

# Austrian

## Economics Newsletter



### F. A. HAYEK (1889-1992): IN MEMORIAM

**F**riedrich August von Hayek, Nobel Laureate and the most eminent of the modern Austrian economists, died last year on March 23, at the age of 92. Student of Friedrich von Wieser, protégé and colleague of Ludwig von Mises, and foremost among an outstanding generation of Austrian school theorists, Hayek was more successful than anyone in spreading Austrian ideas throughout the English-speaking world.

Hayek's life spanned the twentieth century, and he made his home in some of the great intellectual communities of our time. Born in 1889 to a distinguished family of Viennese intellectuals (one grandfather, a statistician, was a friend of Eugen von Böhm-Bawerk; the philosopher Ludwig Wittgenstein was a second cousin), Hayek studied law, economics, and psychology at the University of Vienna, receiving doctorates in 1921 and 1923. As a student he was attracted to the mild Fabian socialism popular among young people who had experienced the horrors of World War I. Then, in 1922, Mises published his book *Socialism*. "To none of us young men who read the book when it appeared," Hayek later recalled, "the world was ever the same again."<sup>1</sup> Mises's devastating attack on central

planning converted Hayek to laissez-faire, along with contemporaries like Wilhelm Röpke, Lionel Robbins, and Bertil Ohlin. Hayek became the leading figure in the "fourth generation" of the Austrian school: Hayek, Gottfried Haberler, Fritz Machlup, Alexander Mahr, Oskar Morgenstern, and Paul Rosenstein-Rodan.

It was around this time that Hayek began attending Mises's famed *Privatseminar*. The list of regular participants in the seminar, who received no academic credit or other official recognition for their time, is now well known: Hayek, Haberler, Machlup, Morgenstern, Rosenstein-Rodan, Richard von Strigl, Karl Schlesinger, Felix Kaufmann, Alfred Schütz, Erich Voegelin, Karl Menger, Jr., and others not so famous. For several years the *Privatseminar* was the center of the economics community in Vienna, attracting such visitors as Robbins from London and Howard S. Ellis from Berkeley. Hayek became the first of this group to leave Vienna, however, accepting Robbins's invitation to take the Tooke Chair in Economics and Statistics at the London School of Economics in 1931. Most of the others, along with Mises himself, would also be gone by the start of World War II.

Vienna had been one of the world's leading centers of scholarship in economics, philosophy, and law. In London, Hayek was again among a remarkable group of thinkers: Robbins, J. R. Hicks, Arnold Plant, Dennis Robertson, T. E. Gregory, Abba

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Lerner, Kenneth Boulding, and George Shackle, to name only the most prominent. At the L.S.E. Hayek lectured on the Mises business-cycle theory, which he was refining and which until the *General Theory* came out in 1936 was rapidly gaining adherents in Britain and the U.S. and was becoming the preferred explanation of the Depression. Hayek and Keynes had sparred in the early 1930s in the pages of the *Economic Journal*, over Keynes's *Treatise on Money*; as one of Keynes's leading professional adversaries, Hayek was well situated to provide a full refutation of the *General Theory*. But he never did. Part of the explanation for this no doubt lies with Keynes's personal charm and legendary rhetorical skill, along with Hayek's general reluctance to engage in direct confrontation with his colleagues. But first and foremost, as Hayek later explained, Keynes was constantly changing his theoretical framework, and Hayek saw no point in working out a detailed critique of the *General Theory*, if Keynes might change his mind once again.



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Hayek thought a better course would be to produce an elaboration of Böhm-Bawerk's capital theory, and he began to devote his energies to this project. Unfortunately, *The Pure Theory of Capital* was not completed until 1941, and by then the Keynesian macro model had become firmly established.

About this time the Austrian school began to fade from the professional scene. Hayek had gained world-wide fame with his immensely popular *The Road to Serfdom*, published in 1944, but the two best-known Austrian contributions at the time—the cycle theory and the theory of economic calculation under socialism, also pioneered by Mises—were soon forgotten. Furthermore, the Austrian economists had begun to leave Vienna, so that by the early 1940s a school ceased to exist there as such. In 1950 Hayek left London to join an interdisciplinary group at the University of Chicago, the Committee on Social Thought. Again he was at a leading intellectual center: The economics department at Chicago then featured Frank Knight, Jacob Viner, Milton Friedman, and George Stigler, and Aaron Director was founding the first program in law and economics. But Hayek had lost interest in technical economics, focusing instead on philosophy, political theory, law, and psychology. Moreover, the economics profession was entering its formalist period, and the earlier generations of non-mathematical economists became obsolete.

When the 1974 Nobel Prize in economics went to Hayek and the Swede Gunnar Myrdal, interest in the Austrian school was suddenly and unexpectedly revived. While this was not the first event of the so-called "Austrian revival," the famous South Royalton conference having taken place earlier the same year, the rediscovery of Hayek within the economics profession was nonetheless a decisive event in the renaissance of Austrian economics. Hayek's writings were taught to new generations, and Hayek himself appeared at the early Institute for Humane Studies conferences in Menlo Park. He continued to write, producing *The Fatal Conceit*<sup>2</sup> in 1988, at the age of 89.

Hayek's legacy in economics is complex. Among mainstream economists, he is known for *The Road to Serfdom* and for his work on knowledge in the 1930s and 1940s.<sup>3</sup> Modern information theorists often pay a debt to Hayek's work as a preliminary investigation in this area, although his conclusions are typically disputed.<sup>4</sup> Within the Austrian school, Hayek's influence, while undeniably enormous, has very recently become the subject of some controversy.<sup>5</sup> His emphasis on spontaneous order and

his work on complex systems has been widely influential among many Austrians, some of whom have moved into hermeneutics and other non-traditional areas. Others have preferred to stress Hayek's work in technical economics, particularly on capital and the business cycle, citing a tension between some of Hayek's and Mises's views on the social order.<sup>6</sup> (While Mises was a rationalist and a utilitarian, Hayek focused on the limits to reason, basing his defense of capitalism on its ability to use limited knowledge and learning by trial and error.) Without a doubt, though, Hayek ranks among the greatest members of the Austrian school, and among the leading economists of the twentieth century.

### Notes

<sup>1</sup>In Peter G. Klein, ed., *The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom*, vol. 4 of *The Collected Works of F. A. Hayek* (Chicago: University of Chicago Press, and London: Routledge, 1992), p. 133.

<sup>2</sup>F. A. Hayek, *The Fatal Conceit: The Errors of Socialism*, ed. W. W. Bartley III (London: Routledge, 1988, and Chicago: University

of Chicago Press, 1989). This became vol. 1 of *The Collected Works of F. A. Hayek*.

<sup>3</sup>I.e., "Economics and Knowledge," *Economica* N.S. 4 (1937): 33-54, and "The Use of Knowledge in Society," *American Economic Review* 35 (September 1945): 519-30. Both reprinted in F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

<sup>4</sup>See, for example, Sanford Grossman and Joseph Stiglitz, "Information and Competitive Price Systems," *American Economic Review* 66, no. 2 (May 1976): 246-53, and Grossman, "On the Impossibility of Informationally Efficient Markets," *ibid.* 70, no. 3 (June 1980). In short, this literature tries to test the "informative content" of price signals, and contends that in general only perfectly competitive prices convey useful information. Hayek's 1945 paper is also frequently cited in the new institutional literature emphasizing process and adaptation. See Oliver E. Williamson, *The Economic Institutions of Capitalism* (New York: Free Press, 1985), p. 8.

<sup>5</sup>For example, Joseph T. Salerno, "Ludwig von Mises as Social Rationalist," *Review of Austrian Economics* 4 (1990): 26-54, and Murray N. Rothbard, "The End of Socialism and the Calculation Debate Revisited," *ibid.* 5, no. 2 (1991): 51-76.

