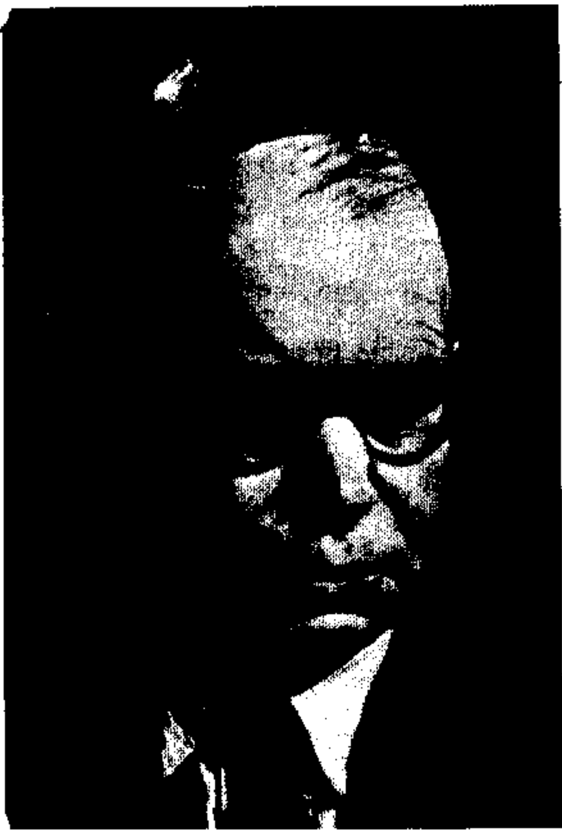
THE AUSTRIAN ECONOMICS NEWSLETTER

Volume 4/No. 1 Spring 1983



An Interview with G.L.S. Shackle

An often controversial figure within the penumbra of Austrian economics, G.L.S. Shackle, through his books (which include Epistemics and Economics, Time in Economics, *and* Decision, Order, and Time in Human Affairs*) and articles has developed a radically subjectivist approach to economics.*

Born in Cambridge, England in 1903, Shackle began his formal training relatively late in life under F. A. Hayek, his "discoverer," at the London School of Economics. This interview, conducted by Richard Ebeling in the fall of 1981, begins with Shackle recounting his days at the L.S.E.

INTERVIEWER: When you were a student at the London School of Economics in the 1930's, I understand that you had an opportunity to participate in the Hayek-Robbins seminar.

SHACKLE: Yes. Well, it was really Hayek's seminar. There were two seminars, one on Monday afternoons, which was Robbins', and a more workaday pedestrian affair. The high-powered one was the Hayek seminar on Thursday evenings. These seminars were star-studded, with marvelous lectures: Hayek was there, Robbins came once or twice, and there were also John Hicks, Nickolas Kaldor, Abba Lerner, and Ursula Hicks. We had a constant stream of people of various degrees of eminence—some of them very eminent—coming to the school. They didn't come to the Hayek seminar necessarily, but they sometimes gave lectures in the afternoon. These were people many of whom were taking refuge from what was going on in Central Europe. Some of them were famous—Karl Popper, for instance. I heard him give the first lecture he ever gave in England. Then there was Gottfried Haberler, and Fritz Machlup; Paul Rosenstein-Rodan was also in London. That was the sort of seething excitement at the London School in those years. For anyone really hooked on the subject, it was absolutely thrilling.

INTERVIEWER: What topics were discussed in Hayek's seminar?

SHACKLE: Well, of course, Hayek was writing the book which came out in 1941, under the title *The Pure Theory of Capital*. A student would write a paper with the topic largely of his own choosing; anything acceptable to Hayek would be discussed—money, and various aspects, I suppose, of capital theory—but I'm afraid I can't remember in detail now. Hayek used to give me the manuscript of *The Pure Theory of Capital* to read, as he was always rewriting the draft. I read several versions of it.

INTERVIEWER: Sir John Hicks has portrayed the 1930's as a period of great intellectual battles between what he por-

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A Message to Our Readers

Starting with the next issue, the *Austrian Economics Newsletter* will be published by the Ludwig von Mises Institute for Austrian Economics, Inc., a tax-exempt educational foundation in Washington, D.C.

The new *AEN* will focus on the people and the institutions involved in Austrian economics: academic appointments and openings; scholarships and grants awarded and available; books and articles published and in preparation; research interests; meetings and conferences; and student activities.

AEN will continue to publish interviews and articles, but its main ingredient will be news. Such a publication is, of course, impossible without reader help. If you have information about your own work, or anything else, that would interest your colleagues, please write the Mises Institute, 325 Pennsylvania Avenue, S. E., Washington, D.C. 20003.

