earlier work, *Hayek: His Contribution to the Political and Economic Thought of Our Time* (Universe Books, 1983). In that volume, the author clearly understood that if Hayek's contribution was to be appreciated it was necessary to take the reader on an intellectual journey that began with Hayek's broad conceptions concerning man, knowledge and social order. Mr. Butler only then, proceeded to explain and demonstrate how Hayek's views about the market process, socialist planning, monetary and cycle theory, etc., all naturally flowed as the logical implications and applications of a vision of society in which knowledge is both imperfect and divided among a multitude of men, and in which social order and change often occur as the unintended consequences of human action.

No such thematic principle is as clearly shown to run through and connect the various works of Ludwig von Mises. Obviously wishing to make the reader believe that Mises is topical, relevant, and "modern," Mr. Butler structures the book with policy issues first—socialism, interventionism, egalitarianism, welfare statism—then descends into the "theoretical"—subjective value, entrepreneurship and the market process, capital and interest and monetary theory—and finally concludes with methodology and the state of economic

science today.

The volume, therefore, often seems disjointed and the reader is left wondering exactly how Mises "fits all together." Other than being shown to be a coherent system of thought, "Misesian Economics" often appears ambiguous, contradictory and unsystematic and not Ludwig von Mises. For example, in a brief "overview" chapter right at the beginning of the volume, Mr. Butler explains that "subjectivism" is an essential ingredient in Mises's approach. Yet in chapter two, on socialism, Mr. Butler accuses Mises of not appreciating that costs are "subjective." But in a later chapter evaluating Mises's writings on subjective value, the author contends that in Mises's framework valuation and action must always be conceived from the actor's point of view and, therefore, for Mises costs are subjective.

In the chapter devoted to Mises's critique of interventionism, on the other hand, Mr. Butler creates the impression that Mises's analysis of price controls is at least ambiguous and possibly flawed. Observing that not every introduction of price controls has led to central planning, he argues that Mises's contention that price intervention leads to socialism is untenable. But it is Mr. Butler's conclusion that is flawed, because he has failed to appreciate Mises's distinction between theory and history. The role of economic theory, in Mises's framework, is to trace out all of the logical implications that follow from the system's axioms, various subsidiary postulates and alternative contextual assumptions. History is the story of past human actions made intelligible and interpretively understandable with the aid of theory.

Mises's theory of price controls traces out logical implications, not historical necessities. The heart of Mises's argument concerns the interdependency of market phenomena and the insight that isolated controls on resource or final goods prices disrupts the market tendency to bring selling prices and resource prices into a coordinated balance. The resulting shortages or surplus could only be compensated for, assuming the controls are not to be lifted, by their extensions to the markets upon which the presently controlled market is dependent. That governments do not always do so does not refute the theory. It just shows that in the historical flow of events there are other political and economic forces preventing or retarding what the logic of price controls conceptually dictates.

But, perhaps, the most flagrant failure on Mr. Butler's part to appreciate how the various strands of Mises's work necessarily fit together and are inseparable are his chapters on "Individual Values in Economics" and "The Scientific Foundation of Economics." In the earlier chapter, Mr. Butler explains that for Mises all study of human action is grounded in methodological individualism and subjectivism. That is, all economic phenomena originate in the actions of individual men and that men are guided in their actions by their purposes and their "subjective" (i.e., personal) point of view concerning the value of ends, the nature of means, and their "conceptions (in a world of uncertainty) concerning the possibilities before them."

Rather than try to apply Mises's methodological approach to understand Mises's conception of the scientific basis of economics and how his view differs from contempo-

rary viewpoints in the philosophy of science, Mr. Butler judges and evaluates Mises from the standpoint of post-Popperian philosophy of science. And by this standard he finds Mises wanting. He argues that "certain knowledge" cannot be derived from an axiomatic-deductive approach because there exists more than one system of logic with which one can interpret the relationships of the empirical world. And since the cruder forms of empiricism and positivism have long ago been removed from the philosophic arena, the issue now is how to best devise ways to test hypotheses against reality in a setting in which it is accepted that all "facts" are "theory-laden" and all evidential conclusions are only tentative.

That there are numerous ways to order "the facts" of the world, and that those ordered "facts" can be constructed into various forms of relationships is obvious. But Mises argued forcefully that social scientific inquiry was more than a game; its goal was truth. The question then was, was there any avenue through which the true relationships underlying economic phenomena could be comprehended? Mises claimed there was. All study of human action and all resulting economic relationships start, for Mises, from the insight that all "action" is ultimately *reason applied to purpose*. What



Richard Ebeling spoke on "Eugen von Boehm-Bawerk's Critique of Karl Marx," at the Mises Institute's recent conference on Marxism, in New York City in October.

gives that reason an axiomatic quality in praxeological and economic theory are the conditions under which reason is applied to purpose; i.e., a setting in which a variety of imagined ends are desired in an environment in which the perceived means are evaluated as insufficient to attain all the desired ends. Logic "dictates" an ordering of the ends in terms of importance and an application of the means available in a manner that no means be applied to an end when the cost is too high, i.e., when there is an end that the means could satisfy that is ranked higher than the one for which they were

going to be used. The conditions under which action occurs imposes a single logical form to all economic activity; therefore, insight into that form generates "certain knowledge" concerning the general structure of all conscious human conduct. Its "truthfulness" is verified by the introspective reflection that any and every individual could undertake concerning the logical principles guiding his own conscious behavior.

It is the possibility for this type of "grounding" of economic theory that makes most of contemporary philosophy of science inapplicable for judging the "scientific foundation" of the social sciences. The philosophy of science, even in its most modern forms, it needs to be remembered, is still primarily concerned with knowledge-acquisition in the natural sciences.

This also means that "prediction" must be understood in a specific manner in economics as well. What is "predictable" in an absolute sense is that all human action will conform to the logical relationships that are inherent in the general ends-means configuration. *But that is all* that can be predicted with "apodictic certainty." All other more specific predictions concerning the concretes of ends, means, actions and responses in, e.g., the area of trade and exchange is dependent upon "understanding." And understanding, in a forward-looking perspective, means interpretive insight acquired through study of and experience with "others" whose specific behavior the actor or analyst is attempting to anticipate. In both *Human Action* and *Theory and History* Mises analyzes the problem of predictive understanding under the heading of the "ideal type."

