REVIEW ESSAY

THE EVOLUTION OF AUSTRIAN ECONOMICS: FROM MENGER TO LACHMANN. BY SANDYE GLORIA-PALERMO. LONDON AND NEW YORK: ROUTLEDGE. 1999.

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Although this is a short book, 183 pages inclusive of index and bibliography, it covers a lot of ground. Drawing on her doctoral dissertation, Sandye Gloria-Palermo has undertaken a history-of-thought survey of the Austrian tradition from Menger to Lachmann. In the process, she considers the works of Böhm-Bawerk, Wieser, Mises, Hayek, Rothbard, Kirzner, and Lachmann—a tall order, to say the least. In order to accomplish this task she has chosen to narrow her focus to one central theme. "[I]nstead of concentrating on researching the originality of the Austrian tradition *in its widest sense*, we shall limit ourselves to emphasizing the *Mengerian essence*" (p. 3). Indeed, the whole book is an exercise in determining how these theorists mentioned above measure up when judged in terms of the standards set by Menger and how they are likely to contribute to the development of a viable and valuable Austrian research program going forward. Gloria-Palermo's interpretation, both of Menger and of his disciples, is likely to be controversial among Austrian scholars. I shall indicate some instances where I believe her conclusions are misleading and unwarranted. And I shall indicate where others might find her assertions problematic. This should not, however, be taken to detract from my admiration of the impressive scholarship that this work contains.

The book contains four parts comprised of eleven chapters and a conclusion. Part one (chaps. 1 and 2) lays out Menger's seminal contribution. Part two (chaps. 3, 4, and 5) indicates how Menger's earliest well-known disciples departed from his vision and how, because of the way the literature evolved, Menger's originality was lost. Part three (chaps. 6 through 10) chronicles the contributions of later generation Austrians—Mises, Hayek, Rothbard, Kirzner, and Lachmann. Each is judged in terms of his proximity to Menger's original

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THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 4, NO. 4 (WINTER 2001): 71-82

subjectivist vision and method. It is with the work of Ludwig Lachmann that we are seen to have come full circle (after some damaging detours), back to Menger's vision and to an approach that holds the greatest hope for a modern Austrian revival that so far seems to have hit a dead end. How to escape from this dead end is the subject of the remaining two chapters and the conclusion (in part four). Gloria-Palermo sees in Lachmann's approach the ingredients of a progressive research program if only the modern Austrians can escape from the potential nihilism that seems to be implied by it, and if only they can rid themselves of their untenable commitment to both "strict" (sic) methodological individualism and to the belief that the "efficiency" of free markets is implied by their economics. In what follows, I will first outline briefly the substantive content of the survey chapters, highlighting some of the more interesting interpretations; I will then turn to a critical examination of the assertions mentioned in the preceding sentence.

Gloria-Palermo identifies the essence of Menger's originality as being his subjectivism and its implications for time and uncertainty. Unlike the classical and neoclassical economists, Menger is not concerned about static resource allocation, but rather about resource use as a result of a better knowledge of production processes. He was also a pioneer in his understanding of the role and importance of institutions in economic life. It was unfortunate then, as has of course been noted by others (most notably William Jaffé), that he has tended to be lumped together with Jevons and Walras as one of the founders of conventional marginalism. Indeed, using the work of Carl Menger's son, Karl Menger, and the well-known letters that Menger wrote to Walras, Gloria-Palermo expounds upon the very real differences in Menger's conception of marginal valuation and why this necessarily implies that Walras's calculus-based mathematical conception was flawed. Some might feel that the distinction made between the different conceptions of marginal utility has been overstated (resting as it does on the difference between discrete and continuous changes), but this is not the place to pursue that possibility. Suffice it to say that Karl Menger's discussion as reported on by Gloria-Palermo is interesting and worthy of further consideration.

While Walras is concerned with equilibrium, Menger is concerned with processes. Production occurs in real time, and this implies the need to anticipate the future, which is uncertain. The production process is characterized by various types of uncertainty. The desire to hold money as a reserve should be seen in this light. Gloria-Palermo speaks here of Bergsonian uncertainty and evokes Lachmann's axiom: "as soon as we permit time to elapse, we must permit knowledge to change" (p. 31). While it may be true that this conception is implied by Menger's work (as indeed Lachmann was to vigorously argue), it cannot be claimed that Menger fully understood this. In her zeal to establish Menger's originality it may well be that Gloria-Palermo is making him too much of a subjectivist. So much is suggested by Lachmann's own analysis of Menger's incomplete subjectivist revolution (Lachmann 1978b). Menger had not arrived at the "dynamic subjectivism" (O'Driscoll and Rizzo 1996) that characterizes the current Austrian revival.