<sup>6</sup>Much has been written on the subtle and complex Mises-Hayek relationship. For an introduction see *The Fortunes of Liberalism*, pp. 7-13, and the references cited therein. ▲

## THE ECONOMIST AS DETECTIVE: REFLECTIONS ON GARY BECKER'S NOBEL PRIZE

by Walter Block

**P**rofessor Gary S. Becker, the winner of the 1992 Nobel Prize in Economics, is like Professor Moriarty of Sherlock Holmes fame. The latter "had his hand in practically all crime in the London area." In like manner, the former has cast his into virtually every nook and cranny of not only economics, but also social science in general. And just as the fictional victims of Arthur Conan Doyle's novels trembled when Professor Moriarty was about town, almost no scholar is safe in the fields of history, law, sociology, psychology, criminology, demography, political science, and philosophy while Gary Becker's word processor is turned on.

Becker's career of blazing new paths for the "dismal science" began with his 1957 book *The Economics of Discrimination*. Before this work, the study of prejudice and discrimination had been the exclusive domain of sociologists and psychologists. Becker showed that demand and supply, cost and benefit, and profit and loss could shed profound light on the subject. Thanks to his efforts we know that people pay a price for discrimination, whether on the basis of race, sex, or any other criterion. Those who indulge in such preferences tend to lose

out in the competitive struggle of the marketplace, as they must pay more for equally able factors of production. The market rewards people who are color blind. Capitalism, then, far from being the racist, sexist enterprise seen by Marxists, is actually a rather humane endeavor.

One implication for public policy is a particular sense in which government enterprise is often misguided. When the state takes over large parts of the economy, the liberating process of the market—that of penalizing bigots—is confined in scope. It cannot work in the public sector, due to the absence of profit and loss.

Nor will Becker's work on the family give aid or comfort to those who attempt to denigrate this traditional institution. He has applied the insights garnered from the study of international trade to marital relations. Take absolute advantage, for example. This is the doctrine that shows how countries can benefit from world-wide specialization and the division of labor, as some can produce one item more cheaply while others are more productive with another. This is why bananas are not produced in Canada, nor maple syrup in Costa Rica; each nation specializes in what it does best, and trades for the specialty of another.

But this is part and parcel of the economic explanation of marriage. According to Becker, the husband typically earns a living specializing in market activities, while he is often "all thumbs" when it

comes to the kitchen, child rearing, and the like. The wife, due to job interruption and perhaps different interests, may be less productive than her spouse outside the home. As a result, her earnings tend to be less than his. Instead, she complements his efforts with her own. Together they are stronger economically, precisely as in the case of a business partnership where one member charms the customers while another takes care of manufacturing and bookkeeping. Becker's "economic imperialism" (applying microeconomic theory to problems traditionally monopolized by other social sciences) knows few bounds, if any. He has also applied it to the allocation of time, life-cycle patterns, criminal activity, politics, voting behavior, immigration, education, and divorce; the list goes on and on.

By choosing Becker the Stockholm Committee has continued a fine tradition of awarding the Nobel Prize to free-market economists who, whether by accident or design, have studied or taught at the University of Chicago. The list up to now includes Milton Friedman, F. A. Hayek, Theodore Schultz, George Stigler, and James Buchanan. Gary Becker is a worthy addition to this all-star cast. The wonder is not that he won the Nobel Prize, but that the event took so long in coming. Indeed, I am not the only former student of his who lost money over the past several years by betting on him to receive this award.

I first met Gary Becker as an entering graduate student at Columbia University in 1965. Already enjoying a reputation as an *enfant terrible*, his courses were well known in the local scholarly community. He was a member of my orals committee, and later honored me by agreeing to serve as my dissertation advisor. Halfway through my graduate studies, however, he left Columbia to join the faculty at the University of Chicago. For years I have joked that Columbia wasn't big enough for the both of us; one of us had to leave. In subsequent years I have been fortunate enough to be able to attend, and interact with him, at several Mont Pelerin Society meetings and Liberty Fund conferences. Very loyal to all his colleagues and former students, he has been a warm supporter of mine through the years. I was personally delighted at the recognition he received from the Nobel Prize committee.

What are the implications of this award for Austrian economics? There will be some positive benefit, but not much. This recognition of him will enhance the Austrian tradition no more than that of Friedman, Stigler, or Coase. The beneficial effects on praxeology will be indirect, not direct as they were to a small degree in the case of Buchanan,

Gary S. Becker



and to a large degree in that of Hayek. Some benefits will accrue because the Chicago and Austrian schools are the only two free-enterprise oriented schools of economic thought. Consider first normative economics. What helps one school is bound to help the other, insofar as they share this commonality. The direction of influence is mainly one-way, of course, from the Chicago school to the Austrian school, and not the other way around. As the joke about the elephant and mouse indicates (Said the mouse, perched on the shoulder of an elephant crossing a bridge, "Boy, we sure made that bridge shake!"), this is because the one is so much larger and more visible than the other. To the extent that Becker opposes minimum wage laws, rent control, tariffs, socialism, nationalization of industry, licensing, and the like, and to the extent that he favors markets, privatization, and property rights, this cannot but help the Austrians in their quest for a freer society.

In contrast, with regard to positive economics, there will be no spillover whatsoever. If anything, the impact will be negative. This is because the Chicago methodological approach is so close to (indeed, is indistinguishable from) that of the rest of the profession. This is in sharp contrast to Hayek, whose receipt of the prize has correctly been given credit for a large part of the Austrian revival.

As far as Becker is concerned, the Austrian school might as well not exist. In none of his writings is there even the slightest hint or evidence of any familiarity or interest in the subject. The names of Menger, Böhm-Bawerk, Mises, and Hayek never passed his lips in the several years of his courses I attended. No, the 1992 Nobel Laureate is a neoclassical micro theorist through and through. He is fully immersed in the positivist tradition: mathematical economics, indifference curves, hypothesis testing, falsifiability, econometrics, and so on. The only remarkable thing about him—what makes him stand out from virtually all

others plying this particular trade—is the brilliance and imagination with which he utilizes these traditional tools of analysis.

But that does not make him an Austrian. Further, he has taken numerous positions that sharply diverge from those held by readers of this *Newsletter*. Consider the following:

- He holds that rationality and purpose are not required to understand economic activity in general, nor downward-sloping demand curves in particular. (See his interchange with Israel Kirzner in the *Journal of Political Economy* for August 1962 and February 1963.)
- He takes the typical Chicago view that monopoly (defined as a highly concentrated industry) is a violation of economic freedom and should be proscribed through antitrust law. He would perhaps radically reform, but not repeal, such legislation.
- He maintains that the political sphere is just as amenable to economic analysis as any other type of activity. By this he means that political parties are akin to business firms, ballot box votes are like dollar votes, and being elected is analogous to earning profits. In short, the government is just one more institutional arrangement, alongside the church, the family, social clubs, the Boy Scouts, and the like. As part and parcel of this view, he advocated in one of his most recent *Business Week* columns the auctioning of U.S. citizenship rights.
- On a whole host of issues—the gold standard, repeal of the Federal Reserve System, fixed exchange rates—his views are indistinguishable from those of his colleague Milton Friedman.

