



AUSTRIAN ECONOMICS NEWSLETTER

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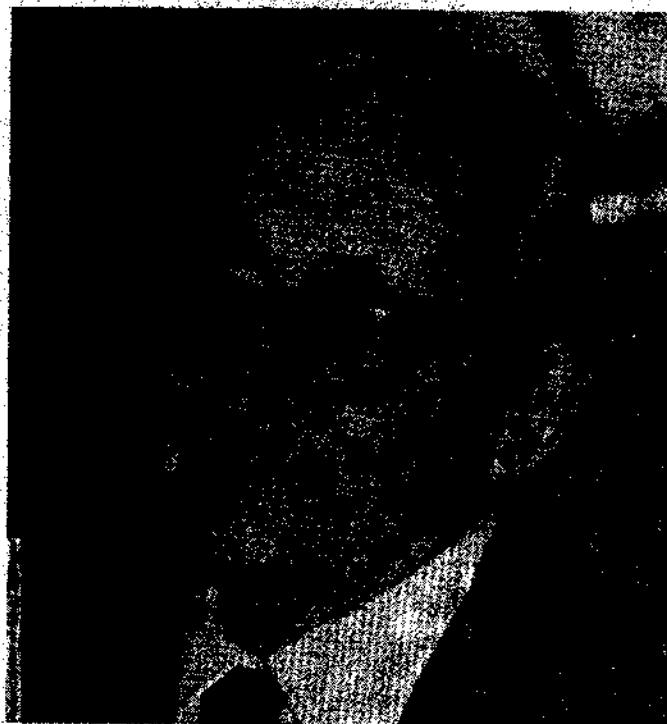
AEN BEGINS PUBLICATION

This issue marks the first publication of the Austrian Economics Newsletter. The Newsletter is intended to serve as a research aid and communication device for those working in Austrian Economics. For a number of years there have been only a few scholars actively writing in the Austrian tradition. However, there has recently been quite a resurgence of scholarly interest in Austrian economics. Much of this interest has been stimulated by those who studied in von Mises' advanced seminar at New York University.

Evidence of this resurgence is abundant as the following indicate:

- This summer over twenty-five scholars spent three months doing research in the Austrian tradition at the Institute for Humane Studies (Menlo Park, CA) with grants provided by the Liberty Fund. Most of the participants were graduate students or recent Ph.D's.
- In the last four years there have been twelve major conferences on Austrian economics and additional conferences are being scheduled for the future.
- The Austrian Economics Seminar is now in its third year of monthly meetings at NYU. The express purpose of this seminar is to encourage scholars interested in the Austrian approach to present working papers for comments and criticism. This academic environment has proved helpful in stimulating young scholars to integrate their independent research pursuits with that of their colleagues.
- An impressive series of lectures by Austrian economists was held at the University of Chicago this past year, a program to be expanded by the Cato Institute to other universities.
- At present there are Austrians doing graduate work at a number of major universities including UCLA, Harvard, Virginia, Chicago, and of course NYU.
- In recent years several new Austrian works have been published. The newly established *Studies in Economic Theory* series promises to republish all of the Austrian works now out-of-print, and will provide a valuable outlet for publishing new contributions by contemporary Austrian theorists.

With this resurgence, the future offers great opportunities for Austrians. Several insights, long of interest to Austrians, are at present being discussed by the economic profession. For example, Sir John Hicks' recent work has focused on the unique role of time in economics. Axel Leijonhufvud has incorporated Austrian ideas on the importance of relative price changes in his analysis of inflation. G.L.S. Shackle's writings on time, uncertainty and knowledge have generated much work on radical subjectivism and market process. In addition the work of James Buchanan on subjective cost poses a major challenge to the current emphasis on the measurement of costs. Finally, with F.A. Hayek's recent Nobel Prize, Austrian ideas are again being noticed.