Be that as it may, there is no doubt that Menger made a significant subjectivist turn, and Gloria-Palermo considers perhaps his most famous disciple, Eugen von Böhm-Bawerk, to have abandoned this approach. She makes use (without citation) of the famous quote that Schumpeter has attributed to Menger to the effect that Böhm-Bawerk's theory of capital was his "greatest error." Though a common belief, it has, to my knowledge, never been firmly established that Menger actually said this, or, for that matter, what exactly he meant. The following would thus seem to be somewhat speculative and, at least, in danger of overstatement: "Böhm-Bawerk expresses his indebtedness whilst explicitly asserting his loyalty to Menger. However, the result of his investigations—the theory of capital and interest—turns out to be *violently rejected* by Menger himself" (p. 39, italics added)

That there are problems with Böhm-Bawerk's theory of capital and interest from a subjectivist point of view is not to be denied—specifically his "objectivist" approach to the measurement of capital and his allegedly circular justification of positive time preference.[1] I would suggest, however, that Böhm-Bawerk's contribution, even to the purely subjectivist aspects of Austrian economics, is not so easily dismissed.[2] Böhm-Bawerk's capital theory has both Austrian and Ricardian aspects to it and has been a source of inspiration to both literature streams. His essential insight about the productivity of wisely chosen "roundabout" methods of production comes from Menger's framework of higher- and lower-order goods. It is an original insight that no one has disputed and that Lachmann (ironically for Gloria-Palermo's case) considered essential to his (Lachmann's) subjectivist theory of capital. Similarly, Böhm-Bawerk's pure time preference theory of interest is pathbreaking and is definitely subjectivist in nature. It is underappreciated to this day.[3] Nevertheless, Gloria-Palermo is surely correct in claiming that Böhm-Bawerk's work had a neoclassical interpretation that theorists have used to absorb him into that literature stream. She might have noted that the same can be said of his work at the hands of the neo-Ricardians. This is, however, well known and well documented and one may doubt that it is sufficient warrant to revise our opinions of Böhm-Bawerk as a theorist of the highest order, even from a subjectivist point of view (though he may at times have strayed).

If Böhm-Bawerk is the unexpected villain of her piece, Gloria-Palermo considers Friedrich von Wieser to be a minor hero—the one who was faithful to Menger's subjectivist insights and the one whom (in stark contrast to

[1]Mises and Rothbard would add to this his unsatisfactory "psychological" approach to the question of time preference. For a discussion see Lewin (1997a) and Pellengahr (1995).

[2]See Lewin (1999) for in-depth discussion that benefits from discussions by Lachmann (1978a) and Kirzner (1966).

[3]See Lewin (1997a) and Pellengahr (1995).

Böhm-Bawerk) history has treated unjustly. She offers a reconsideration of Wieser's role. Though he is most remembered as the Austrian who examined the imputation problem, a contribution that led him to be associated with the formalist question of the existence of general equilibrium, he might just as well have been remembered as the author who sought "to develop a general theory of social evolution based on power conflicts between various categories of economic agent" (p. 52). Indeed, it is the latter project that was Wieser's main focus and his discussion of imputation in a static world was merely transitionally instrumental in this more ultimate and comprehensive goal. Wieser is known as a "theoretician of value" but is more accurately thought of as a "theoretician of socioeconomic dynamics" (p. 53). That he did not receive the recognition he deserved, and that his work did not provide the impetus for further development along the lines he originated, was most likely due to a disapproval of his radical ideology. "His clearly interventionist political stance turns out to be an explicit expression of praise for fascism" (p. 54). This is a pity because what is interesting about Wieser is the way he "merges an economic theory of value and a social theory of power" (p. 54). Modern Austrians, with their inappropriate "libertarian leanings," have overlooked the real contribution that lies below the repugnant ideology.

According to Gloria-Palermo, Wieser has an interesting theory of social evolution that incorporates the concept of power and that should have been considered by the later Austrians.