Interestingly, this is a particular aspect of Mises's writings that is almost completely ignored in Mr. Butler's book. If he had pursued this theme it would have become clear to him that the standard arguments concerning empirical corroboration or falsification as found in contemporary philosophy of science are inapplicable to economics. Because "empirical" in the realm of "understanding" refers to the "subjective meanings" of others and the analysis of the consequences of actions arising from behavior initiated on the basis of those subjective meanings. Here the "test" of applied theory in a particular context is dependent upon the persuasiveness of the historian's account. This is what Mises meant when he said that there is no empirically correct historical interpretation not open to challenge.

It is the logical structure that emerges from the analysis of action and the insight that action arises out of the subjective meanings of men that are the thematic chords that connect and integrate all of Mises's writings. It is also the reason why an appreciation of Mises must begin with an understanding of this theme if his system and all of its developments and applications are to be seen as an integrated whole. It is also why what Mr. Butler concludes his volume with is where his volume should have begun. Intentionality, purposeful action, has been the cornerstone of the Austrian School since Menger penned his famous *Grundsätze* in 1871. And it is the key to a successful analysis of the contributions of Ludwig von Mises. ■

Richard Ebeling is Ludwig von Mises professor of economics at Hillsdale College.

Update on the Menger Papers

by Mark D. Hughes

Last winter Duke University at Durham, North Carolina acquired the personal papers of Carl Menger. This was largely due to the efforts of Professor Roy Weintraub and Professor Craufurd Goodwin. According to Duke University archivist Robert Byrd, not much archival work has been done on the collection since our last report in January 1988. This is because Goodwin and Byrd have had difficulty finding an archivist who is not only fluent in German but also familiar with the Austrian School of Economics. The position has not yet been filled. Any Austrian economist who is fluent in German, has some familiarity with U.S. archival standards, and is interested in working on the Menger collection should contact Robert Byrd or Craufurd Goodwin at Duke University.

Mr. Byrd informed the AEN that a list of all the artifacts has been made but that the collection itself remains unorganized and without an index. He said the collection is in good physical condition and that it is open to scholars who wish to study it.

In celebration of its acquisition of the Menger papers, Duke University is hosting a conference on Carl Menger scheduled for April 14-16, 1989. The conference, which will be directed by Professor Bruce Caldwell of the University of North Carolina at Greensboro, was originally to coincide with the publication of the Menger Papers once they had been translated. Unfortunately, the collection will probably not be ready by then.

Fourteen papers will be presented with Axel Leijonhufvud offering the closing remarks. Other notable participants will be Roger Garrison of Auburn University, Barry Smith of the University of Manchester, Karen Vaughn of George Mason University, and Erich Streissler who will present two papers. The conference is by invitation only due to limited space.

Duke University has also recently acquired the personal papers of Austrian fellow traveler and Mises student Oscar Morgenstern. If all goes well with the Menger conference, Professor Caldwell hopes it will be the first in a series of annual conferences at Duke University on historically significant economists. A conference on Oscar Morgenstern and game theory is tentatively planned for 1990. ■

"Keynes and Keynesianism"

April 28-29, 1989

Gutman Conference Center
at Harvard Square
Cambridge, Massachusetts

For more information and details contact Pat Heckman at Auburn University, Auburn, Alabama 36849 or by telephone at (205) 826-2500.

Richard Cantillon: Entrepreneur and Economist

By Antoin E. Murphy
Clarendon Press, 1986

Reviewed by Robert F. Hebert

Ever since Jevons "rediscovered" Cantillon in 1881, there has been little doubt of the significance of his contributions to economic theory. However, the life and works of Richard Cantillon have been shrouded in mystery for over two centuries. Musing on the origin and nationality of economic science, and Cantillon's role in its development, Jevons declared: "The first systematic *Treatise on Economics* was probably written by a banker of Spanish name, born from an Irish family of the County Kerry, bred we know not where, carrying on business in Paris, but clearly murdered in Albemarle Street [London]."

Despite Jevons' "careful and laborious inquiries" on Cantillon, followed in due course by Henry Higgs' investigations into Cantillon's background, a number of inaccuracies remained in the standard accounts. Now comes Antoin Murphy (like Cantillon, a son of Ireland) who has done a superb piece of detective work on the peripatetic eighteenth century banker and economist. To the extent that it seems possible at this late date, Murphy has cleared up a number of issues surrounding the circumstances of Cantillon's birth, business career, literary works, and death. Among his most significant findings are the following:

1. Although we remain in the dark about the precise year of Cantillon's birth, we can confidently place that event between 1680 and 1690.

2. Irish by birth, Cantillon took out French citizenship in 1708.

3. Cantillon's reputation for shrewdness in financial dealings is justified, although his speculative profits in European stock markets have been exaggerated. (Cantillon made several fortunes speculating in both the Mississippi and South Sea Bubbles, but in both cases he liquidated his investment at share prices far below the market highs.)

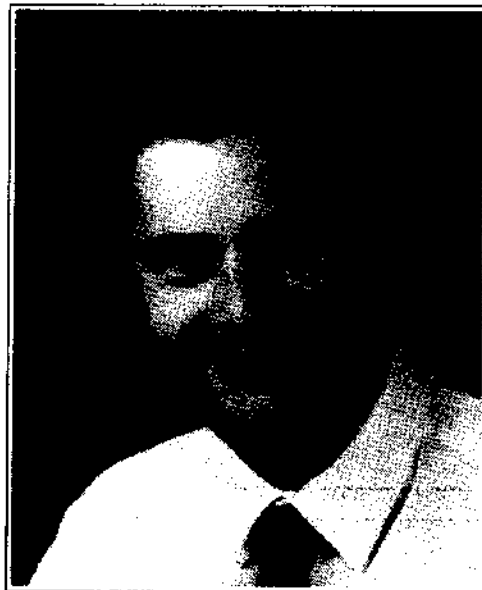
4. Cantillon's *Essai* is chiefly an attempt to explain the economic effects of John Law's monetary policies in France. (Cantillon was the first to recognize the risks to the economy of a combined system of paper money and a credit-creating banking system.)