All economists must give an enthusiastic three cheers for this richly deserved Nobel Prize. In areas of normative economics, this event will give a sharp boost to many of the free-market views held by Austrians. But as far as positive economic analysis is concerned, there is no help here for the praxeological school. ▲

## **Conference Reports**

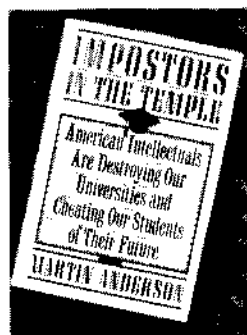
**T**he Mises Institute hosted an **Austrian Scholars Conference** in October 1992, as part of its tenth anniversary celebration in New York City. The papers: Murray N. Rothbard (University of Nevada, Las Vegas), “The Present State of Austrian Economics”; Bruce Benson (Florida State University), “Private Property and Ethical Behavior in a Market Economy: Natural Law, Government Law, or Evolving Self-Interest?”; Elisabeth Krecke (University of Aix-en-Provence, France), “Law and the Market

Order: An Austrian Critique of the Economic Analysis of Law”; Don Bellante (University of South Florida), “Sticky Wages, Efficiency Wages, and Market Processes”; Randall Holcombe (Florida State), “The Theory of Social Welfare”; Paul Cantor (University of Virginia), “Hyperinflation and Hyperreality: Thomas Mann in Light of Austrian Economics”; David Gordon (Mises Institute), “The Philosophical Contributions of Ludwig von Mises”; Bettina Greaves (Foundation for Economic Education), “Capitalism vs. Our Semi-Capitalistic Market Economy”; George Selgin (University of Georgia), “On Introducing a New Fiat Money: Lessons from Mises’s Regression Theorem”; and Joseph T. Salerno (Pace University), “Ludwig von Mises’s Monetary Thought in Light of Neoclassical Thought.” The proceedings will appear in a conference volume later this year.

In May 1992 the Mises Institute sponsored a conference on the origins and legacy of the **Federal Reserve System**. Participants gathered at Jekyll Island, Georgia, the site of the secret meeting in 1910 between Senator Aldrich and the powerful New York bankers and associates who drafted the Federal Reserve Act. Murray Rothbard spoke on the creation of the Fed; Richard Ebeling (Hillsdale College) outlined the practices and performance of the nineteenth-century, pre-Fed, banking system; Joseph Salerno presented a brief history of monetary theory; David Fand (George Mason University) discussed more recent Fed policies and performance; Roger Garrison (Auburn University) compared monetary policy during the “boom” of the 1980s with that of the 1920s; and Hans-Hermann Hoppe (University of Nevada, Las Vegas) defended a 100% reserve gold standard in place of various fractional-reserve systems. Former U.S. Congressman Ron Paul, Texas Republican from 1976 to 1984, gave a luncheon speech about his experiences with the Fed and Paul Volcker during his four terms, including his work on the U.S. Gold Commission.

The Institute also hosted its annual **summer instructional conference**, the “Mises University,” at Stanford, July 4-11 1992. Students created their own schedules from a list of 48 classes, twelve seminars, three plenary lectures, and two panel discussions, taught by Robert Batemarco, Walter Block, Roy Cordato, Thomas DiLorenzo, Roger Garrison, David Gordon, Jeffrey Herbener, Robert Higgs, Hans-Hermann Hoppe, Yuri Maltsev, Lew Rockwell, Murray Rothbard, Joseph Salerno, and Mark Thornton. The 1993 summer conference will be at Claremont-McKenna College in Claremont, California, on July 17 to 24. ▲

## Book Reviews



### **Impostors in the Temple: American Intellectuals Are Destroying Our Universi- ties and Cheating Our Students of Their Future**

**Martin Anderson**  
Simon & Schuster, 1992

Reviewed by Mark Thornton

**T**he expanding assault on the credibility of the academy is, unfortunately, all too well deserved. Martin Anderson's *Impostors in the Temple* follows in the tradition of A. Bartlett Giamatti's *A Free and Ordered Space*, Charles Sykes's *ProfScam*, Bruce Wilshire's *The Moral Collapse of the University*, and Dinesh D'Souza's *Illiberal Education*. As an inside observer and economist who resists unnecessary moralizing, Anderson has written the most appealing book of the group. Even those intimately familiar with the problems of the university will be entertained by his examples and the details of his case against academia.

The picture of higher education he paints is of a little good news and seemingly endless bad news. The good news is that university education in the U.S. is the best available in the world. The bad news, according to Anderson, is that university education is rotten to the core, with little hope for the future. It is inefficient, unproductive, and becoming worse by the day.

The author has had extensive experience with both of his categories of intellectuals, "professional" and "academic." He was a member of the faculty at Columbia University, an advisor to Presidents, and is now a research fellow at the Hoover Institution at Stanford University. Anderson's "academic intellectuals" hold out in the ivory tower of the temple (the university), a socialist world of peer management, inflexible rules, and an absence of market tests. He does not consider all academic intellectuals lazy or unproductive. The problem is that most of them (and therefore the universities as a whole) produce little or nothing of real value. Higher education in America has become a gargantuan illustration of Mises's calculation argument (giving new meaning to the statement that the only remaining Marxists are located in American universities).

Anderson is impressed with the "for profit" professional intellectuals in the media and policy institutes. He is quick to praise the "valiant band" of

think tanks (at least those not funded primarily by the government) that while small in number and budgets, have substantial "intellectual influence." He finds that these groups have "carved out a considerable role for themselves" because of market competition, flexibility, and specialization. These organizations outperform the universities because they have to justify the donations they receive, and because think-tank intellectuals ("research fellows") are allowed to specialize in writing or editorial work.

The work of academic intellectuals, by contrast, is largely irrelevant for the real world. Anderson correctly describes the "top" journals in economics as small clubs of specialists in mathematical economics who review and publish each other's work. The dirty secret of the academic intellectual is that much of what is done in the "best" journals is "inconsequential and trifling." In all his years as a Presidential economic advisor, not once was an academic journal article even mentioned to Anderson during policy meetings. To illustrate that no one actually reads these journal articles, Anderson conducted over the years an informal survey of top academic economists. He would ask, "What is the most important journal in your field?" The reply would usually be the *American Economic Review*. He then asks, "Over the last five years (and several hundred articles), what do you consider the most important article that you have read?" The answer typically involves a great deal of hemming and hawing, with most respondents ultimately failing to cite a single significant article that they have read and can remember.

The role of graduate students is also central to Anderson's critique of the university. Graduate students today typically do much of the professor's job, including teaching, grading, and research assistance. Anderson bitterly complains about "students teaching students." Spending \$20,000 per year for instruction by marginally qualified graduate students should shock most parents, and should also be disconcerting for students, many of whom flunk out of college before ever seeing a real professor. Also lost in this process is graduate education, where doctorates on average now take 7.5 years of enrollment and 12 years total to complete. There is something wrong when it takes 15 years to get a doctorate in political science. Even sadder are the students who never obtain a degree after years of kneeling at the altar.

Anderson proposes several solutions to restore the quality of the university. First, he would eliminate the fifty-year-old system of tenure (but would

grandfather all current tenured faculty). Second, he would prohibit graduate students from teaching, and require all students to graduate on time. Third, he proposes two types of doctorates, the regular doctorate and a doctorate with "research distinction," which would require writing a dissertation. These two types of degrees would in turn be used for more specialized university positions. The degree holders with research distinction would be hired as "fellows" and would specialize in research. The regular Ph.D.s would be hired solely for the purpose of teaching (and would be paid more, by the way, than the research fellows). Furthermore, the research fellows' publications would be reviewed outside the university. The final and arguably most important suggestion concerns the ownership arrangement of the university, involving changes to make the trustees more accountable through incentives, punishments, and a better selection process.