—Sanford Ikeda and Don Boudreaux, Editors
Llewellyn H. Rockwell, Jr., Publisher

Briefs

AUSTRIAN ECONOMICS NEWSLETTER

Volume 4/No. 1 **Spring 1983**

The *Austrian Economics Newsletter* is designed as a research and communications device for work in Austrian economics. As such, it is essential that we have the active support and cooperation of our readers. We need any information which would be of value to other Austrians and we welcome any suggestions for improving the *Newsletter.* The success of the *Newsletter* fundamentally depends on our ability to encourage the participation and involvement of our readers.

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The *Austrian Economics Newsletter* is an independent project funded by the Center for Libertarian Studies and is published three times a year. Annual subscriptions are $7.50
Back issues are available for $3.50 apiece.

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The first session of a two-part **Liberty Fund symposium** called "Economics as a Process" took place on October 13-15 in Greenwich, Connecticut.

The symposium, organized by Richard Langlois, an adjunct assistant professor at New York University, brought together representatives of several related strands of economic thought alternative to and critical of "mainstream" neoclassical work. Partisans of the Austrian School were featured prominently in this group.

As the title suggests, the theme of the conference is economic processes, principally the notions of competition as a process and (not unrelatedly) the evolution of social institutions. (The idea of progress and change in economic ideas gives the title a second meaning as well.)

The recent session was the first of what will be a two-conference symposium, a novel format for Liberty Fund gatherings.

This first meeting allowed the participants—who had not previously been well acquainted either personally or professionally—to discuss ideas in a relatively unstructured format.

Seven of the participants each led a discussion based on the outline of a paper which is to be presented at the second meeting of the symposium, scheduled for March.

This approach permitted the paper-givers to learn about and incorporate the ideas of the other participants at an early stage in their writing.

The paper-givers included Stephen Littlechild of the University of Birmingham, England, who discussed alternative theories of market process; Gerald O'Driscoll, late of NYU and now of the Federal Reserve Bank of Dallas, who discussed the discovery-procedure view of competition; Richard Nelson of Yale, who discussed the ways in which an evolutionary model of competition changes the analysis of industrial productivity growth; Andrew Schotter of NYU, who talked about the logic and informational properties of social institutions; Oliver Williamson of the University of Pennsylvania, who discussed the "governance structures" that support economic exchange; Axel Leijonhufvud of UCLA, who recounted and analyzed the evolution of the factory system in Europe; and Brian Loasby, of the University of Stirling in Scotland, who suggested how the analogy of scientific discovery helps one understand economic processes.

The other conference participants included Therese Flaherty of the Harvard Business School; Ronald Heiner of UCLA; Mario Rizzo of NYU; David Teece of the Berkeley Business School; and Sidney Winter of Yale.

The March session will likely inject some additional participants into the mix, including James Buchanan of the Center for Study of Public Choice. Louis Spadaro will be the symposium moderator.

The participants were unanimous in judging the Greenwich meeting a success.

The conference in March, which will likely take place at Airlie House in Virginia, will be devoted to a more formal presentation and discussion of the by-then-completed papers. It will shift the focus from exploration to assertion; and the authors have been charged with the goal of playing down criticism of the mainstream in favor of highlighting the positive, substantive contribution their alternative approaches have to give.

The **Mont Pelerin Society,** the international organization founded by F. A. Hayek to nurture classical liberalism, attracted hundreds of participants to its 1982 general meeting. The meeting took place in West Berlin from the 5th to the 10th of September. Austrian economics was represented by, among others, Hayek, Gerald P. O'Driscoll of the Federal Reserve Bank of Dallas, Karen I. Vaughn of George Mason University, Murray N. Rothbard of New York Polytechnic Institute, and Lawrence H. White of New York University. There was nothing on the program specifically inclined toward Austrian economics, however. The list of economists presenting papers or comments included Paul Craig Roberts and Karl Brunner on supply-side economics, Milton Friedman and Pascal Salin on the European Common Market, James Bennett and Colin Campbell on the welfare state, and Allan H. Meltzer on monetary reform.