5. There is a distinct possibility that Cantillon was not murdered in Albemarle Street, but rather faked his own death in order to avoid prolonged legal battles with his enemies in France and England.

6. Cantillon's *Essai* was not translated from English nor published in London, as commonly supposed. Rather, the impression of foreign publication was carefully concocted in order to circumvent French censorship laws. (The publisher was most likely Guillyn of Paris.)

7. Publication of the *Essai* two decades after Cantillon's supposed "death" was no random event. It was part of a concerted effort by Vincent de Gournay to bring to light substantive treatments of *le commerce* which could, in turn, serve to launch economics as a science.

Murphy presents convincing, though sometimes merely circumstantial, evidence for each of these findings, and his detailed account of the labyrinthian course of events in



Robert F. Hebert

France between 1718-1720 occupies a major part of the book. During this period Law controlled the debt management policies of the French government, exercising the absolute power of a central banker as he manipulated the quantity of money, interest rates, and exchange rates. When Law's elaborate, but fragile, fiscal apparatus began to totter in 1720, it was Cantillon that he called upon to help save the system. Prudently, Cantillon declined. Throughout the entire episode, Law remained the major player, and Cantillon the shrewd insider. Murphy uncovers the full range of Cantillon's operations, including his ability to survive and prosper, with interests in Europe, the New World, and perhaps, even in South America.

Antoin Murphy has been following Cantillon's trail for nigh unto a decade now, and his persistence has paid off in this delightful book that is both scholarly and interesting. It should appeal not only to "Cantillon buffs" like myself, but also to those who enjoy a good "whodunit". The book is first and foremost a biography, but it contains a dissection chapter on the contents of Cantillon's *Essai*, and it helps to illuminate some of the problems historiographers must inevitably face in practicing their craft.

Finally, Cantillon should be of particular interest to readers of the *AEN*, because his ideas had a substantial impact on the development of Austrian economics.¹ The *Essai* is numbered among the many books in Menger's library² and of course, Hayek patterned his monetary theory after Cantillon. It also appears that Mises based his conception of the entrepreneur on Cantillon's early statement of the notion, even though Mises did not credit Cantillon in this regard.

This book should be read by all those who are interested in the intellectual roots of Austrian economics, and of economics in general. Economists everywhere are indebted to Antoin Murphy for remaining on a trail that obviously grew cold long ago. His undaunted sleuthing has once again proven the old adage that "it's better late than never."

Notes

1. See my article, "Was Richard Cantillon an Austrian Economist?" in *Journal of Libertarian Studies* 7, no. 2 (Fall 1985):269-80.
2. See Katalog der Carl Menger-Bibliothek in der Handels-Universität Tokio, Vol. 1, p. 559.

Robert F. Hebert is Russell Professor of Economics at Auburn University and a member of the Editorial Board of the *Review of Austrian Economics*. He was recently elected as a member of the Board of Trustees (formerly the Executive Committee) of the Southern Economic Association. ■

The Nonprofit Sector: A Research Handbook Edited by Walter W. Powell Yale University Press, 1987

Reviewed by Mark D. Hughes

Economists have focused almost exclusively on two sectors of society—the private for-profit sector and the government sector—to the neglect of the nonprofit sector. It is this "third sector" where people choose, individually or collectively, free of state compulsion or the incentive of monetary profit, to produce and distribute goods and services as volunteers or by means of charity and philanthropy. Considering the size and importance of the nonprofit sector to the modern economy, this is an unfortunate oversight.

One exception to the rule is the Program on Non-Profit Organizations based at the Institution for Social and Policy Studies at Yale University. *The Nonprofit Sector: A Research Handbook* is a useful compendium of their literature. The editor Walter Powell has brought together twenty-four essays by twenty-eight authors to "produce a state-of-the-art review and assessment of scholarly research on the nonprofit sector."

The handbook is organized into six parts. Part one provides an overview of the nonprofit sector: historical perspective, economic and political theory, and empirical data from the U.S. experience. Part two looks at the tax treatment of nonprofit organizations, how government and the nonprofit sector interact, and compares and contrasts the nonprofit and for-profit sectors. Part three covers the administrative side of nonprofit organizations, including the governance function of boards of directors, measurements of nonprofit organization performance, executive leadership, and organizational change. Parts four and five thoroughly examine the sociology of the nonprofit sector, for example, culture, health care, personal social services, education, neighborhood organizations, and policy advocacy and

foreign nonprofit organizations.

Most of the scholars present their theoretical approaches in an unbiased manner. Some, however, are predisposed to the notion that the nonprofit sector has a closer relation to government sector than the voluntary for-profit market. Thus they neglect the literature which views the nonprofit sector within the framework of the market process. One important exception is the essay by James Douglas, "Political Theories of Nonprofit Organizations" which argues:

The most obvious distinctive characteristic of a state service is that it can invoke the coercive powers of law.... This power is most frequently used to commandeer money through compulsory taxation. Organizations in the private sector [both for-profit and nonprofit] have no such power to commandeer the resources they need. They must either exchange something they own (or to which they have some form of title) for something they need or rely on tapping some vein of generosity (p. 44).

This perspective challenges the view that America's socioeconomic structure is built on three distinct and separate categories—for-profit, government, and nonprofit. This view is perhaps an overzealous use of taxonomy. It is more accurate to depict this structure in terms of only two sectors: the private sector, where action is voluntary, and the government sector, where action is coerced. The private sector contains both the nonprofit and the for-profit sectors. As Professor Douglas writes: "exchange also plays a part in the transactions of the voluntary nonprofit sector. Indeed if we use the term exchange in a sufficiently broad sense, it can be made to cover even the most altruistic of voluntary endeavors" (p. 44).

The praxeological method of Austrian economics, with its focus on voluntary action, is uniquely suited to study and understanding of nonprofit activity. Indeed Ludwig von Mises understood that praxeology enables the economist to explain a very broad range of human endeavors, including those not directly related to material well-being. In *Human Action* Mises writes:

It is the science of every kind of human action. Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option.... Nothing that men aim at or want to avoid remains outside this arrangement into a unique scale of graduated preferences. The modern theory of value widens the scientific horizon and enlarges the field of economic studies (p. 3).