Many of Anderson's suggestions are on the mark. However, some of his suggestions regarding university decision-making fall short due to a failure to understand the economic calculation argument. Anderson lays most of the blame on the intellectual elite rather than government ownership, even though he points out that the typical university receives 60% of its budget from government and only 15% from tuition and fees (25% comes from gifts and other sources). This means that government, not the consumer (students and parents), has control of the university. The difficult decisions concerning how much research to conduct, what types of research, how to evaluate it, and who should teach, can never be efficiently answered in the socialist world of the university. Only through private ownership, private control, and the withdrawal of government funds can the university return to anything resembling a sane foundation for decision making. ▲

### **Liberty and Nature: An Aristotelian Defense of Liberal Order**

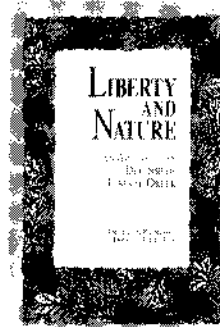
Douglas B. Rasmussen and Douglas J. Den Uyl  
Open Court, 1991

Reviewed by David Gordon

**A**ustrian economists will find that *Liberty and Nature*, the new volume by the philosophers Douglas Rasmussen and Douglas Den Uyl, repays careful study. The authors support a system of laissez-faire capitalism, as did Ludwig von Mises,

but they do so by means of philosophical doctrines very different from his. Broadly speaking, Rasmussen and Den Uyl are followers of Ayn Rand, and accordingly they use Aristotelian ethics to justify very non-Aristotelian political conclusions. Comparison of their position with that of Mises illuminates both views.

For Mises, reason plays a vital but limited role in the study of human action. Only after a goal has been specified does reason enter the scene. Since values are purely subjective, the category of rationality does not apply to them. In this respect, Mises is within the mainstream of social science. Herbert Simon, for example, endorses precisely the same account of the scope for reason: "Reason is wholly instrumental. It cannot tell us where to go; at best it can tell us how to get there. It is a gun for hire that can be employed in the service of any goals we have, good or bad."<sup>1</sup>



Rasmussen and Den Uyl maintain that this doctrine unduly restricts the range of reason. It is not the case, they argue, that ends are a matter of subjective preference, immune from rational assessment. Quite the contrary, ends may be "weighed in the balance and found wanting." But why take values to be objective? Our authors reply to this question by posing another: What are values for? Unless the issue of function is addressed, the existence of value will be inexplicable. Once it is addressed, ethical subjectivism ceases to be a live option. Each living organism has a natural end: to maintain itself in existence. Human beings, however, confront a problem that other animals avoid. Instinct does not guide our behavior: Instead we depend on reason to survive. Our choices, guided by reason, have as their purpose the promotion of our natural end. "It is important to note here that human freedom for an Aristotelian natural-end ethics is not . . . a freedom with respect to what is the natural function or end of a human being. . . . [V]olition as an inherent power of a human being is for the sake of human well-being and fulfillment" (p. 48).

Rasmussen and Den Uyl's view seems diametrically opposed to Mises's position. They maintain that nature sets the ultimate goal of human action, while Mises thinks that ultimate ends are subjective. Given this difference, one might anticipate



that Rasmussen and Den Uyl will radically diverge from Mises in the political theory they advocate. But this is not the case: From a non-Misesian starting point they arrive at results that Mises would have approved.

To arrive at any conclusion at all about social policy, however, our authors must first remove an obstacle. Each person, they think, ought to fulfill his natural end: Our duty lies not to others, but to ourselves. How, then, do the rights of other people enter the scene? The fact that I aim to flourish imposes no obligation on others to assist me in my task, nor have I any duty of helping others to fulfill their natural ends. Does egoistic ethics then reduce to a solipsism, in the style of Max Stirner? Certainly not, our authors contend.

It is quite true, they aver, that persons have no direct moral obligations to others. But in order to flourish, each person needs a sphere of action in which he can pursue happiness, free from the forcible interference of others. Moreover, while the use of coercion renders virtuous action impossible, voluntary cooperation enables people to achieve benefits far in excess of what anyone could accomplish alone. Thus, though we have no direct duty to others, we do have an obligation to establish or maintain a society in which people can flourish. And this type of society will be one granting legal rights to individuals. Though strictly speaking people have no moral rights, they do have an obligation to establish legal rights. Rasmussen and Den Uyl call their view "meta-normative." They neatly bring in rights

through the back door: Though they do not grant people moral rights, they offer what in most circumstances will turn out to be "just as good."

Moreover, they carefully elaborate the legal rights that pertain to the society the meta-normative framework bids us to establish. The right to own property ranks among the foremost of these, and their defense of property rights will be familiar to readers of Israel Kirzner. Like Kirzner, they contend that resources do not exist until someone devises a use for them. Before the invention of oil drilling, for example, oil in the ground had no value. The original appropriator of property, then, may justly "keep the consequences" of his free action. Since his activity brings what he produces into being, he deprives others of nothing.

It is not my purpose here to assess this Kirznerian view which, as the authors point out, was anticipated by Rand (p. 248, note 90). I wish instead to call attention to the remarkable similarity of their conclusions to those of Mises. Although Mises thought that ultimate values are subjective, he also maintained that nearly everyone has the same ultimate goal: one's own well-being or happiness. To achieve this end, social cooperation is necessary; apart from society, individuals cannot exist, let alone flourish. And not just any form of social cooperation will do. Only a regime of laissez-faire capitalism is acceptable, and no competing system will work. This Mises claimed to show through value-free argument. Yet Mises in effect arrived at a very close substitute for the objective ethics he repudiated. Though he recognized no objective ends, he could say, "If you want peace and prosperity, establish a free-market economy and a legal system with individual property rights." And since in his view almost everyone does ultimately want peace and prosperity, Mises's subjective ethics differs only by a hairsbreadth from an objective ethics that says, "Since everyone ought to fulfill his natural end, we ought to establish the social system of laissez-faire capitalism, in which people can best do so."

There is much more to *Liberty and Nature* than the theme I have traced here.<sup>2</sup> But the unmistakable similarity in social ethics between our authors' Aristotelian position and Mises's subjectivism is surprising and enlightening.

## Notes

<sup>1</sup>Herbert Simon, *Rationality in Human Affairs* (Stanford: Stanford University Press, 1983), pp. 7-8.

<sup>2</sup>In a longer review of *Liberty and Nature*, forthcoming in the *Journal of Libertarian Studies*, I discuss the central arguments of the book in greater detail. ▲

## UPCOMING EVENTS

### Western Economic Association "Economics and Organizational Innovation"

June 20-24, Lake Tahoe, Nevada

### History of Economics Society

June 24-26, Temple University  
Philadelphia

### "Mises University"

July 17-24, Claremont, California

### History of Economic Thought Society

September, 1993, U.K.

### Southern Economic Association

November 21-23, New Orleans



## **Book Bites**

### **Order Without Law: How Neighbors Settle Disputes**

**Robert C. Ellickson**  
**Harvard University Press, 1991**

**C**lassical liberal scholars have long observed that it is possible to have law without legislation. Several analysts, such as Bruno Leoni, Murray Rothbard, David Friedman, and most recently Bruce Benson, have applied economic analysis to customary and judge-made law. Robert Ellickson, professor of law at Yale University, takes the argument one step further in his book *Order Without Law*. Not only is legislation unnecessary for law, he claims, but law itself is unnecessary for order. Ellickson studied dispute resolution among ranchers and farmers in Shasta County, California, and realized that most people find the costs of learning about the law (judge-made or statutory) and submitting to formal resolution procedures so high that it is easier to fall back on common-sense norms. He found that all three functions of law—dispute resolution, rule formation, and enforcement—get supplied by means of these informal norms.

Ellickson derives this observation about the importance of informal dispute resolution from “law and society” scholars, but firmly rejects their characteristic disinterest in economic analysis. The frequent use of informal rules is in fact an implication of the Coase theorem, though one that Coase himself did not recognize. Says Ellickson: “Coase overstates the influence of law. His error lies in his implicit assumption that people can effortlessly learn and enforce their initial legal entitlements, and that they confront transaction costs only when they attempt to bargain from their legal starting positions. In a world of costly information, however, one cannot assume that people will both know and honor law” (p. 281). Among law and economics scholars, the usual debate is whether transaction costs under bilateral monopoly are high or low: If low, the argument goes, the government should let actors solve their own problems by bargaining; if high, the government should intervene by picking the proper laws. What Ellickson points out is that if the transaction costs of learning the law are high, then there is little use for government re-molding of the law, since actors will ignore it anyway. Hence, the presence of high transaction costs (of learning and using the law) becomes an argument

for bargaining, rather than for government solutions to property rights conflicts.