Hayek, appearing in good health, offered remarks from the floor during several sessions and a prepared comment during a session on socialist thought. The volume of conference papers included a chapter on "The Ethics of Liberty and Property" from his forthcoming work on socialism, *The Fatal Conceit.* Word has it that this work, like *Law, Legislation, and Liberty,* will appear in three volumes. ■

Programs in Austrian Economics

This is a new feature of the Austrian Economics Newsletter. *The following are brief descriptions of graduate programs in Austrian economics at two universities. The first was written by Sanford Ikeda of New York University and the second by Don Boudreaux of Auburn University. Both are graduate students at their respective universities.*

* * *

New York University

It is safe to say that at no other university today can one find a more illustrious collection of Austrian scholars in residence than at New York University. Current faculty include Israel Kirzner, Mario Rizzo, Lawrence H. White, Fritz Machlup, Richard Langlois, and, in the spring, Ludwig Lachmann. With the exception of Professor Machlup, all of the above regularly attend the weekly colloquium: the heart of N.Y.U.'s program in Austrian economics. Nine graduate fellows also participate in these sessions and are led in discussion by a member of the faculty, a visiting scholar, or one of the students themselves. While the colloquium has changed its format from time to time, articles from mainstream-economics journals or chapters from recently published books that are regarded as somehow falling within the Austrian tradition are critiqued and reviewed.

Austrian faculty teach several courses that appear regularly in the Graduate School's curriculum. These include the following (subject to change): History of Economic Thought, Survey of Austrian Economics (Kirzner); Industrial Organization, Economic Analysis of Law (Rizzo); Methodology of the Social Sciences, International Trade (Machlup); and Advanced Economic Theory (Lachmann). Currently at the undergraduate level are Money and Banking (White), and Industrial Organization (Langlois).

The general intellectual milieu is further enhanced by the Bohemian surroundings of Greenwhich Village. Potential Austrian Fellows are advised that housing has been obtainable within quite reasonable distances through the University—but check into this as early as possible. Also, Austrian fellowships covering tuition plus a generous stipend should be looked into at an early date.

A final word to anyone in the process of selecting a graduate school. The Austrian program here is still growing and the voice of an individual student will make a difference. We are small yet not exclusive. Anyone with ideas of his own will be welcomed and encouraged to make them known.

Auburn University

Students who are interested in Austrian-Subjectivist economics will feel quite comfortable at Auburn University. The Department of Economics at Auburn has a number of faculty members (including Professors Don Bellante, Pamela Brown, Robert Ekelund, Roger Garrison, Robert Hebert, and Mark Jackson) who are familiar with, and refreshingly receptive to, work done in the Austrian-Subjectivist tradition. This familiarity is not shallow; it runs sure and deep.

The validity of this point is attested to by Auburn's strength in the history of economic thought. There are no less than four professors on the graduate faculty whose knowledge of the historical *roots* of current developments in economics is exceptionally comprehensive in both its breadth and depth. This fact alone serves to foster an atmosphere of scholarly inquiry toward which Austrians might naturally gravitate. It should be emphasized, however, that this high degree of appreciation of (and keen interest in) the history of thought does not act as a substitute for knowledge and interest in what is currently happening on the frontiers of economic science. Rather, the faculty at Auburn view an extensive knowledge of the former as a necessary ingredient to be used in attempts to gain a more complete understanding of the latter.

Another distinctive feature of Auburn lies in the extent of the rapport that exists between the students and faculty. This is, of course, a very valuable, yet intangible, asset that cannot be rated too highly. This rapport is both an effect, as well as a cause, of the relatively informal aura that permeates the Department of Economics at Auburn.

Although the Ph.D. program in economics at Auburn is in its infancy (1982-1983 marks its first year), it is off to a fine start, especially with Leland Yeager coming as a Visiting Professor for the Winter and Spring quarters of 1983. (Professor Yeager, of course, is a scholar of international reputation and is particularly well-known to Austrians.) There is a great deal of well-founded optimism that Auburn's doctoral program will mature rapidly and healthily.

Despite the fact that there is no official (i.e., formal) program in Austrian economics at Auburn, the student interested in working within the paradigm of the Austrian school toward a doctorate will have ample opportunity to do so. It warrants repeating that the knowledge and open-mindedness of Auburn's faculty (of whose members two—Roger Garrison and Don Bellante—have served as Visiting Professors in New York University's Austrian economics program) is conducive to study *within* the Austrian-Subjectivist paradigm and *of* the Austrian tradition.

For further information, contact Professor Robert F. Hebert, Head, Department of Economics, 107 Thach Hall, Auburn University, Alabama 36849 or telephone (205)826-4910.

Not long after the above piece on N.Y.U.'s program was written Professor Machlup passed away. Unfortunately, it was by then too late to make major changes in the article. We apologize, therefore, for any misunderstanding that may arise as a result.

Both editors of this newsletter were at one time students of Professor Machlup and were touched by his intellect, his charm, and his good humor. We mourn the passing of a great teacher and thinker. ■

Dissertations

This is another new feature of the Austrian Economics Newsletter. *In an effort to make the latest work in the Austrian tradition more widely known, we shall present summaries and synopses of recent doctoral dissertations by young Austrian scholars.*

* * *

FREE BANKING

by Lawrence H. White

Free banking—the system under which the paper currency of an area is issued by unregulated and competitive private banks on the basis of convertibility into standard coin — was widely advocated in the nineteenth century.