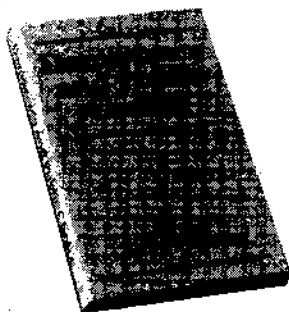
The Nonprofit Sector: A Research Handbook provides a useful resource guide to the existing rather scattered literature on the nonprofit sector. It is a welcome addition to the library of anyone interested in nonprofit organizations and to Austrians who see this field as a potentially fruitful research program.

Mark Hughes is a graduate student at George Mason University and a Ludwig von Mises fellow.

Democracy and Public Choice: Essays in Honor of Gordon Tullock

Edited with contributions by Charles K. Rowley
Basil Blackwell, 1987

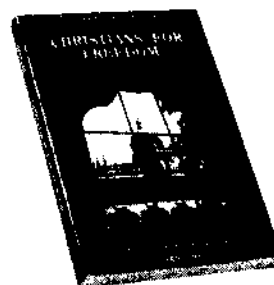
Gordon Tullock is Karl Eller Professor of Economics and Political Science at the University of Arizona, and is co-founder, with Nobel Laureate James Buchanan (presently at George Mason University), of the Virginia School of Political Economy. *Democracy and Public Choice* is his festschrift. It is an attempt to distill uniquely Tullockian insights—and there are dozens—from the broad and diversified framework of Public Choice theory. Taken together, these essays, by seventeen distinguished economists, carve out a special place for Gordon Tullock within the Public Choice school. They go beyond his famous contributions to the *Calculus of Consent* (1962), and examine his theories of voting behavior, interest groups, rent-seeking, bureaucracies, the welfare state, and legal institutions.



The subject matter is indeed wide-ranging. But as Charles Rowley of George Mason University points out in his informative introduction, Tullock's ideas and insights have consistently centered around his attempt to maintain the integrity of the Public Choice axiom of *homo economicus* and to use this self-seeking assumption to analyze political markets. It is this "protected core," as Rowley calls it, which leads to an ideology of "profound skepticism concerning the role of government," and a "systematic preference for market over non-market decision making."

The contributions to this volume are far above the puffery of some festschriften. Each reviews the relevant literature and ideas in the respective topic, as in Dennis Mueller's essay on the "Voting Paradox," and many extend the analysis to solve some new problem or pose new questions, as in Richard Wagner's thoughtful handling of interest groups and constitutional contracts. The back-to-back essays on rent-seeking by Robert Tollison and Michael Crew put the theory in a nutshell and evaluate its place in the future of economic theory. Buchanan's revealing contribution brings out Tullock's personal peculiarities and some of Buchanan's own disagreements with Tullock's alleged extremism. Even William Niskanen's ill-informed stab at Mises's theory of

bureaucracy serves the purpose of calling for an Austrian refutation. As an overview of some of the best scholarship from this radical school of thought, *Democracy and Public Choice* should be of special interest to Austrians wanting to sharpen their own critique of action in the political marketplace. JAT



Christians for Freedom: Late-Scholastic Economics

by Alejandro J. Chafuen
Introduction by Michael Novak
Ignatius Press, 1986

Despite the misleading title, this is a serious and groundbreaking study of the economic thought of the late-scholastic Catholic academics, whose work centered around the Spanish universities of Salamanca, Complutense at Alcala, and others, from 1400 to 1650. Dr. Chafuen formerly taught economics at the University of Argentina and is now a resident fellow at the Institute for Humane Studies. He is fluent in Spanish, Latin, and English and his extensive research into the writings of the late-scholastics—sometimes called the Schoolmen or the Doctors—goes far beyond other studies on the subject.

The book's thesis is that the late-scholastics were precursors to Austrian economists in virtually every area of theory and policy. And not just in an abstract way. Scholars like St. Bernardino of Siena, Tomas de Mercado, Luis de Molina, Juan de Mariana, and Domingo de Soto wrote with remarkable specificity about the subjective nature of value, the theory of marginal utility, the quantity theory of money, the function of prices and wages, the harmful effects of taxation and inflation, and the problems inherent in collective ownership. Their only major misunderstanding relates to the theory of interest, a flaw which has unjustly tarnished their reputation in the history of thought. Through the years the wisdom of the late-scholastics was apparently lost. Adam Smith, for example, didn't know that the theoretical problems he found most puzzling were solved by the Schoolmen 300 years earlier. With few exceptions, it wasn't until the late nineteenth century, with the marginal revolution, that economists developed an equally sophisticated understanding of the basics of economic theory.

Chafuen has discovered and organized a mass of quotes to prove his case. In fact, the evidence is so overwhelming that Michael Novak is right in pointing out in the Introduction that Chafuen has understated the importance of his discoveries. The book is weak in placing the school in the history of economic thought and in how the Schoolmen's insights were lost along the way. He has left that work for others. But given

his pathbreaking research, it will be a shame if the title—or the fact that Ignatius Press is a traditionalist Catholic publishing house—prevents Dr. Chafuen's book from securing the realms of economic citations it deserves. JAT ■

The Financial Services Revolution: Policy Directions for the Future

Edited by Catherine England and Thomas Huertas
Kluwer Academic Publishers, 1988

Contributors to this volume are: James R. Barth, Michael D. Bordo, Robert A. Eisenbeis, Bert Ely, Gillian Garcia, Roger W. Garrison, Marvin Goodfriend, William S. Haraf, Thomas F. Huertas, George G. Kaufman, Robert E. Litan, A. James Meigs, Gerald P. O'Driscoll Jr., Catherine England, Martin A. Regalia, Angela Redish, Eugenie D. Short, William F. Shugart II, Richard H. Timberlake, and Mark Toma.

Alan Greenspan, chairman of the Federal Reserve Board, highlights the rapid changes in adjustments that are now occurring in international trade in a recent commentary in the *Wall Street Journal* (October 24, 1988). He remarks that recent innovations in the extraordinary "downsizing" of goods expands the possibility of integrated production process, makes protectionism harder to sustain and hence mitigates much of the wrenching effects caused by governments. What the central banker neglects to discuss is the notable advancements made in the financial markets as well as the various implications these may have for monetary policy.