Ellickson also makes extensive use of game theory. He elaborates on the well-known strategy of “tit-for-tat” to show how cooperation can emerge when agreements cannot be directly enforced. But he also considers other repeated games and their appropriate strategies. For example, he considers a game called “even-up,” in which unilateral defections can enhance a player’s total wealth; he argues that players would then make side payments to preserve cooperation. Happily, Ellickson’s forays into game theory remain quite readable, and he carefully chooses games and strategies that have plausible real-world applications.

It is indeed encouraging to see work of this kind coming from a professor at one of the most prestigious law schools. Though not himself a classical liberal, he shows appreciation of classical liberal thinkers throughout the book. But Ellickson does not merely repeat and popularize the same points that earlier thinkers have made. He explores the frontiers of our understanding of the social order, and the aid that economics may give for that understanding. The only weakness of the work is that the author has no economic theory to explain how efficient norms tend to out-compete inefficient ones. Perhaps we may look forward to such a theory in his next book.

—Bryan Caplan

### **Carl Menger and the Origin of Austrian Economics**

**Max Alter**  
**Westview Press, 1990**

**M**ax Alter’s book may be the last of its kind: a work that relies on speculation concerning what Menger might have meant when he lived and wrote. The book was completed prior to the opening of the Menger archives at Duke University (as the author himself is quick to point out). Like many who have written on Menger, he relies heavily on existing English translations; where these are unavailable, he provides the text in the original German, though without benefit of a translation for the reader. While Alter does provide “chronological descriptions” of those works by Menger critical to the book, the reader is still left with pages of text in German, which results in a convoluted text that is difficult to navigate. This is not meant to discourage the potential reader. However, anyone picking up this book in the hope of finding a history of

the early Austrian school will be disappointed. The book is less a history of Menger and the origins of Austrian economics than a reconstruction of what Menger *should* have said, seen from the perspective of neoclassical economics.

The author posits a concern with the influence of values, culture, and ideas upon the economic theorist and how these factors work together to influence the ruling paradigm of economic theory. He writes that "the interaction of the forces shaping the human mind at a specific time and place are the elements through which we can understand a vision of the economic process" (p. 1). Despite his stated concern with the influence of such factors on the formation of economic theory, Alter does not consistently interpret Menger in this way. He leans instead towards an anachronistic reinterpretation of the Austrian school founder, in an apparent attempt to bring Menger into the mainstream of economic theory.

In "What Do We Know About Menger?", a paper written for the 1988 Duke conference on Menger and subsequently published in the annual supplement on Menger in *History of Political Economy* in 1990, Alter wrote that "the main drawback of Menger's approach is that we have not even begun to explore where it would lead us, while the general equilibrium model has certainly produced a few powerful results." Three of the sections in the present volume grew out of that essay. In these sections Alter explores Menger's motives, as shaped by the time in which he lived; Menger's method, as a contribution to Roscher's historical economics rather than as the foundation of the Austrian school; and finally Menger's economic theory, evaluated against the standard of neoclassical economics. Alter concludes that Menger's work is but a prelude to Wieser and Böhm-Bawerk, the "true" founders of the Austrian school.

Alter is deeply troubled by Menger's "methodological essentialism," and its presupposition of absolute truth. He concludes that such a presupposition, in light of the successful development of the rational-empirical framework, destroys the possibility for any coherence in Menger's work. Alter's goal is to reconstruct Menger to bypass "the point where the essentialism of [Menger's] conception of values becomes self-destructing because it poses a transformation problem from values to prices which remains insurmountable within his own methodological and theoretical framework. . . . To resolve this transformation problem, one has to jettison Menger's essentialism . . . , effectively giving up his conception of 'exact' theory" (pp. 5-6). Alter succeeds in carving up Menger's work, intent on separating the

wheat (marginalism) from the chaff (absolute truth), and ends up not with a reconstruction, but a dismantling of Menger's theories and subsequent theory based on Menger. In fact, Alter does more than jettison Menger's essentialism. He jettisons Menger completely in favor of Wieser and Böhm-Bawerk, in an attempt to formulate a hybrid economics that combines the most palatable aspects of Austrian theory with the most successful of neoclassical theory. The resulting combination has little relevance for the Austrian scholar.

—Amy Marie Marshall

### **Economics Through the Looking Glass: The Distorted Perspective of the New Palgrave Dictionary of Economics**

**Mark Blaug**  
**Institute of Economic Affairs, 1988**

**T**his little pamphlet, number 78 of I.E.A.s Occasional Paper Series, should be required reading for every regular user of the *New Palgrave* dictionary. Mark Blaug, the distinguished historian of economic thought, read all 4,100 pages and about 4 million words of the massive four-volume set, and reached an unequivocal conclusion: On balance, the *New Palgrave* does not provide a useful, balanced overview of economics, nor is it a particularly effective research tool. Instead it is poorly organized, needlessly technical, and disproportionately devoted to Karl Marx and the obscure Italian-born Cambridge economist Piero Sraffa.

The three *New Palgrave* editors, the Englishmen John Eatwell, Murray Milgate, and Peter Newman, are all in fact disciples of Sraffa, two of them explicitly so. As Blaug points out, asking three Sraffians to head the project "is roughly equivalent to asking three atheists to edit an encyclopedia of Christianity" (p. 14). And it shows: Marx and Sraffa are indeed quoted much more often than Adam Smith, Marshall, Walras, Friedman, Samuelson, or anyone else of note (p. 15). Marx and Sraffa even figure more prominently than Ricardo and Keynes, who for Sraffians are, respectively, an important precursor and a fellow traveler. The editors avoid confronting the issue of balance by presenting for most topics several essays, with different titles, many of them admittedly polemics rather than real survey pieces. Though a cross-referencing system is provided, many users (the present writer, for example) have found it cumbersome and tiring. Furthermore, the editors demand an extremely high level of mathematical competence from the reader. As Blaug recognizes, the kind of formalism predominant in the

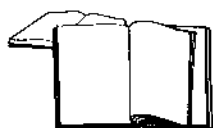
*New Palgrave* is a "revelling in technique for technique's sake." He concludes: "The mind-boggling obscurity of many of the articles is part and parcel of the editors' master plan: Its purpose is to dispel the worry that mainstream economists might otherwise have felt about a dictionary edited by three Sraffians" (p. 17).

*Economics Through the Looking Glass* also includes an admirably readable survey of the Sraffian doctrine itself—namely, that only supply and not demand affects price, and that all production exhibits constant-returns-to-scale technology. Blaug also provides brief notes on Marx and Keynes, and a summary of his views on the "Cambridge capital controversy" or "switching debate," subjects treated more fully in his earlier pamphlet *The Cambridge Revolution: Success or Failure?* (Hobart Paperback no. 6; second edition, London: I.E.A., 1975). There is also a critical chapter on equilibrium theory in general, with favorable references to Hayek, Kirzner, and Lavoie on the modern Austrian critique of equilibrium as opposed to process analysis.

None of this, of course, is meant to suggest that there is nothing of value in the *New Palgrave*. It does indeed contain some excellent entries, as one might expect given its sheer size and the number of contributors. The point is simply that it is not what it pretends to be—a comprehensive, authoritative, and useful guide to the world of economics. It could have been so much more.

Mark Blaug has something of a reputation for intolerance on methodological issues, and this has perhaps prevented some readers of this *Newsletter* from appreciating both the amazing breadth of his knowledge and his gift for turning a phrase. The present pamphlet, in particular, is informative and highly readable, and after spending time with it, the reader will never look at the *New Palgrave* quite the same way again.