This dissertation studies the question of free banking as it confronted policy makers and economic writers in Britain in the first half of the nineteenth century. We engage monetary theory, economic history, and the history of economic doctrines in the examination.

Chapter 1 undertakes to build a theory of free banking as a framework for the historical and doctrine-historical discussions of later chapters. We first consider the equilibrium of an individual bank of issue, modelling it as a profit-maximizing firm. This exercise establishes that the desired banknote circulation of the bank is limited by cost considerations. We next consider the equilibrium of the system as a whole, viewing it as a small open economy on an international specie standard. We derive an expression for the determination of the domestic monetary base (the stock of specie held by banks and the public). We then examine the equilibrating mechanisms which restrain banks from over-issuing by bringing about a "reflux" of excess notes. Reflux occurs as holders of excess notes re-establish their asset-holding preferences. Commonly the route of reflux passes through a note-exchange system, an interbank clearing mechanism whose origin we explain in an invisible-hand fashion.

Chapter 2 examines the record of free banking in Scotland, the world's clearest-cut example of free banking in practice. We trace the evolution of the Scottish banking industry, emphasizing competitive entry and innovation. We then contrast the arrangement and legal framework of Scottish banking in its heyday with those of contemporary English banking, and find the Scottish system superior. Finally we examine some evidence contrasting the macroeconomic experiences of England and Scotland.

The third chapter shows that the question of free banking versus central banking as the remedy for business cycles was a focal point of British monetary policy debates between 1820 and 1845. The standard "Currency School-Banking School" framework for recanting the debates fails to come to grips with the free banking question.

Secondary accounts using this framework have slighted an important third body of monetary thought, which we identify as the Free Banking School. We trace chronologically, beginning with Adam Smith and then the Bullionist controversy of 1800-1820. We go through the free-banking controversy of 1820-1845 in detail, placing the major contributors and their contributions against two sets of background events of the era, successive business cycles and Acts of banking legislation.

Chapter 4 deals issue-by-issue with the major analytical differences dividing the Currency, Banking, and Free Banking School theorists. The issues treated are: (1) whether the principles of free trade apply to the issue of currency; (2) the possibilities for over-issues under free banking and under central banking; (3) the origin and transmission of business cycles; (4) the appropriateness of the "currency principle," the monetary role proposed by the Currency School; (5) the merit of the alternative "banking principles", among which we distinguish the real bills doctrine, the needs of trade doctrine, and the "law of the reflux" propounded by John Fullarton; and (6) whether monetary order should be spontaneous (undesigned) or constructed (designed by policymakers). In general we find the positions of the Free Banking School to have the greatest cogency.

The final chapter argues for the relevance of free banking to contemporary discussion—particularly Hayek's call for "denationalization of money"—of alternative monetary institutions. We picture free banking as a means of escaping the problems inherent in the institution of government monetary authority. A monetary authority must be dangerously flexible or dangerously inflexible. Free banking dispenses with government authority over money, and allows an orderly yet unmanipulated monetary system. We argue that its use of precious metals as a monetary base is not inefficient when consumers prefer redeemable currency for its greater trustworthiness. A free market in currency is the only means of discovering the monetary system most preferred by consumers.

KNOWLEDGE, ORDER, AND TECHNOLOGY

by Richard N. Langlois

The increasing technological sophistication of the modern world is a phenomenon that presents the student of society with many sorts of problems: technological, economic, sociological. Most fundamentally, though, the problem of technology is just a philosophical problem; it is, in more modern terms, a matter of world-view, a question of one's "paradigm."

There are, in this regard, two normative visions of the post-industrial future that stand out distinctly. One is a technocratic vision in which scientific knowledge is preeminent and the conscious, rational management of society inevitable. The other is an "Aquarian" or "New Age" vision which would substitute the mythic for the scientific, the organic for the technological, and the "appropriate" for the rational in the management of society.

This dissertation accepts the premise that the political economy of technology must be understood as a matter of world-view before it can be examined as a question of economics. The essay is fundamentally a critique of both "post-industrial" visions in light of a third alternative.

The main analytic lens is the question of knowledge and its use, which I cast in terms of three "metaphors" for the way society (and its technology) might be organized. One of these is the well-known "machine model" often held to underlie the technocratic vision. (The forms of knowledge applicable to designing and running a machine are, in the model, equally applicable to social management.) The alternative to this, one often hears, is the organic "New Age" vision broadly construed. It is my

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Interview with G.L.S. Shackle

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trays as the "Hayekians" versus the budding Keynesians. What are your memories of that time?