> In Wieser's view, efficient institutions do not automatically have a spontaneous or organic origin. Indeed, the author introduces a pragmatic dimension through the role given over to leaders in the process of building an economic and social unit. Institutions (money, market, division of labor) are neither the result of an organized social will nor the unexpected result of individual interaction: "much more satisfactory is an explanation based on gradual historical evolution, which takes into account the powerful factor of time." (p. 57, quoting Wieser 1967, p. 163)

Gloria-Palermo makes a good case concerning the relative lack of knowledge among Austrian economists concerning this aspect of Wieser's work, and particularly its relationship to Menger's theory of institutions. I was left with the feeling that she might have done well to have developed it further—perhaps this is a project for the future.

Though Wieser is celebrated by the Austrians for his discussion of the problem of imputation, it is this that is actually responsible for the Austrian originality being absorbed into neoclassical logic.

> In the ideal system of the simple economy, the principle governing the relations between evaluation is that of marginal utility. In such a case (static framework, perfect information, rational agents), the concept of evaluation is no doubt of the same nature as for marginalists. Limiting Wieser's analysis to this aspect of his work, that is, to the first phase of his work, makes of him an author with no originality, compared to a marginalist movement in full swing. (p. 58)

Gloria-Palermo includes here a discussion of the Viennese philosophical environment of the time and how this was conducive to the emergence of general equilibrium as the prime focus of economists. The triumph of formalism led naturally to the emergence of the general equilibrium paradigm and general equilibrium seems like a natural solution to the imputation problem. In this context it is simply an accounting problem. As she points out, however, when one moves away from the static world of general equilibrium into a world of interdependent action, where the functional structure of simultaneous determination is dropped in favor of a causal structure, the question of imputation has great social relevance. Indeed, she might have noted that this realization has of late penetrated the discussion of economic organization in the question of how to monitor and reward the individual contributions of team members in a joint production process.[4] The imputing of value is an inseparable part of the institutional structure governing the social relations between the owners of factors of production in any production process. It is of some interest to know that Wieser had anticipated these dynamic and institutional aspects of the imputation problem even if the answers he gave might not always have been to the liking of his modern Austrian progeny.

In her discussion of "Menger's legacy" in part three, Gloria-Palermo concludes that the legacy is a mixed one. We see both adherence to and gross departures from Menger in this later generation. Unambiguously in the latter category is the Mises-Hayek theory of the business cycle, which deviates from the essence of Menger in two ways—in the subjectivist dimension (it freezes individual [time] preferences) and in the role assigned to equilibrium. Hayek is particularly blameworthy in placing "the Austrian theory of economic cycles and fluctuations within the continuity of the deviation initiated by Böhm-Bawerk" (p. 73). "[I]n contrast to the Mengerian logic, we have here a totally deterministic process" (p. 75). It all adds up to a rather harsh and unmitigated judgment. One need not be ready to offer a full endorsement of the theory (as I am not) and yet still be able to concede that there may be some elements of valuable truth in the intuition that it offers.[5] As with the criticisms of Böhm-Bawerk, it should be noted that the shortcomings of the Austrian business cycle theory are well known and have been widely discussed in the modern literature. As deterministic as it might be, the theory asks a crucial question: Are inflationary policies bound to be followed by an economic contraction? Many competent theorists, some thoroughgoing subjectivists among

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[4]Such concerns can be found in the "New Institutional Economics," in the strategy literature of the "Resource Based Theory of the Firm," and in some modern Austrian discussions of the firm. See Lewin (1999, chaps. 9 and 10) for a discussion.

[5]The modern work of a number of competent theorists who have considered these valuable aspects worthy of a reworking of the theory (Garrison 2000; Horwitz 2001; and Cowen 1997, to mention just three) should be noted.

them, are inclined to give an affirmative answer. It is not clear that Menger would not have gone along as well.

In Mises's work in general, according to Gloria-Palermo, we do find a reappearance of the Mengerian essence. In his consideration of human action Mises is progressively forced to consider the logical imperatives of time and to reject the static framework. In the debate on socialist planning, Mises becomes clearly aware that he is speaking a different language from the neoclassicals. Similarly, Hayek's lengthy research program brings him to the realization and expansion of the idea that competition is a discovery process, a process of knowledge discovery. Hayek's "knowledge problem," which decisively destroyed the case for comprehensive central planning, clearly arises out of the Mengerian essence. Included in this chapter (chap. 6) is a discussion of the different methodological approaches of Mises and Hayek that is, not surprisingly, critical of praxeological a priorism. There is also a brief but interesting discussion of the relationship between the ideas of Hayek and Popper.