Friedrich A. Hayek

Unfortunately many individuals concerned with Austrian economics are not aware of the rapid growth of interest in these ideas. Many of these individuals have been working in isolation with little knowledge of the resurgence. Because those involved in this field are so widely scattered and because there exists at present no formal means to keep them informed of Austrian activities, the Austrian Economics Newsletter should be of value. Thus the Newsletter will be directed first and primarily at those individuals engaged in on-going work in Austrian Economics.

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Conference Generates Interest in Austrian Economics

by Richard Fink

The Liberty Fund, in conjunction with the Institute for Humane Studies, sponsored an instructional seminar in Austrian economics at Mills College (Oakland, California) from June 19 through July 2, 1977. As the conference was designed to provide graduate students and young professors with an intensive two-week introduction to Austrian economic analysis, thirty-five conferees were chosen who had had little or no previous exposure to Austrian ideas. Under the direction of Charles Baird of California State University at Hayward, the conference featured lectures by Israel Kirzner of New York University, Gerald O'Driscoll of Iowa State, John Egger of Goucher College and Roger Garrison of the University of Virginia. Participants included graduate students and professors from India and England, as well as the United States, and represented such universities as Oxford, Harvard, Chicago, Stanford, New York University, Virginia, Rutgers and the University of Texas.

The conference began with an introductory address by Neil McLeod of the Liberty Fund at the Sunday night banquet. McLeod's talk set a tone of ambitious optimism for a conference that would attempt to summarize 100 years of literature in two weeks. This was the first of four banquets, each of the other three noting the arrival and talk of a distinguished guest lecturer. Nobel Laureate Friedrich von Hayek spoke on constitutionalism and democracy, Axel Leijonhufvud of UCLA developed his ideas on rigged inflation, and Murray Rothbard of the Polytechnic Institute of New York delivered a lecture on the problem of socialist calculation. After his lecture Rothbard chaired a round table discussion on current economic problems which closed the very successful conference.

Professor Kirzner opened the formal lecture series with a talk entitled "The Marginal Revolution and the Emergence of the Austrian School" which traced the origins of Austrian economics and placed the school in its historical perspective. He identified five basic Austrian insights: subjectivism, methodological individualism, the role of purposes, causal-genetic analysis and methodological dualism. Kirzner argued that to understand the real world a radical subjectivist attitude is essential, since in economics, what things are is less important than what people believe they are. By methodological individualism it is meant that an explanation of economic phenomena must be based on the acts of individuals. In stressing purposiveness Kirzner emphasized the goal of making the world intelligible in terms of human purposes. Austrian economists have long maintained that the goals and methods of the social sciences differ from those of the natural sciences. The goal of economics is explanation of phenomena in terms of its elements and the method is to build deductive theories which deduce the phenomena from those elements. Since

these theories derive their validity from logic, the failure of empirical prediction does not invalidate a theory. Rather the assumptions (such as the *ceteris paribus* conditions) have been shown not to hold.

The lectures of Professors Kirzner, O'Driscoll, Egger, and Garrison provided the application of these ideas to such topics as value, imputation, capital and interest, and the problems of capital measurement. Further topics such as the synchronization versus the maintenance of capital, equilibrium versus the market process, and the Misesian critique of the quantity theory of money directly contrasted Austrian analysis with that of other schools of thought. Other lectures dealt with entrepreneurship, economic fluctuations, the development of Keynesian economics, the coordination of economic activities, and Hayek's conception of spontaneous order. In addition to these formal lectures, the afternoons and evenings provided many opportunities for informal discussions including a presentation by Derek Jennings of Stanford University on the methodology of the social sciences.

The Mills College facilities were excellent and contributed to the success of this conference. A number of recreational activities including swimming, volleyball and tennis provided a needed break from the morning lectures and ambitious reading assignment. The numerous inquiries from the attendees concerning future conferences and other Austrian activities indicate that substantial interest was generated in Austrian ideas. ■

Austrian Economics Newsletter

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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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Loasby Explores Radical Uncertainty

Brian J. Loasby. *Choice, Complexity and Ignorance*. Cambridge University Press, 1976. 242 pp. \$19.95