SHACKLE: Well, I don't think it can really be said to have started until a small group of us went down to Cambridge on a Sunday afternoon in October 1935. That's where we heard Joan Robinson and Richard Kahn and really learned about Keynes' *The General Theory*. I didn't really understand what *The General Theory* was going to be all about until I heard Joan Robinson. I don't think you can say that a real battle began until after *The General Theory* had made some impact on us in that way—perhaps not even until after it came out. But up to 1935 there was a strong Hayekian influence at the LSE—people were greatly sold on Hayek's views as expressed in *Prices and Production*; I should say that included Hicks and Lerner and Kaldor.

INTERVIEWER: If you go through the economics journals for the couple of years after the appearance of *The General Theory* in 1936 and read the reviews of the book, e.g., Hicks' first review, Frank Knight's, Joseph Schumpeter's, Jacob Viner's, Dennis Robertson's, and so on down the line, every one of them criticized the book severely. And if one compiles a list of all the criticisms made in those reviews, there is very little in Keynes' arguments left unchallenged. Yet, within a few years, the book became *the* volume guiding economic theorists. Given the opposition to it by so many leaders in the profession, why?

SHACKLE: Well, I think the opposition was because the book's object was to overturn the established theory of value, which it did. I think it's fair to say that the accepted, the received, theory of value and distribution in those days could not possibly account for involuntary unemployment because its premises included something very like perfect knowledge; and, if everyone had perfect knowledge, why should they have allowed a disaster like the early 1930's? It didn't make sense. The received theory of value and distribution up to the early 1930's was a theory of perfectly successful adjustment, perfect coordination. And, if things are perfectly coordinated, there's no reason why anybody should be involuntarily unemployed. Keynes pointed out that there was this contradiction requiring an explanation and he explained it. His theory of involuntary unemployment is perfectly simple and can be expressed in a paragraph, or in a sentence. If you express it in a sentence, you simply say that enterprise is the launching of resources upon a project whose outcome you do not, and cannot, know. The business of enterprise involves investment, the investing of large amounts of resources—huge sums of money—in things whose outcome you cannot be certain of, which could perfectly well turn into a disaster or a brilliant success. The people who do this kind of investing are essentially gamblers and they can lose their nerve. And if they decide to withdraw from trade, they sweep their chips up from the table. If they decide it's too risky, if their nerve gives out and they can't bring themselves to go on investing, they cease to give employment and *that* is the explanation. When business is at all unsettled—when there's any sign at all of depression—or when there's been a lot of investment and people have run out of ideas, or when their goods are not selling quite as fast as they have been, they no longer know what the marginal value product of an extra man is—it's non-existent. How can you say that a certain number of men have a certain marginal productivity when you can't know what the per unit value of the goods they would produce if you employed them would sell for?

INTERVIEWER: Let me present an alternative for you. Let's take someone like Philip Wicksteed in his book, *The Common Sense of Political Economy*. Now from beginning to end almost every page in Wicksteed is loaded with the words "anticipation" and "expectations." He analyzes consumer's marginal utility evaluations as well as production activity, in terms of the forward-looking perspective of the actors. So there *was* a different tradition other than Knightian perfect competition in existence that used expectations in a process sense. Let me make a point about analyzing the Great Depression. The money supply was contracting in the early 1930's—a fact that seems to have been not clearly understood at that time, but which we now appreciate. It is possible to interpret this in a Wicksellian framework, i.e., of the money rate being *above* the natural rate. The structure of production was being artificially "shortened," so to speak, instead of "lengthened." Using Wicksell in this manner, within a Wicksteedian framework, one can analyze the Great Depression as a cumulative contraction in an environment of incorrect expectations—and without a Keynesian framework.

SHACKLE: Yes, yes I can see that. That certainly is very interesting indeed. Especially the reference to Wicksell. Yes, I do see that, but I must say I still think that Keynes didn't really get right home on his target until he wrote his 1937 article on "The General Theory of Employment" in the *Quarterly Journal of*

> *"Up to 1935 . . . people were greatly sold on Hayek's views . . . that included Hicks and Lerner and Kaldor."*

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Dissertations

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thesis that, to the contrary, the "A-quarian" paradigm in general—and the notion of "appropriate" technology in particular—involves a view of knowledge not far different from that embodied in the machine model.

The alternative to a machine model is surely an "organic" metaphor. What has not been well recognized, though, is that there are two different "organic" metaphors one could choose. One is the "organism" metaphor, which, I argue, has a number of strong affinities to the machine model; the second is an "evolutionary" metaphor, which, I contend, is not only the superior alternative but also the alternative more consistent with the rhetoric (though not the political program) of "appropriate" technology.