—Peter Klein ▲



## Recommended Reading

(In this new feature of the AEN, a variety of scholars list the most interesting books, articles, or working papers relevant to Austrian economics they have recently encountered.)

**Joseph T. Salerno**  
Associate Professor of Economics  
Pace University.

Stanley W. Black, *A Levite among the Priests: Edward M. Bernstein and the Origins of the Bretton Woods System* (Westview Press, 1991). This book comprises

a set of conversations between the author and the octogenarian Bernstein, who supervised the preparation of the text known as the "White Plan" that later became the basis of the Bretton Woods Agreements. Bernstein recounts fascinating details about his interactions with Harry Dexter White, Alger Hiss, and John Maynard Keynes, among others. He also dispels the common misconception that the Bretton Woods system was a creation of Keynesian economic thinking by revealing that he and his former graduate student and close associate at the Treasury in the 1940s, Earl Hicks, were Fisherian quantity theorists or, in his own words, "monetarists."



Joseph T. Salerno

D. P. O'Brien, *Lionel Robbins* (St. Martin's Press, 1988). Despite its title, this book is neither a full-scale biography of Robbins nor an account of his intellectual evolution; it is a treatment of Robbins's contributions of economics and political philosophy, arranged topically. It is especially valuable because the author, an eminent historian of thought, emphasizes the Austrian-Wicksteedian influences on Robbins's economic thought and demonstrates that these influences persisted into the post-war period even in Robbins's macroeconomic writings and notwithstanding his renunciation of his earlier Misesian analysis of the Great Depression.

Carlo M. Cipolla, *Money in Sixteenth-Century Florence* (University of California Press, 1989). This short work describes the monetary system of sixteenth-century Florence and the problems it confronted. Of special interest to Austrians, the book concludes with a chapter outlining a particularly prolonged and severe Austrian-style boom-bust cycle that is attributed to credit expansion by private Florentine banks, which appear to have operated in a competitive environment relatively free of political control.

Kevin L. Kliesen and John A. Tatom, "The Recent Credit Crunch: The Neglected Dimensions," *Review of the Federal Reserve Bank of St. Louis* 74 (September/October, 1992): 18–36. This article refutes the commonly made assertion that the current recession was either precipitated or intensified by a "credit crunch," defined as a reduction in the supply of credit. The authors convincingly argue that the observed reduction in

bank loans to business that has marked all post-war recessions, including the latest, has not been the result of a greater reluctance on the part of banks to lend, but of a decrease in the demand for credit by business.

Robert A. Mundell, "The Great Exchange Rate Controversy: Trade Balances and the International Monetary System," in C. Fred Bergsten, ed., *International Adjustment and Financing: The Lessons of 1985-1991* (Institute for International Economics, 1991), pp. 187-238. A broad-ranging and erudite, if somewhat rambling, survey of the issues surrounding the perennial debate over the role and the effects of exchange-rate variations in the international adjustment process. Mundell is a proponent of a fixed-rate international monetary system based on gold and is the founder of the monetary approach to analyzing the balance of payments and exchange rates, which bears important similarities to the Misesian analysis.

Salim Rashid, "Adam Smith and the Market Mechanism," *History of Political Economy* 24 (Spring 1992): 129-52. This article challenges the claim that Smith is due credit as an innovator in economic theory. The author also disputes the weaker claim that Smith was a competent expositor of the most advanced thought of his predecessors and contemporaries, arguing, to the contrary, that Smith's work represented a degeneration from such thought. In a related piece, "The Wealth of Nations and Historical Fact," *Journal of the History of Economic Thought* 14 (Fall 1992): 225-43, Rashid rejects the conventional view that Smith was an accomplished economic historian as well as theorist and that the political-economic views expressed in *The Wealth of Nations* are supported not only by theoretical inference but also by a wealth of painstakingly marshalled factual evidence. In fact, according to the author, not only is the book marred by significant factual inaccuracies or selective reading of the known facts, but Smith did very little of his own historical research and, in some cases, misinterpreted the selected authorities he consulted or used his theory to formulate a conjectural history which he in turn used to confirm his theory.

Robert Tollison and Richard E. Wagner, "The Logic of Natural Monopoly Regulation," *Eastern Economic Journal* 17 (October/December 1991): 483-90. Applying public choice principles, the authors demonstrate that even "activist" regulation of natural monopoly, which attempts to monitor and regulate the monopolist's costs, will not be able to prevent the emergence of the monopolistic price/quantity out-

come when one takes into account the additional costs incurred by the regulatory agency.

G. R. Steele, "Hayek's Contribution to Business Cycle Theory: A Modern Assessment," *History of Political Economy* 24 (Summer 1992): 466-91. This article contains a generally insightful exposition of Hayekian cycle theory in terms of modern investment appraisal criteria that emphasizes the effect of monetary expansion in distorting the time structure of production as the key to explaining cyclical fluctuations.

**Bruce J. Caldwell**  
Professor of Economics  
University of North Carolina, Greensboro:

*The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom*, vol. 4 of *The Collected Works of F. A. Hayek*, ed. Peter G. Klein (University of Chicago Press, and Routledge, 1992). The introduction is very solid, and the prologue and the articles in the first section on the Austrian school of economics are well worth reading or rereading as the case may be. I think that most Austrians will find something in the book either that they didn't know, or that they knew once but had forgotten. In general I think the volumes in the *Collected Works* promise to be good sources for Austrians: Even those familiar with the texts will have complete citations, plus editor's introductions which include their own lists of recommended readings.

*Critical Review*, any issue. I would recommend that anyone seriously interested in Austrian economics get their own subscription. I am constantly delighted by the high quality of the contributions. What I like best is that I can read work in fields that touch but are different from economics, from political philosophy to ethics to history to the philosophy of science. One of the benefits of the Austrian approach is that it encourages interdisciplinary grazing, and this is as good a source of fodder as any. Three of my favorite recent articles appear in the same issue (vol. 4, nos. 1

& 2, Winter-Spring 1990): Antony Flew's review of Gellner's *Relativism and the Social Sciences*, Gregory Johnson on hermeneutics, and Barry Smith on the Austrianness of Austrian economics.



Bruce J. Caldwell

I also mention two forthcoming volumes. The first is edited by myself with Stephan Boehm for Kluwer entitled *Austrian Economics: Tensions and New Directions*. I feel comfortable with this shameless act of self-promotion because the papers are written by others, and many of them are, in my opinion, quite good. We tried to confront Austrian views with criticism from informed outsiders, and to discover in what new directions Austrian economics might move in the future. The other is a two-volume collection of papers from a conference on Hayek held last summer in Italy. The editors are Marina Colonna, Omar Hamouda, and Harald Hagemann, and the volumes will be published by Edward Elgar. There are some good papers in the group, and others are of interest because of their provocative content. In the latter category I particularly enjoyed one by the English realist Tony Lawson, who interprets Hayek in the "Scientism" essay as a "positivist hermeneut." (I liked it but I also disagree with it.) There is also a paper by John Eatwell and Murray Milgate that, if it is published in the form it appeared for the conference, is a splendid example of an egregious and studiously mean-spirited misinterpretation of Hayek's views.

**Murray N. Rothbard**

S. J. Hall Distinguished Professor of Economics  
University of Nevada, Las Vegas:

The *Review of Political Economy*, a British post-Keynesian journal published by Cambridge University Press, is new and little known in the U.S. In their hostility to orthodox neoclassicism, the *RPE* usually has at least one article in each (quarterly) issue devoted to Austrian economics, in a not unsympathetic way. Particularly interesting is David Young, "Austrian Views on Monopoly: Insights and Problems," vol. 4, no. 2 (1992): 203-25.