The Financial Services Revolution: Policy Directions for the Future rigorously addresses this timely issue. The book was the outcome of a Cato Institute conference held February 1987. The general theme of the book is the examination of common assumptions about the banking industry and the general conclusion that the present regulatory system is not in the best interest of the United States. It analyzes both the old and new in its fourteen chapters by tackling such questions as: who should be allowed to own a bank; what activities should a bank's affiliates be allowed to engage; and how should banking organization be regulated and supervised. The primary focus is on domestic areas, although international implications are scattered throughout.

In Part I, on "Banking History," the United States and Canadian experience in the 1930s is examined to analyze theories of bank runs and causes of the depression. The general conclusion is that public policy toward banking was the main culprit in the U. S. Perhaps there is too much emphasis on public policy rather than on underlying causes. I was disappointed by the fact that Bert Ely so readily indicts the gold standard and argues that the gold clauses should have been abrogated much earlier. Abrogation did much to destroy the confidence of the credit markets.

O'Driscoll, Garrison, and Short discuss in detail the various economic implications of the federal deposit insurance system in the section on "Current Regulation." Toma also examines the significance of the new monopoly control of reserve requirements by the Federal Reserve. The widespread insolvency in the Savings and Loan industry is ana-

lyzed by Garcia, and England looks at the changing economic environment facing the banking industry and argues that banking regulation is currently out of step.

In the last section, the contributors look to the future with a discussion of various reforms. Litan suggests alternatives to unite commercial and investment banking, while Huertas downplays the problem with holding companies. And finally, England discusses how depositors might protect themselves in the absence of federal deposit insurance.

The volume has more than credibly accomplished the goal that it set for itself. The rigorous analyses has given a fresh look at some old assumptions regarding financial services. Focusing primarily on domestic issues, it leaves some international aspects for further study. Nonetheless, a student in the field, as well as a central banker, can find significant contributions in this most understandable work. When global economic pressures become increasingly more complex, it becomes more imperative to ascertain the impact of public policy on financial services. JMcC ■



Austrian Economics: Historical and Philosophical Background

Edited by Wolfgang Grassl and Barry Smith
New York University Press, 1986

Since the revival of Austrian economics began in 1974, it has been a necessary but difficult task to reconstruct the historical and philosophical background. It is necessary because Austrian economics achieves its greatest distinction in its philosophical rigor. But it is difficult because the strands which weave the philosophical backdrop to Austrianism vary in texture and color, and don't always appear to fit together. Can Mises's Kantianism and Husserlianism be fully reconciled with Rothbard's neo-Thomism? And how can Lachmann's hermeneutics be reconciled with the rationalism of every Austrian from Menger to Selgin, having, as hermeneutics does, so much in common with the historicism against which Mises so vigorously fought?

The logical place to begin the reconstruction is with Carl Menger, the founder of the Austrian school. Yet it is surprising that, until *Austrian Economics*, Menger's own philosophical position has not been thoroughly examined. Barry Smith, lecturer in the Department of Philosophy at the University of Manchester, England, whose essay is the core of this book, takes a close look at Mengarian philosophy, with impressive results. Menger's Aristotelianism is well known. Less known is that Menger relied heavily on the Catholic scholar and priest, Franz Brentano, in developing his theory

of valuation and method. Smith's contribution is in showing the remarkable similarities between the two theorists and where and why they differed.

Peter Simmons and Reinhard Fabian back Smith up with a lengthy essay on the "Second School" of Austrian value theorists (Alexius von Meinong, Christian von Ehrenfels, and Oskar Kraus), all of whom trace their roots to Brentano. The essay also contains helpful bibliographies of each of the School's members.

Most of the book's other essays are spin-offs on the theme and all are important in their own right. Especially notable essays are Roderick Chisholm on Brentano's own value theory, Jeremy Shearmur on Menger and Hayek, and Wolfgang Grassl on the ethical implications of the Austrian view of markets.

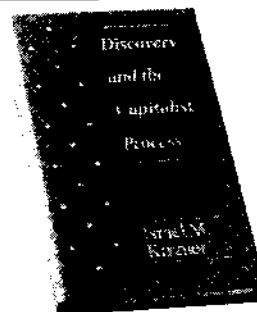
This book breathes fresh air into the continuing scholarly inquiry into the foundations of Austrian philosophy. Considering all the new material between its covers, *Austrian Economics* qualifies as a landmark contribution. JAT ■

A Nation in Debt: Economists Debate the Federal Budget Deficit Edited by Richard H. Fink and Jack C. High University Publications of America, 1987

A Nation in Debt contains twenty-seven essays on various aspects of government deficit financing, as well as an introductory essay by the editors. The essays are arranged into seven chapters: "The Classical Masters," "The Keynesian Revolution," "Modern Controversies," "International Consequences," "Constitutional Reform," and "Legislative Reform." The final chapter consists of one essay on current highlights in the battle over the budget in Washington, D.C.

The contributors range from Karl Marx, the father of Socialism to Peter Boettke who only recently received his Ph.D. Notable Keynesians include Abba Lerner, James Tobin, and John Maynard Keynes, while the Austrian school is represented by Ludwig von Mises, Friedrich von Hayek, and Henry Hazlitt. A host of neoclassicals and public choice economists round out the field. Notable contributions missing from the volume are the "deficits don't matter" school which includes David Ricardo from the classical period, and Robert Barro his modern proponent.

The various issues concerning the causes, effects, and cures for government deficit financing is a long and confusing list, this book does a good job of covering most of them. While the book is actually not economists debating the federal deficit and debt, it does provide easy access to the positions of many of the most important contributors in the history of economic thought and modern contributions. If one is remorse about our future in light of growing deficits and a burgeoning federal debt this will not be the cure. If one is looking for a simple single explanation or cure for the deficit this will not provide such a conclusion. However, if you seek to understand the issues and attempt a contribution, this volume is a useful tool. MT ■

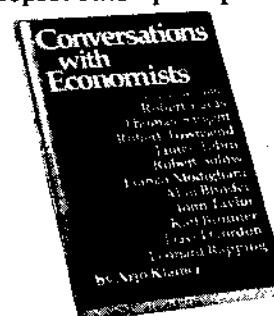


Discovery and the Capitalist Process by Israel M. Kirzner University of Chicago Press, 1985

With the exception of the chapter "Entrepreneurship, Economics, and Economists," Israel M. Kirzner's *Discovery and the Capitalist Process* is a collection of previously published essays. It is helpful to have them collected here because some of the best were originally published in books many Austrians might not purchase.