Drawing on the writings of such thinkers as F. A. Hayek, Michael Polanyi, and Karl Popper, the dissertation carries the analysis of the three metaphors through several realms: the history of ideas; the methodology of the social sciences; economic theory; organization theory; and, finally, political philosophy.

* * *

We would welcome contributions of the above nature. Lengthy summaries are unnecessary, however—100-200 words is a good length. Descriptions of proposals or work in progress would also be acceptable. These may be sent (until further notice) to the AEN, c/o the Center for Libertarian Studies, 200 Park Avenue South, Suite 1314, New York, N.Y. 10003. ■

Interview with G.L.S. Shackle

(Continued)

Economics. There he put the whole weight on uncertainty and I still think that that is the real point. That "involuntary unemployment" merely means that there are people who haven't enough faith in their expectations to give employment.

INTERVIEWER: An aspect that the Austrians have emphasized, particularly in the recent works of Israel Kirzner, e.g. his book *Competition and Entrepreneurship*, is that the market operates through the coordinating activities of the entrepreneur. The entrepreneur is the one who searches for opportunities, for profits from arbitrage. The market process over time tends to weed out the "poor" entrepreneurs, who suffer losses, while the "good" entrepreneurs reap profits and gain additional control over factors of production. As a consequence, the people who at any moment in time will be making production decisions will tend to be those entrepreneurs who are the "confident" entrepreneurs, i.e., who tend to see the future better than others. Why would you expect the sudden collapse of confidence, when the market is always tending to give control to those who show the most confidence.

SHACKLE: Yes, I'm sure you're right. Keynes, no doubt, in dealing with aggregates, was too "aggregated." I quite agree with what you say. I once used a little diagram in which a lot of arrows are going up vertically, with the arrows representing the value of particular investment projects, which will be invested in if the rate of interest goes down. Now, there'll be for each of these projects a level of cost of construction. Their value has to go up high enough to be above the cost of construction. If the rate of interest goes down far enough, it will bring some of them up into the realm of profitability; if it goes down even further, it'll bring more of them up, and so on. Well, there's no hint of that in *The General Theory*. The marginal efficiency of capital is just this thing you compare with the interest rate, isn't it?

INTERVIEWER: The multiplier and the consumption function, it seems to me, suffer from the same problem. For certain analytical purposes, it may be useful to refer to the "total" level of consumption, but surely, again, what matters is whether the relative demands for and supplies of different consumer goods are "right."

everything is just a product of the mind, totally unrelated to objective reality. How would you respond to that?

SHACKLE: I think that's the view some take. I can only speak for myself and *I* don't say that objective reality doesn't exist—this is a philosophical problem far out of my depth. But I do think that what we do in our actions is based on what goes on in our own minds, and one way I have tried to put it is that the things which you can choose amongst have to be made by yourself. You can only choose actions and acts. When people say, I'm choosing a new suit, or I'm choosing a house, what they're really saying is, I'm choosing which one to buy. It's the actions they're choosing. I think that the action must be formulated in one's own mind—it's a work of art, it's a work of imagination. Your list of choosable things has to be constructed or composed by yourself before you can choose.

INTERVIEWER: Some economists would respond by saying that you've made this conception so broad, so general, that there's almost no determinism left in it. You can't say whether this will happen or that will happen. How would you respond to that?

"I can only speak for myself and I don't say that objective reality doesn't exist—this is a philosophical problem far out of my depth."

SHACKLE: Yes, well, I think that I would say that they may have confidence, but it will have to survive some terrible shocks. I mean, there will always be shocks and things that really upset all calculations. I can't really quite believe in the idea of steady improvement, you know. After all, some of these men, they're very clever entrepreneurs, are not all working together, they're trying to undermine each other's positions, they're working against each other and trying to outdo each other.

INTERVIEWER: There's an aspect of Keynes's analysis that Austrians find particularly unsatisfactory, that being his emphasis on analyzing economic phenomena primarily in "macro" or aggregate terms. Now, it seems that both in the *Treatise on Money* and in *The General Theory*, required micro-relationships are the very aspects Keynes glossed over in dealing purely at the macro level. The micro-economic relationships are surely the essential ones in an analysis to determine whether a "macro" situation represents a condition of equilibrium or disequilibrium.

SHACKLE: Well, you see, I think that one of the things that Keynes was best at was simplifying and encapsulating ideas like the consumption function. I think he would have agreed that economics is an imprecise subject and that the best you can do sometimes, if a problem is full of difficulties, is cope with it by wrapping it up tightly and saying "we're going to treat this as a whole." And I think that's what he did in the consumption function. I think, of course, he did so because he was very much concerned with refuting the idea that an increase of thrift will necessarily increase investment. So, I think his own answer would have been that you have to go in for these rather "black box" ideas, because they're the only way of coping with the intolerable complexity and the elusiveness of things.