Gloria-Palermo's discussion of Murray Rothbard's work is completely unsympathetic. She considers Rothbard to be quite beyond the pale, not only in that his work departs unacceptably from Menger's essence, but also because it is little more than a transparent "theoretical foundation for new right-wing policies" (p.103). This last-mentioned epithet is particularly unfortunate, given, as I shall discuss below, that our author seems to draw inappropriate policy implications from her own analyses.[6]

She is not quite so critical of Israel Kirzner's theory of entrepreneurial alertness, which she portrays as summarizing the contributions of both Hayek and Mises through two main analytical principles, viz., the concept of human action and the recognition of the problem of knowledge. "Ultimately, then, the kind of 'knowledge' required for entrepreneurship is 'knowing where to look for knowledge' rather than knowledge of substantive market information . . . alertness" (p. 105). It is in his commitment to equilibrium and his characterization of all entrepreneurial action as equilibrating that Kirzner comes up short. His debate with Lachmann on this issue, ongoing in the work of Lachmann's disciples (for example, O'Driscoll and Rizzo 1996), serves to make this plain.

Gloria-Palermo introduces the work of G.S. Richardson (1960) as further critical ammunition.

> The fact that a profit opportunity is clearly identified by alert entrepreneurs as a whole is the very reason for its not being exploited. . . . For the

[6]To refer to a libertarian approach as "right-wing" threatens to seriously limit the book's credibility with American-Austrian and other heterodox readers insofar as it suggests it might be the product of a narrow and parochial European mind, quite unfamiliar (or unconcerned) with the American political spectrum (in which, of course, libertarians do not consider themselves to be "right-wing"). Such an outcome would be most unfortunate given the many valuable insights that the book does contain.

> principle of competition to operate, Richardson believes that there needs to be an *ex ante* coordination mechanism capable of guaranteeing investment activities. (p. 108)

But it is not so clear to me that Richardson's work (which, it might be mentioned, was inspired by Hayek's work in the 1930s) is damaging to Kirzner's conception of entrepreneurial alertness as such. Rather it might be seen as complementary to it. Kirzner might well argue that some of the *ex ante* coordinating mechanisms, so insightfully illuminated by Richardson, can themselves be understood as the result of entrepreneurial alertness (for example, joint ventures) while others (tacit rules, the helpful "imperfections" of limited expansion capacity, etc.) are the natural outcome of the market process. Still, the discussion of Richardson's work in the context of Kirzner's theory of entrepreneurship is provocative and suggestive.

In further criticism of Kirzner, Gloria-Palermo asks: "Could it not be argued . . . that the interest of the entrepreneur who unearths a non-exploited profit opportunity would be to keep this information private and confidential as long as possible and to exploit information asymmetries?" (p. 115). It is not clear that this is a valid criticism of Kirznerian entrepreneurship. Surely the entrepreneur would not "keep this information private and confidential as long as *possible*" but only as long as *desirable*, in order to set up an appropriate protective institutional structure. It is, after all, a well known and incompletely solved problem that a valuable idea might have to be divulged *before* it can be exploited, when, at the same time, the act of revelation might threaten the expropriation of its potential value. Kirzner is surely right that in these types of matters "markets do work" since it is an undeniable empirical fact that many good ideas do get exploited and that this is more true of free markets than of highly regulated ones. This should not, it seems to me, be conflated with the valid criticism of approaches that seem to suggest that markets always work in a way that is "optimal" or "efficient" as Kirzner has sometimes seemed to be saying, especially when these standards are (sometimes implicitly) borrowed from the very neoclassical paradigm that has been rejected (more of this below).

When we come to a consideration of the work of Ludwig Lachmann we have finally and fortunately a true and faithful disciple of Menger. Lachmann is seen to have both understood the essential Mengerian essence of the subjectivism of value and to have validly and fruitfully extended it to the subjectivism of expectations.

> It is now possible to make an assessment of the condition and the scope for the development of the Austrian tradition as it appears through its modern revival. In fact, the results are relatively negative. Rothbard's loyal path to Praxeology ends up being little more than the theoretical basis for libertarian politics; the theory of entrepreneurship, in its attempt at reconciliation with the neoclassical movement, loses the Mengerian originality related to the concepts of uncertainty and speculation; there remains the path taken by Lachmann. (p. 131)

Lachmann alone has pursued the implications of subjectivism in full. Like Richardson, he has realized that human action is propelled by subjective interpretations of reality, rather than by a uniform understanding of it. "The absence of a uniform relationship between a set of observable events which might be described as a *situation* on the one hand, and expectations on the other hand, is thus seen to be the crux of the whole matter" (p. 120, quoting Lachmann 1943, p. 14). Since individual expectations differ, implying that at most one of a set of differing expectations can turn out to be correct, error is inevitable. And since action precipitates further error, a convergence toward an equilibrium of fully coordinated plans and expectations cannot be deduced or assumed. For Lachmann, as ultimately for Hayek, such convergence is a complex empirical matter, but whereas Hayek was willing to assume such a convergence, Lachmann was not.