Kirzner notes in the Preface, "What unites the seven papers offered in this volume is a particular positive vision of capitalism—absorbed from the 'Austrian' tradition in modern economic thought—that they express." There are articles on pure theory that show capitalism and entrepreneurship to be an ongoing process of "creative discovery." The history of thought piece explores reasons for the neglect of entrepreneurship by economists in the half century following 1920, and its recent reappearance in the literature. There are even articles on public-policy issues, including an analysis of how different "patterns of taxation" affect the capitalist process. One highlight is the essay showing how regulation distorts decision making and creates inefficiency and confusion—even when regulators are treated as public spirited.

Except for some repetition, this book provides a good overview of Kirzner's recent work, especially the extension of his theory of entrepreneurship into public-policy issues. GBL ■



Conversations With Economists by Arjo Klammer Rowman and Allanheld, 1983

Conversations with Economists reports, almost verbatim, Arjo Klammer's personal interviews with eleven prominent and influential economists. Though it pits New Classical (Rational Expectations) theorists against their Keynesian and Monetarists opponents in an intriguing way, this is not a book of debates. Primarily, these transcripts reveal the candid thought of these economists on economic theory, policy, method and the conflicts that arise between competing

schools. The result is a vivid picture of what is happening in economics today.

Klamer has chosen Robert Lucas, Thomas Sargent and Robert Townsend to represent the New Classical school. Lucas and Sargent are "obvious choices" he says, and Townsend was chosen to "speak for the younger generation." He also divides the neo-Keynesians, with James Tobin, Franco Modigliani, and Robert Solow representing the older generation, and Alan Blinder and John Taylor representing the younger generation. Klamer admits that Taylor objects to this label, and recognizes that Taylor's work is closer to Rational Expectations, though he justifies his decision on the grounds that Taylor produces neo-Keynesian conclusions. Karl Brunner, and unfortunately not Milton Friedman, is chosen to represent Monetarism, the role of the non-mainstream economist is granted to Marxist David M. Gordon, and no Austrians are interviewed. The most intriguing conversation is with Leonard Rapping, who worked very closely with Robert Lucas in the late 1960s and helped Lucas lay the foundations of the New Classical economics. He trained at UCLA and Chicago, but abandoned Friedmanite economics for a socialist political outlook and institutionalist/neo-Keynesian economics. Today Rapping remains one of the most interesting opponents of New Classical economics.

Guesswork best describes what students too often must do when looking for the real intentions of economists. *Conversations with Economists* transcends the cryptic verbiage of economic journals to uncover each economist's assumptions and beliefs about their discipline and their world. MDH ■

The Great Depression of 1990

by Ravi Batra

Bantam Doubleday Dell Publishing, 1987

Ravi Batra's book made a big splash after the stock market crash of October 1987, becoming an instant #1 *New York Times* best seller. Batra, a professor of economics at Southern Methodist University, is well known for his work in the theory of international trade. In this book, however, he seems to have turned from "esoteric mathematical models" to history and philosophy to better aid his own economic philosophy. His book is a hodge-podge of Marxian-style class analysis, historical determinism, Kondratieff-style cycle analysis, and economic history. While basically a Marxist, Batra never fails to throw bones to Keynesians, monetarists, and free-marketeers.

The "law of social cycles" is the book's key ingredient. This theory divides society into four classes: laborers, warriors, intellectuals, and acquirers. Each group takes a turn dominating society and in turn has pronounced effects on it. In chapter 3, "The Long-Run Cycle of Money Growth," he begins to give us the heart of his analysis: that money growth peaked every third decade throughout U.S. history and this peak is followed by a steep decline in monetary growth. The only exception is the Civil War period. He adds that "the creation of the FED simply increased the long-run oscillations in money supply without in any way disrupting the

pattern of the cycle."

After constructing these three-decade cycles, Batra provides his explanation for depressions: the concentration of wealth resulting from the speculative loans made by the banking industry. Batra's analysis suffers both from his methodology and his philosophical premises. The concentration of wealth is only a by-product, not a cause. While most business cycle theories have some kernel of truth, they are not good explanations of the basic causes that lead to the cycles themselves and are a faulty basis for policy recommendations. The dramatic increase in loans and investments that set the stage for the Great Depression can only be understood by examining a variety of economic forces, with priority resting with the actions of the central bank and the Federal Reserve System (before and after the stock market crash).

Batra's book was not written for academic economists, in fact it contains only six references to academic sources, but rather for the layman. It contains elements of various refuted theories such as historical determinism, class analysis, and the underconsumption theory of the business cycle. While his three-decade cycles are interesting, many flaws are apparent and one is constantly reminded of long-cycle analysis and its lack of value to economic theory. A valuable part of the book is Batra's appendices on the wholesale price index, the chronology of regulatory bodies, and the chronology of regulatory legislation. MT ■

The Great Depression: Will We Repeat It?

by Hans F. Sennholz

Libertarian Press, 1988

Hans Sennholz's *The Great Depression: Will We Repeat It?* is a small pamphlet written for the general public. Sennholz was a student of Ludwig von Mises, and it is therefore not surprising that it is written from the Austrian perspective, with all its warning of government intervention, deficit spending, and government manipulation of money and credit.

The lessons of Austrian economics are conveyed by Sennholz's review of the Roaring 20s and the Hoover-Roosevelt Depression. The origin of a predicted future depression is found in the economic policies the 1970s and 1980s. Sennholz clearly points out the problems of political solutions and our betrayal by the Reagan administration. The seeds of destruction are found in the massive increases in federal spending, deficits, and money supply. These seeds resulted in the speculative stock market boom and the inevitable stock market crash.

Sennholz's analysis describes the current situation as bleak but not hopeless. We do face the "the dismal 90s" because the government has incurred liabilities to pay in the future the wealth that it has consumed or destroyed in the past. Our future is now in the hands of monetary authorities. They can either continue the old policy of pumping in more money, which will result in rampant inflation or abstain from

these policies and allow the economy to undergo a recession of readjustment.