INTERVIEWER: You have emphasized the importance of expectations—that expectations are a product of an individual's subjective perception of opportunities laying before him. The argument is made that a problem with radical subjectivists is that it almost seems as if they aren't sure if reality exists, as if

SHACKLE: In the most radical way, I'm afraid. I think there is pretty complete indeterminacy. I did spend a lot of energy trying to see if I could devise any theory of how expectations are formed and I ended with the conclusion that expectations are *far too elusive and subtle* to find out any principles or rules to explain their emergence. They're based on suggestions and you get suggestions from any mortal thing that happens—that you happen to read, that you happen to hear. You get suggestions from anywhere. No mortal person can say where they come from. That, you see, is the trouble. Economics started as an attempt to imitate physics, Newtonian physics, and I think in doing so, it got off on the wrong foot. You could ask an historian to explain the institutions in England in the eighteenth century, but would you try asking him what is going to happen during the next century? He'd say, "my goodness, man, of course I can't tell you that!" He'd absolutely reject the notion of that sort of prediction. Well, if an historian can't do it, why should an

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Interview

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economist be able to do it?

INTERVIEWER: This ties in with your view of what "choice" means in neoclassical or mainstream economics.

SHACKLE: It really does right down to the philosophical bedrock because if we claim that every choice can be completely explained by or wholly accounted for via circumstances and tastes and, if you like, by knowledge, then we are living in a determinist world. It may be that determinism doesn't exclude ignorance. The amount of ignorance that a person suffers from may itself be determined by his history, his educational history, and his circumstances. But I think if you can explain every choice completely, then you really are a determinist taking up a determinist point of view. I find it difficult to see the point of calling it choice, if it is completely determined.

If we can really explain any choice completely, we are saying we can point to causes which made this choice inevitable. It's the only thing that could have happened in the circumstances. We really are saying that the person who made the choice is merely a link in the machine, he's just a connecting-rod, which means he's not a maker of history in any real sense. Well, it may be that it's a foolish ambition to try to think of human history as made by human beings, but I see *Man* as a "beginning," a chooser which cannot be fully explained. He is an uncaused cause. I don't think you can really say much more.

INTERVIEWER: I take it that you don't hold much confidence or faith in attempts at economic prediction through econometric techniques.

SHACKLE: No, frankly I don't. I shall be shot out of the profession even further than I have been already; this will be the end of my career, if it hasn't ended many years ago. However, I will be honest and say that I don't think that economics can yield constants of the kind that physics does. Physicists have constants, e.g., the acceleration due to gravity, the table of atomic weights. I don't believe that economics can have constants like that. You might make measurements which are all right for today. But, there are countless people whose interest it is to make nonsense of those measurements tomorrow. Well, now I have really been quite honest.

"I see **man** *as a 'beginning,' a chooser which cannot be fully explained."*

INTERVIEWER: If one takes that position, then a question could be asked of you: Given what you have said, what should economists do?

SHACKLE: I think they should give up giving advice, except on the most hesitant, the most broad grounds. I think they should introduce an ethical element, a more than ethical element. If a man is asked whether public expenditure should be cut or not, he perhaps should say, "Well, if we cut it, we shall cause a great deal of misery; if we don't cut it, we don't know what the consequences will be, but we can't at least have this misery on our consciences". This sort of argument is not an economic argument, it's an argument with one's conscience. For very many years I've not believed in welfare economics as a scientific construction. My idea of welfare economics is that you choose an administrator, a man with a conscience himself, and broad sympathy, with a generous mind, and then you say, "Leave it to him!" I don't believe you can do any better. Those economists who are going to give advice, or who are going to be advisors either to government or to business, should have their training based in economic history, and they only need as much theory as you find up to the second year textbook.

INTERVIEWER: How would you respond to the rebuttal that, aren't you, in a sense, suggesting that economics become historicism. General theory may exist, at a very simple or fundamental level, e.g., the concept of marginal utility, but, beyond that, all we ever have is the historical record and what was historically relevant in the past may not be for our period.

SHACKLE: No, it may not. And it won't be. Well, it's a very nihilistic position and I realize that.

INTERVIEWER: In a sense, what you're suggesting is that a very large proportion of what has been built up in over two hundred years in economics as a discipline needs to be set aside, that it throws into question the very notion of what most economists view as what is required of economics to be a science?

SHACKLE: I've been saying for almost forty years that economics isn't a science, and we ought not to call it a science.