Richard Vedder and Lowell Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America* (Independent Institute, 1993). A comprehensive, lucidly written demolition of the popular and Keynesian views of unemployment, and a presentation of the Austrian view that unemployment is caused by real wage rates kept above the market rate. Covers both theory and details of twentieth-century American history. Use of econometrics is refreshingly clear and from a common-sense perspective.

Gary North, *The Coase Theorem: A Study in Economic Epistemology* (Institute for Christian Economics, 1992). A sparkling polemic against the Coase Theorem from an unusual point of view: a blend of uncompromising Austrian subjectivism and value

freedom in economic theory with the presuppositionalism of Calvinist Reconstructionist epistemology.

Murray N.  
Rothbard



James C. W. Ahiakpor, "Rashid on Adam Smith: In Need of Proof," *Journal of Libertarian Studies* 10, no. 2 (Fall 1992): 171-80, and Salim Rashid, "Adam Smith and Neo-Plagiarism: A Reply," *ibid.*, 181-90. A dispute over Rashid's continuing revisionist research on Smith, in particular Smith's systemic plagiarism.

Richard M. Ebeling, ed., *Austrian Economics: A Reader* (Hillsdale College Press, 1991). A comprehensive and thoughtfully selected reader of over 680 pages, covering mainstream Austrian economics from Mises to the present. Invaluable for students.

Mark Thornton, *The Economics of Prohibition* (University of Utah Press, 1991). Not only expands Austrian economic theory to provide a theory of prohibition, but also deals with the current public policy debate on drug prohibition, as well as a history of the origins and development of alcohol and drug prohibition in the U.S.

Bettina Bien Greaves and Robert W. McGee, compilers, *Mises: An Annotated Bibliography* (Foundation for Economic Education, 1993). A monumental, 390-page work, providing not only a complete, fully annotated bibliography of all of Mises's work, but also of all book reviews and articles about Mises, the latter through 1981. Not only are the annotations detailed, often quoting the source, but all the important German reviews of and articles on Mises are translated in full. A remarkable accomplishment and virtually the life work of Mrs. Greaves.

Donald Gilles, ed., *Revolutions in Mathematics* (Clarendon Press, 1992). A fascinating work, requiring no mathematical expertise for the reader, applying Kuhnian "scientific revolution" theory to the history of mathematics. Particularly interesting for showing that the triumph of formalism in mathematics (clearly relevant to formalism in economic theory) in the twentieth century was driven, not by strictly mathematical criteria, but by the general philosophical revolution in the Western world that discarded classical realism for epistemological subjectivism, formalism, and quasi-nihilism. In particular, see Herbert Breger, "A Restoration that Failed: Paul Finsler's Theory of Sets" (pp. 249-64), which

demonstrates that the eminent German mathematician Finsler's rehabilitation of classical set theory in the 1920s was brusquely dismissed because it was grounded in the philosophical realism that had animated mathematics before the twentieth century, and was not in accord with the anti-realist, formalist revolution.

#### Mark Thornton

O. P. Alford III Assistant Professor of Economics  
Auburn University:

Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *Journal of Economic History* 52 (March 1992): 41-60. Higgs refutes the Keynesian notion that World War II got us out of the Great Depression. He successfully challenges the notion that the war had any beneficial effect on employment, production, or consumption, showing in the process that the economy did not in fact recover until the war was over. Defends Mises's dictum that "[w]ar prosperity is like the prosperity that an earthquake or a plague brings."

Randall Holcombe, "The Distributive Model of Government: Evidence from the Confederate Constitution," *Southern Economic Journal* 58 (January 1992): 762-69. Selected as the paper of the year in the *SEJ*. Holcombe demonstrates that the Confederates greatly respected the U.S. Constitution but modified it in some important areas, such as omitting the general welfare clause. Interestingly, the problems that the Confederates tried to fix are those identified by modern observers as the problems of today, such as special interest politics and the growth of government. For more details, one might consult Marshall DeRosa's *The Confederate Constitution: An Inquiry into American Constitutionalism* (University of Missouri Press, 1991).

Gary Anderson and Robert Tollison, "Political Influence on Civil War Mortality Rates: The Electoral College as a Battlefield," *Defense Economics* 2 (1991): 219-233. I give this the Thornton Award for the most politically incorrect article of 1991. Anderson and Tollison provide evidence suggesting

that Lincoln manipulated military strategy to increase his electoral vote total in the 1864 election. By directing military strategy to encourage the use of Democratic troops in the front lines



Mark  
Thornton

while "loyal" ones were held in reserve, Lincoln was able to exercise discretion over casualty rates. In one instance, 10,000 troops were sent home to Pennsylvania for the 1864 election in which the state's electoral vote was decided by a mere 6,000 votes.

Richard Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859-1877* (Cambridge University Press, 1990). Bensel finds the Civil War as a watershed for the growth of government. Useful for anyone interested in the timely issues of the war economy, the role of monetary policy in public finance, and the political economy of succession. ▲

## New and Noteworthy

(Other recent books and articles of interest, recommended by the staff of the AEN. Readers are encouraged to forward their suggestions to the editor.)

**E**steban F. Thomsen, *Prices and Knowledge: A Market-Process Perspective* (Routledge, 1992). Revised version of the author's Ph.D. thesis at N.Y.U. Explores the relationship between knowledge and the price system, including recent neo-classical critiques of Hayek's views by Sanford Grossman and Joseph Stiglitz. Compares Austrian concepts with Herbert Simon's "bounded rationality" and the evolutionary theory of Richard Nelson and Sidney Winter. Part of a new Routledge series called "Foundations of the Market Economy," edited by Mario Rizzo and Lawrence H. White.

Israel M. Kirzner, *The Meaning of Market Process: Essays in the Development of Modern Austrian Economics* (Routledge, 1991). Newest collection of essays by Kirzner. Includes survey of the Austrian school written for the *New Palgrave*. Part of the "Foundations of the Market Economy" series.

Roy E. Cordato, "Knowledge Problems and the Problem of Social Cost," *Journal of the History of Economic Thought* 14 (Fall 1992): 209-24. Criticism of the "Coase theorem" and the Chicago school of law and economics from an Austrian school perspective. Argues that Coase and Hayek are largely irreconcilable on matters of property rights and liability. Concise statement of issues developed at greater length in the author's recent book *Welfare Economics and Externalities in an Open-Ended Universe* (1992).

Larry J. Sechrest, "Free Banking in Scotland: A Dissenting View," *Cato Journal* 10, no. 3 (Winter 1991): 799-824. Criticizes the interpretation of the

Scottish free banking experience offered by Lawrence White in his 1984 book *Free Banking in Scotland*. Focuses on high bank failure rates, note inconvertibility, and restrictions on small-denomination notes, among other issues. Includes responses from White and Kevin Dowd.

Kevin Dowd, "Models of Banking Instability: A Partial Review of the Literature," *Journal of Economic Surveys* 6, no. 2 (1992). Survey of recent theoretical literature on banking instability by a leading proponent of free banking. Begins with the celebrated 1983 paper by Douglas Diamond and Philip Dybvig. Argues that runs and panics can largely be prevented by private contracts, rather than government insurance, legal restrictions, and the like.

Richard N. Langlois, "Transaction Cost Economics in Real Time," *Industrial and Corporate Change* 1, no. 1 (1992): 99-127. Subjectivist interpretation of certain aspects of the "new institutional economics," particularly Oliver Williamson's transaction cost economics and the "dynamic capabilities" view of the firm associated with Edith Penrose and David Teece. Views uncertainty and learning over time, rather than asset specificity, as the key determinants of the boundaries of the firm. Appears in the inaugural issue of a new business strategy journal.

Martti Vihanto, "Competition Between Local Governments as a Discovery Procedure," *Journal of Institutional and Theoretical Economics* 148, no. 3 (1992): 411-36. Interesting treatment of local provision of public goods, based on a Hayek-Kirzner interpretation of the value of competition. Argues that traditional theories of how to provide government services are biased towards central provision, because these theories start with a static neoclassical view of rivalry.