In the final chapter Sennholz provides his recommendations for a "New Beginning." While deficit spending is the key to economic destruction, he is well aware of the shortcomings of a constitutional amendment to balance the budget. Sennholz notes that only a "revival of public morality" can ensure lasting prosperity. He urges the next President to cut his and Congress's salaries, to freeze all transfer spending, and to dismantle all transfer programs and economic controls.

He ends his book with a recommendation for "A New Monetary Order." He would strip the FED of monopoly privileges to issue fiat money and would repeal legal tender laws. He calls for the complete deregulation of the banking system and the privatization of deposit insurance. While Austrian economists may find minor points of disagreement in his analysis and policy recommendations it is a much more appealing analysis than that provided in the dangerous book by Ravi Batra. MT

PIECES OF EIGHT

THE MONETARY POWERS AND DISABILITIES OF THE UNITED STATES CONSTITUTION

Edwin Vieira, Jr.

Pieces of Eight: The Monetary Powers and Disabilities of the United States Constitution

by Edwin Vieira, Jr.
Devin-Adair, 1983

Dr. Edwin Vieira, Jr. is the author of *Pieces of Eight*, a largely overlooked and yet brilliantly argued study on constitutional money. A Harvard Ph.D. and J.D. by training, Vieira differs from many of his legal contemporaries in his belief that the United States does not need a constitutional amendment to reestablish silver dollar and gold coin. He carefully explains how Congress not only has the "constitutional power to end inflation tomorrow by legislation," but it also has a constitutional duty to do so.

The book is organized into three sections. "The monetary powers and disabilities in Anglo-American common law and in the Constitution" looks at the original intention of the Constitution and details the key pieces of monetary legislative through to the mid-1800s. "The abuses of the monetary powers under the contemporary Federal Reserve System" continues this analysis, but focuses on the devolution of constitutional money to bimetalism and finally to fiat currency. "Reconstruction of a constitutional monetary system" opens up a discussion of how to legally return to constitutional money.

His well-grounded defense of constitutional money, discussion of how to return to it, and consistent application of

Austrian ideas of inflation and monetary theory will appeal to Austrian economists. Legal and economic historians will have to respect Vieira's encyclopedic-like treatment of the subject. And Vieira's "hard core" conclusions will delight economic libertarians. Vieira, for example, calls for the "impeachment and conviction" of all judges of the national courts who "incautiously dare to contradict...the monetary provisions of the Constitution," and says that "from the perspective of monetary and fiscal policy the United State is a centralized, totalitarian democracy."

Pieces of Eight was inspired by the United States Gold Commission's hearings in 1982. It was submitted to the Commission, but too late to have any impact. As Representative Ron Paul notes in the introduction, the Commission "unfortunately, never contemplated the constitutional deficiencies of our present monetary system." It is extremely scholarly—1,763 detailed footnotes will attest to that—and remarkably easy for non-lawyers to read. Its only drawback is that it lacks an index. But this is made less awkward by the presence of a detailed table of contents. GBL



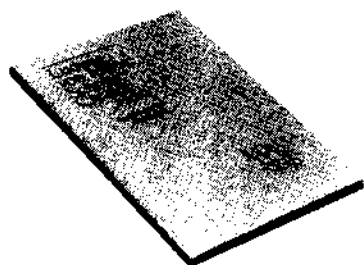
The Rule of Experts: Occupational Licensing in America

by S. David Young
Cato Institute, 1987

The most hidden form of government intervention is economic regulation, and occupational licensing is a particularly brutal subcategory. It stifles innovation, creates unemployment, promotes inefficiency, hurts consumers, and empowers the bureaucrats at the expense of the market. S. David Young, professor of accounting and finance at Tulane University, has written *The Rule of Experts*, to document some of these ill-effects of licensing. He builds on the critique of regulation developed by the Chicago School of Law and Economics and George Stigler's view that regulation is a product of interest groups and not public demand. Young shows the truth of that observation, especially as it concerns the sordid history of the American Medical Association. His pithy critique covers the effects on service quality, professional incomes, the excluded poor, and the failures of licensing boards. Although soft on certification, yet another form of intervention, Young maintains a consistent critique of licensing, even for the controversial professions of medicine and law.

The book cites scores of examples of regulatory failures and reams of empirical studies testifying to the same. But that strength also turns into a methodological weakness: he implies that economic propositions are proven true only

through empirical research. Thus the book contains no theoretical grounding of how government regulations must necessarily be disordinating to free market exchange and how these disruptions work themselves out through the logic of action. A presentation of the Misesian theory of interventionism would have improved this otherwise persuasive work. JAT



New Mises Institute Publication!

Ludwig von Mises: Scholar, Creator, Hero

by Murray N. Rothbard

The Ludwig von Mises Institute, 1988

This is an informative and entertaining look at one of this century's greatest minds. Its content is both academic and popular. The first and second of Rothbard's essays on Mises—"Ludwig von Mises and the Paradigm of Our Age" (1971) and "The Essential von Mises," published independently (1973)—have become the primary popular introductions to Mises's thought. This current book takes the economic content of those two, fits it into the history of thought, adds new information about Mises's academic experience in Vienna, and polishes it off with personal anecdotes.

A complex array of problems immediately confront anyone writing a general essay on Mises. Some of the questions to be confronted are, Mises did so much, yet why is he so overlooked? What impact, if any, has he had on mainstream thought? Why was he ignored during his life? Why couldn't he get a full-time teaching position? Why did his students abandon him? In light of this, how can the claim of Mises's brilliance and importance possibly be substantiated? These are questions Rothbard grapples with. The answers don't come easy, but Rothbard handles the task thoughtfully and thoroughly to produce the closest thing we have to a Mises biography.