INTERVIEWER: Thank you, Professor Shackle.

SHACKLE: Thank you. ■

Professor Kirzner on Entrepreneurship

by G.L.S. Shackle

it seems to me astounding that political economy should ever have been thought of as a *calculus*. A calculus is a means of re-arranging data so that they throw a different light upon their subject-matter. This fresh illumination may excite, startle and inspire its beholders. But this is only one kind of new knowledge. It is a fuller, more penetrating insight into material already within reach. It is a re-handling of the same data. We cannot use a calculus for practical ends until we have some data. Without data we can only play logic-games or indulge in science-fiction. Even a calculus is a playground with a wall around it. There are surely other playgrounds, fresh alphabets and languages, new grammars and new symbolisms, into which data could be poured in freshly glittering streams, once these new receptacles had been imagined. And such imaginations and originations merge into the apprehension of new data of new kinds, data made conceivable by new systems of classification, new categories of thought. Is not all this the legitimate field of the political economist, and of the business man, if their intellectual and history-making ambition is truly assurgent?

The practical man with an influence and a burden in the world is the business man. There is a question about him that cuts right down to the foundations of our view of life. Will his duties and his doings soon be taken over by the silicon chips? If we say yes, we are determinists who think that, in the last analysis, history is not of our making but we are simply bits of its fore-ordained pattern. Professor Kirzner's business man is the bold repudiation of that view. The Kirznerian entrepreneur is not threatened by the silicon-chips. He is their designer, and their out-reacher. What, then, does the business man really, essentially, indispensably do? He dreams dreams. He has thoughts that do not arise from any accepted programme or paradigm. He conjures knowledge that, in Professor Kirzner's words, no one knew existed. Professor Kirzner has not, perhaps, fitted words to the full impact of this thought. Our language seems to lack a word to give the full strength of it. The nearest we can come, I think, is *originate*. But this sometimes means merely the bringing together of ingredients. When we are speaking of

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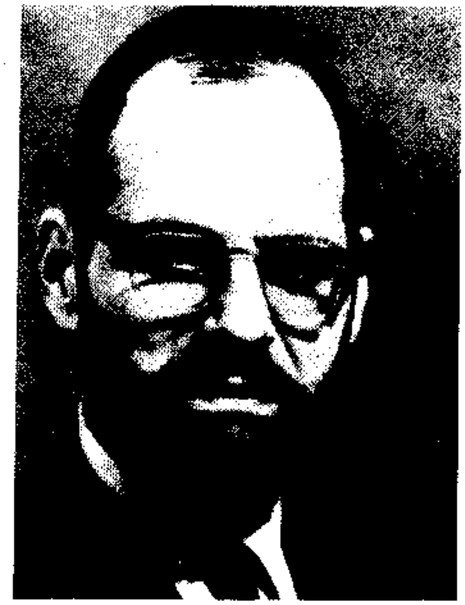
Professor Kirzner on Entrepreneurship

(Continued)

knowledge, what we may call ingredients, ideas known and even familiar, may be visible at the same time to the same man without the sudden flash of fusion into something new ever taking place. Professor Kirzner is suggesting in effect, I think, that the natural entrepreneur is the man in whose mind such fusions do take place. I am not sure, however, that what he calls alertness is the heart of the matter. Were Dante, Michaelangelo, Shakespeare, Newton, and Beethoven merely alert? No doubt, if we look at biological Nature herself, we see a boundless prodigality of experiment, the random heritable mutations most of which are disadvantageous. The few that confer special fitness for an available environment give the new species a powerful ascendancy. Does this theory, then, teach us that all is random? The entrepreneur's special gift, even if not comparable to the poet's or the composer's, seems to need a special word. This gift is not merely a wild prodigality of random trial and error.

It seems quite plain why the businessman who attains and exploits a true novelty does not usually do so by seeking answers to questions posed ready-made by existing technology. Solving arithmetical problems does not (except at rare conjunctures) establish new arithmetical ideas. The very word we use for the seeking of answers to *existing* questions seems a little restrictive and oppressive. *Research* envisages results whose outlines we can in some sense see in advance. Thus there may even be some sense in trying to compare the cost and the value of 'research' in this confined sense. But does it make sense to put a price on the time spent in ranging untrodden fields? If we knew in an exploitable degree what we should find, we should not need to find it. If we do not know what we shall find, how can we say what it will be worth? The true entrepreneur, Professor Kirzner is saying in effect, is the man whose thoughts can encounter knowledge that nobody knew existed. Pure speculative thought can have no price. Will economists ever loosen the stranglehold upon their minds of the idea that economics is a *calculus*? ■



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