This unflinching confrontation with the implications of "radical subjectivism" has suggested to some the danger of descending into the abyss of theoretical nihilism. Gloria-Palermo takes this prospect seriously and considers possible escape routes in Lachmann's own work. Lachmann (1971) considers how the institutional structure of society evolves to provide individuals with a way to cope with inevitable differences in expectations. He contrasts the necessary durable nature of the institutional order as a whole with the requisite flexibility of the individual institution. And in his 1986 work he discusses the need to develop different theories of market process according to the different institutional environments in which market interactions take place. He suggests reducing the level of abstraction so as to define with greater precision the effect of the institutional context in which individual plans are made and executed. "Is it possible," Gloria-Palermo asks, "to imagine a more precise theory of the market process that allows us to go beyond the simple non-deterministic conclusion reached by Lachmann, whilst at the same time conserving the assumptions of radical uncertainty and subjectivism?" (p. 140) and she sees hope in "an enlarged conception of market process which takes into account both the influence of the institutional environment on the process of plan formation and the evolution of the institutional context as the result of individual interaction" (p. 142).

As someone with a lifelong interest in Lachmann's work, I understand the apprehension that many have felt about his radical subjectivism. Nevertheless, I consider the threat of nihilism to have been dramatically overstated, especially since Lachmann's own work has pointed the way to a rich research agenda along the lines discussed in the previous paragraph. Gloria-Palermo might have taken note of the considerable volume of work bearing the undeniable influence of Lachmann that has developed over the past thirty years. This is, it seems to me, an unfortunate omission from her work, especially regarding her repeated negative judgment concerning the achievements of the Austrian research program. As it is she mentions only the notable work of Richard Langlois. She fails to mention the brilliant analysis of Don Lavoie on economic planning (1985), most of the many works of Peter Boettke on culture and institutions (some recently collected in Boettke 2000), the work of Roger Koppl on markets and "big players" (for example, Koppl and Yeager 1996), and of Nicolai Foss and others employing Lachmanian themes in the area of economic organization, just to mention a few.[7]

The notion that Lachmann's insights lead to a theoretical nihilism seems to be predicated on the assumption that an inability to prove convergence to equilibrium implies complete indeterminateness, that we cannot know anything about anything. Surely this is not what Lachmann meant or what his insights implied. I have tried to argue that correctly understood both disequilibrium and prediction are possible (see Lewin 1999, chaps. 2 and 3; 1997b; and also Loasby 1991, 1994). The following assessment thus seems to me to be wide of the mark in a number of different respects:

> If we were to summarize the work of Lachmann in a few words, we would talk of his attempt to extend subjectivist logic to agents' expectations. . . . [T]he implications of this enlargement have far reaching consequences. Lachmann offers an ideal-type view of the market process, at the same time questioning not only the normative Austrian conclusions supporting non-intervention, but also limiting the theorist's field of intervention regarding economic prediction and more generally regarding his capacity to generate general laws and theories. (p. 116)

While it may be true that Lachmann's work questions the ability of theorists to make predictions, or of their ability to generate general laws and theories (though this is more arguable), it is decidedly not true that Lachmann's work challenges the normative Austrian conclusions supporting nonintervention. This is an assertion repeated throughout this work[8] and is one that others

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[7]Casting a wider net, the modern Austrian market-process research program has yielded much in recent years. Contrary to Gloria-Palermo's assertions, there are, it seems to me, grounds for guarded optimism. There is a small but very active network of scholars working in this tradition. The products of this work includes many articles published in diverse journals and books (including twenty in the Routledge series on the Foundations of the Market Economy), many papers presented at conferences, and two active journals. This work reflects a shared intellectual heritage and a shared language of intellectual discourse that has been applied to a number of areas of current interest including money and banking institutions, the theory of the firm and economic organization, the transition to market economies, antitrust economics and the economics of standards. In addition, Austrians have continued to write about those areas that have been of traditional interest like methodology and history of thought. References are too numerous to produce here.