The book contains at least one Rothbardian bombshell. Rothbard argues for the Misesian theory of economic calculation (made impossible without money prices) as against the Hayekian theory (made impossible through the "knowledge problem"). This difference between the two, argues Rothbard, makes Mises's case against central planning stronger than Hayek's. The controversy turns on the question of how much a central planner can, in theory, know—about values, resources, and existing technology—and still be unable to rationally calculate. Other interested Austrians might do well to pursue this question. JAT

Notes and Transitions

The Austrian revival is alive and doing well. The best evidence is that Austrian economists have their own forum for scholarly debate: *The Review of Austrian Economics*, edited by Professor Murray N. Rothbard and Dr. Walter Block. In his recent book review of Volume One of the RAE, Warren J. Samuels praises the journal as a "welcome annual," and says that the RAE "bids fair to become the principal serial publication dedicated to the promotion and exploration of Austrian economics" (*History of Political Economy* [Summer 1988]: 329-31).

Volume III of the *Review of Austrian Economics* is available now. Scholarly journals have always been the way non-mainstream schools of thought carve out a niche for themselves in the profession. That strategy seems to be working with Austrians as well.

Austrian economists are receiving doctoral degrees and teaching positions at an increased rate. More Austrians and Austrian fellow travelers have earned Ph.D's in economics since 1984 than all of those granted in the 1940s, 50s, 60s, and 70s. The Ludwig von Mises Institute has in some way supported many of these students. The Mises Institute now has thirty adjunct scholars in teaching and research positions around the country.

Parth Shah, assistant editor of the *AEN*, received the G. T. Management Summer Fellowship, sponsored by the Institute for Humane Studies. He traveled to Hong Kong this past summer to investigate recent developments in monetary institutions, specifically, the monetary system from 1976-1981, where several large banks of Hong Kong directly controlled the supply of money.

Mark Thornton, editor of the *AEN*, has accepted a position as visiting assistant professor of economics at Auburn University for 1988-1989.

Roger Koppl from Auburn University has accepted a position at Fairleigh Dickinson University in New Jersey as an assistant professor of economics. He recently completed his dissertation on *Marginalism, Subjectivism, and the Invisible Hand: Essays in Economic Thought*, under the direction of Professor Leland Yeager.

Peter Boettke, a recent graduate of George Mason University, has accepted a position as an assistant professor of economics at Oakland University in Rochester, Michigan. He recently completed his dissertation, *The Political Economy of Soviet Socialism: 1918-1928*, under the direction of Don Lavoie.

Larry Sechrest of the University of Texas at Arlington and a Ludwig von Mises Institute Fellow was invited to present a paper on Austrian economics at the World Congress of Social Economics in York, England. The conference theme was "Economics as Though People Mattered." Larry's paper was entitled "The Internal Paradigm of an Austrian Economist: Economics as if Reality Mattered" which presented an overview of Austrian economics and Austrian criticisms of neo-classical economics.

Jeffrey Herbener of Washington and Jefferson College in Pennsylvania joined the Mises Institute's conference

faculty this summer. He spoke at the First Introductory Course in Austrian Economics held at Dartmouth last summer. His has extensive neoclassical, econometric, and Austrian training and with his growing publications record he is a welcome addition to our summer conference teaching staff.

Thomas DiLorenzo has been appointed to the Scott Probasco Chair of Free Enterprise at the University of Tennessee at Chattanooga. He is also the director of the Center for Economic Education at the university.



Professor Jeffrey Herbener, Washington and Jefferson College, joined the Mises Institute's introductory conference summer faculty this year. He spoke on "Time Preference," "Bureaucracy and Economic Calculation" and "Utility and Welfare."

Don Bellante, of the University of South Florida spoke to the Austrian Economics Colloquium at Auburn University on November 3-4. His paper was "Externalizing Internalities: The Labor Markets and the Welfare State." He also held a round table discussion on income distribution.

Don Boudreaux, former editor of the Austrian Economics Newsletter, has been appointed co-editor of the *Washington Anti-Trust Report*, a newsletter published by the Competitive Enterprise Institute, in Washington, D.C.

Edward Arnold Journals has announced the formation of a new journal, *Review of Political Economy*. The editor is John Phelby of Birmingham Polytechnic. The *RPE* encourages submissions from "non-orthodox groups such as post-Keynesians, institutionalist, subjectivist and behavioural economists." Correspondence can be addressed to: Professor John Phelby, Center for Post-Keynesian Studies, Department of Government and Economics, City of Birmingham Polytechnic, Birmingham B42 2SU, United Kingdom.

Hans Hoppe's article, "The Ethics of Private Property" (*AEN*, Vol.9, No.2) sparked many comments, some of which were published in the recent issue of the *AEN* (Vol.9, No. 3). The debate continues with Hoppe's article, "The Ultimate Justification of Private Property," in the recent issue of *Liberty*.

Margaret and Hans-Hermann Hoppe have completed the first English translation of Richard von Strigl's important work, *Capital and Production*. The Ludwig von Mises Institute was commissioned to translate the publication from German to English in 1986 by Dr. Mark Skousen. Out of von Strigl's regular participation in Mises's famous "private seminar" in Vienna, from its initial meetings in 1920 to its close in 1934, Richard von Strigl emerged as an outstanding student—and personal friend—of Ludwig von Mises. It was in these seminars that von Strigl grasped the intricacies of the Austrian theory of economics which enabled him to write *Capital and Production* (1934), a complete and far reaching work.

Strigl highlights the subjective nature of the category of capital within a thorough, and yet compact, explanation of Austrian structure of production theory, Eugen von Boehm-Bawerk's time-preference theory of interest, and Misesian business cycle theory. Strigl's contribution is his skillful combination of these Austrian principles. Professor and Ms. Hoppe's translation is a welcome addition to Austrian scholarship in America and we look forward to its future publication.

There are two new publications, in German, that may be of interest to Austrian economists. The first is *Beitraege Zur Sozialoekonomik*, by **Stephen Boehm** is an edited collection of eighteen articles by Joseph A. Schumpeter; there is an Introduction by Boehm and a Foreword by Gottfried Haberler. The second is a publication from the Carl Menger Institute by **Erich Streissler**, *Weltweite Steuerreformen: Konsequenzen fur Osterreich*. In this monograph, Streissler discusses tax reform and its consequences for Austria. ■

If you would like to submit an article, book review, or topic of interest to the *Austrian Economics Newsletter*, for possible publication, please send it to:

Mark Thornton, Editor
Austrian Economics Newsletter
 The Ludwig von Mises Institute
 Auburn University
 Auburn, Alabama 36849

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