Gertrude E. Schroeder, "The Dismal Fate of Soviet-Type Economies: Mises Was Right," *Cato Journal* 11, no. 1 (Spring/Summer 1991): 13-25. Surveys recent work on economic growth, productivity, standards of living, and income distribution in the former communist countries of the U.S.S.R. and Eastern Europe. Seeks to confirm Mises's argument about the impossibility of economic calculation under socialism in his 1920 article and his predictions about future Soviet economic performance.

Sumner J. La Croix, "Property Rights and Institutional Change during Australia's Gold Rush," *Explorations in Economic History* 29 (1992): 204-27. In the "private ordering" tradition of recent work by Bruce Benson and Robert Ellickson; documents the formation and evolution of property rights to gold in the Australian gold rush of the 1850s. Finds

that private legal systems, similar to those developing about the same time in America, tended to develop without central government direction.

Anthony Brewer, *Richard Cantillon: Pioneer of Economic Theory* (Routledge, 1992). The first book-length analysis of the proto-Austrian Cantillon. Goes beyond Antoin E. Murphy's 1986 biography in its theoretical treatment.

Tyler Cowen, "Law as a Public Good: The Economics of Anarchy," *Economics and Philosophy* 8 (1992): 249-67. Provides an economic analysis of "libertarian anarchy," the social system in which protection and defense services are privately provided on the market. Argues that libertarian anarchy is an unstable equilibrium because competing private protection agencies are likely to collude, with this collusion facilitated by the development of a common arbitration network. The colluding agencies would then form, for all practical purposes, a "government." ▲

## Notes and Transitions

**R**oy Cordato of the Institute for Research on the Economics of Taxation and Johns Hopkins University runs the Saturday Morning Austrian Colloquium, a seminar in Fairfax, Virginia for local Austrians. Recent speakers included **Richard Langlois** of the University of Connecticut on the economics of the semiconductor industry; **Paul Cantor** of the University of Virginia on culture and the Misesian theory of inflation; **Michael Krauss** of George Mason Law School on command versus spontaneous order in the development of standards; **Thomas DiLorenzo** of Loyola College on sustainable development; Roy Cordato on externalities; **George Selgin** of the University of Georgia on fiat money acceptance; and **Mario Rizzo** of New York University on the genetic-causal tradition in economic theory.

**Peter J. Boettke**, assistant professor of economics at New York University, is spending the 1992-93 academic year as a national fellow at the Hoover Institution at Stanford University. He is presently editing two volumes on Austrian economics that are forthcoming in 1993. These are the *Companion of Austrian Economics* (Edward Elgar), a dictionary of survey articles on various aspects of Austrian theory and practice, contributed by over sixty authors, organized like the *New Palgrave Dictionary of Economics*; and an as yet untitled collection of essays on economic growth and development, to appear as vol. 2 of a new series called "The Political Economy of the Austrian School," edited by **Mario Rizzo** (New York



University Press). Boettke's new book, *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* has just been published by Routledge.

**Bettina Bien Greaves** of the Foundation for Economic Education has joined the Mises Institute as distinguished senior scholar.

The Austrian Economics Colloquium at Auburn University has been revived, thanks to the efforts of **Mark Thornton**, assistant professor of economics at Auburn. Speakers at the weekly seminar for the Winter quarter 1993 include Thornton on the economics of slavery, **Leland Yeager** on "Mises and Hayek on Calculation and Knowledge," **Joseph Salerno** on "Mises and Hayek Dehomogenized," and **Roger Garrison** on "Keynesian Splenetics: From Social Philosophy to Macroeconomics."

Thornton also chaired a session at the July 1992 Western Economic Association meetings in San Francisco on "The Collapse of Development Planning." Papers were presented by Thornton and **Manisha Perera**, **Parth Shah**, and **David Osterfeld**. The discussants were Thornton, **Jeffrey Herbener**, and **Peter Klein**.

The Spring 1993 schedule for N.Y.U.'s Austrian Economics Colloquium included **Viktor Vanberg** on January 28; **Randall Kroszner** on February 11; **Barry Smith** on February 25; **Peter Boettke** on March 25; and **Tibor Machan** on April 15.

The 1993 **Mises University** summer conference will be held at Claremont-McKenna College, in Claremont California, from July 17-24. See the enclosed insert for details.

**Joseph Salerno** of Pace University organized a panel on Austrian economics at the Eastern Economics Association in Washington, D.C., March 1993. Presenters were Salerno, **William Butos** of Trinity College, Hartford and **Roger Koppl** of Farleigh Dickinson, **Roy Cordato**, and **Thomas DiLorenzo**. Commentators were **John Egger** and **Karen Palasek** of Towson State, **Donald Boudreaux** of Clemson University, and **Debra Walker** of Loyola University.

Gary Becker's receipt of the 1992 Nobel Prize in economics brings to six the number of University of Chicago faculty to receive that honor. Becker's predecessors are **Milton Friedman** (1973), **Theodore Schultz** (1979), **George Stigler** (1982), **Merton Miller** (1990), and **Ronald Coase** (1991). **F. A. Hayek**, the 1974 Nobel Laureate, was with the Committee on Social Thought at Chicago from 1950 to 1962. Two other Chicago economists, **Robert Lucas** and Judge **Richard Posner**, are good bets to be similarly honored in the near future. In

December the University named Princeton economic theorist **Hugo Sonnenschein** as its new president.

The Finnish journal *Administrative Studies* [Hallinnon Tutkimus] devoted an entire issue, vol. 10, no. 4 (1991), to **Ludwig von Mises** and Austrian economics. The issue is introduced by editor Risto Harisalo with "Ludwig von Mises: The Theorist of the Next Century." Particularly interesting are articles by Martti Vihanto on "The Four Approaches to Austrian Social Theory," Marco de Witt's "On the Misesian Epistemology," and Risto Harisalo's "A Critique of Equality in the Light of the Austrian Theory."

The March 1992 issue of the *South African Journal of Economics* is a special **Ludwig Lachmann** memorial issue. It includes a previously unpublished paper by Lachmann, "Socialism and the Market: A Theme of Economic Sociology Viewed from a Weberian Perspective," along with essays by **Israel Kirzner** and **Mario Rizzo**, and a complete bibliography of Lachmann's works. It also contains an interesting article by A. D. Karayiannis on "Entrepreneurship in Classical Greek Literature."

Management guru **Tom Peters**, author (with Robert J. Waterman, Jr.) of the 1982 blockbuster *In Search of Excellence*, has come out with his latest book, called *Liberation Management*. In this work Peters credits **Hayek's The Fatal Conceit** for revolutionizing his thinking about economics and quotes extensively from Hayek's book.

In October the Mises Institute hosted an Elder-hostel conference, at which senior citizens were taught the fundamentals of Austrian monetary theory and history. Mises Institute staff and fellowship students provided the instruction.

Politically correct "dissent"? Edward Elgar has just published *A Biographical Dictionary of Dissenting Economists*, edited by Philip Arestis and Malcolm Sawyer. Though they define "dissenters" to be all those outside the neoclassical tradition, no Austrians are featured in the Dictionary. Closer inspection reveals that to qualify as a dissenter one must reject methodological individualism in any form, so only "institutionalist, post-Keynesian, Kaleckian, Marxian and neo-Marxian, Sraffian, and radical political economists" need apply. Interestingly, the only trait these groups seem to share is hostility toward the market.

Meanwhile, socialism continues to survive within the academy: See Pranab Bardhan and John E. Roemer, "Market Socialism: A Case for Rejuvenation," *Journal of Economic Perspectives* 6 (Summer 1992): 101-116, and Thomas E. Weisskopf, "Challenges to Market Socialism: A Response to Critics," *Dissent* (Spring 1992): 250-61. ▲