[8]"Lachmann's conclusions are quite embarrassing for anti-interventionist supporters" (p. 127); "the Austrian tradition is increasingly aligned with the defense of the free market but it is analytically doubtful that this may be derived from the original scientific program of Menger" (p. 151); "Lachmann's work surely cannot be considered as biased toward an ideological defense of the market" (p. 158); and similarly for Richardson, "Richardson's criticism, although not directly aimed at Austrian competition theory, questions the results of Hayek and Kirzner regarding the market system as a desirable order" (p. 108).

have made as well. I would argue strongly that Lachmann's work does indeed establish a presumption against interventionism, and one that Lachmann understood. It is in this regard that Gloria-Palermo's interesting survey analysis is at its weakest.

In the first instance, Lachmann's subjectivism complements Hayek's knowledge problem in the decisive case against comprehensive planning. The planners are just as radically ignorant as other individuals in the economy. In the matter of less comprehensive planning, of which interventions of various sorts and degrees are cases in point, the same considerations apply. Regulators are also radically, subjectively ignorant. Their plans, based on their expectations, are as likely to be falsified as any. How, one may ask, does one get from an assertion of radical subjectivism to a support for intervention? The following reasoning seems to apply. Since Lachmann has established that individual expectations must differ, no convergence to equilibrium can be proven. This means that individual action may be paralyzed (especially in free-rider type situations)—it raises the question of whether action is possible in disequilibrium and suggests that when the answer is negative, as it is argued, it well might be,[9] intervention is called for. It progresses from the argument that since the "efficiency" of the market process cannot be proven (an assertion Gloria-Palermo makes frequently), a case for intervention has been made. In other words, there is a failure to distinguish between the assertion that it cannot be proved that the market process is "efficient" and the assertion that the market process is "inefficient." *Acceptance of the former assertion in no way implies acceptance of the latter one*. The market process should not to be presumed to be "inefficient" unless it can be proven "efficient." But even if one were to go this route, a presumption of market "inefficiency" does not, *in itself*, establish a case for government intervention. The latter is only true if greater "government inefficiency" can be excluded. Gloria-Palermo does not address this possibility.

I have assiduously used scare quotes around the word "efficiency" in order to suggest care in its use. The concept is a slippery one, and while space considerations prohibit a full consideration here, I would contend that if it is to have any cogency in this context, it can mean nothing else than that an "inefficient" situation is one that can be "improved" by government intervention of some kind (for further justification, see Lewin 2001). If I am correct, attention must be directed to the question of how an "inefficient" situation could be identified. It is necessary not only to argue that the status quo is somehow "less than optimal," but one must further address the question as to how it

[9]Though, as suggested above, there is much reason to dispute this. The existence of free-rider situations is quite insufficient to establish a case for a government imposed solution—for example, the mandating of a uniform standard. History is full of examples of spontaneous market solutions, the emergence of institutions that internalize these collective gains (see Liebowitz and Margolis 1999 and 2001).

can be shown that government intervention will improve matters. When the burden is thusly placed the case for intervention is, indeed, a difficult one to make, and the work of the Austrians surely makes it even more difficult, given the type and volume of knowledge that policymakers must be assumed to have in order to achieve their aims, not to mention the reliance one must put on public goodwill in contrast to market incentives.

Finally, Gloria-Palermo suggests that the Austrians have an inappropriate and inconsistent adherence to the principle of methodological individualism. I believe this opinion is predicated on an unwarranted construction of this concept—a belief that is supported by her use in some places of the modifier "strict" as in "strict methodological individualism." Clearly Austrians do not deny the crucial role of existing social institutions in conditioning human action, yet they have not thought this to be in conflict with adherence to methodological individualism. Though groups of individuals (rather than individuals) and institutions may be selected for in evolutionary processes, it still remains true that only individuals can act.[10] Adherence to methodological individualism reflects the belief that any satisfactory explanation of economic outcomes must, as far as is possible, be traced back to the individual actions that brought it about. This surely does not deny that, depending upon the context, certain institutions must be taken as exogenously given. The implicit assumption is that they, in turn, are the result of prior individual actions not part of the current analysis. One cannot trace everything back all the way to the actions of Adam and Eve! This does not mean that one abandons methodological individualistic principles.

Despite these criticisms, I believe this is a valuable and interesting work and one that serious students of Austrian economics and the history of thought should read critically but appreciatively.

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[10]For a discussion see Zywicki (2000).

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