Reviewed by Lawrence H. White

Brian Loasby, Professor of Management Economics at the University of Stirling, has written a clear and valuable critical investigation into the implications of radical (Knightian) uncertainty for economic conduct and economic theory. He speaks of "partial ignorance" rather than "uncertainty" since deterministic decision theorists have bastardized the latter term by using it to refer to what is actually "subjectively perfect risk." (p. 9) Loasby's critical attitude and dry wit are quite evident: "the economist, faced with a very awkward problem [uncertainty], has succeeded, as so often, not in solving it, but in denying the legitimacy of its existence." (p. 9)

In rather praxeological fashion Loasby views uncertainty as a necessary characteristic of purposive human action: "The idea of purpose reinforces the logical necessity of partial ignorance, for purposive action is intended to make the future different in some respects from what it would be without such action." (pp. 6-7) That the future can be altered, presumably by others, as well as by the anonymous decision-maker in question, makes it less than perfectly predictable. Here, early in the book, is a statement of what Alan Coddington has called the "simultaneity problem." This problem has been given prominent play in Shackle's *Epistemics in Economics* as a barrier to the realization of final equilibrium and an earlier statement of it can be found in Hayek's "Economics and Knowledge" (*Individualism and Economic Order*).

Continuing, Loasby aims a subjectivist critique at a number of worthy targets: Hydraulic Keynesian model building (Loasby, a Fundamentalist Keynesian, calls Shackle "Keynes' solitary follower among leading economists"), Friedmanian positivism, and especially Arrowian general equilibrium theory and the associated Paretian welfare economics. In each of these areas Loasby's criticism could have been even sharper had he consciously advanced the arguments Hayek makes in "Economics and Knowledge" (in *Individualism and Economic Order*), "Degrees of Explanation" and "The Theory of Complex Phenomena" (both in *Studies in Philosophy, Politics and Economics*) and elsewhere. As it is, his arguments have a Hayekian flavor, but one filtered through Shackle.

Loasby does not pull his punches: "Equilibrium models cannot explain because they specify no causal process." (p. 26) He refers to general equilibrium theory as "social science fiction." His discussion of abstraction and experimentation is marred, however, by a failure to recognize that proper theorizing in the social sciences is *compositive* while that in the natural sciences is *decompositive* (see Hayek's *The Counterrevolution of Science*). For this reason, modeling plays very different roles in these two types of disciplines. There is more to explanation than *ex post* "prediction."

Loasby combines concepts developed by Shackle with those of Coase and members of the Carnegie School (Herbert Simon, *et. al.*) in chapters on the firm and organizational behavior. He makes the important point that the firm, like money, is essentially a disequilibrium phenomenon; in general equilibrium any rationale for the firm would be gone. Loasby's conception of entrepreneurship and profit is thoroughly Misesian, though without any reference made to Mises: "Profit depends on imperfection of knowledge; it results from the successful exercise of imagination in seeing a value higher than the conventional valuation in some asset or opportunity." (p. 161) He conceives of the competitive process in Hayekian terms, but adds that "the process is one of invention as well as discovery." (p. 185) His discussion of innovation is stimulating, and he illustrates his points with pertinent examples of actual firms in Britain. Indeed, throughout the book Loasby expresses concern with the practical relevance of theory. Loasby also suggests an unorthodox defense of competition as the proper means of coping with the uncertainty of the future. The divergence of plans under disequilibrium competition prevents the catastrophes of a false (i.e. centrally-imposed) convergence of plans.

Those who have followed the growth of knowledge literature of Popper, Kuhn, Lakatos, and Latsis should be interested in a chapter entitled "Progress and Paradigms" which contrasts general equilibrium theorizing with Marshallian value theory and behavioral theories of the firm. In his final chapter, Loasby again criticizes the general equilibrium models developed by Arrow and others for failing to incorporate accurately time, uncertainty and imagination. He sharply criticizes Hahn's defense of equilibrium theory as a formalization of what the world would have to look like were the Invisible Hand to operate:

General equilibrium theorists have not "formulated a two-hundred-year-old tradition," as Hahn claims; they have invented a new question about the properties of a solution set, already deemed to have been discovered, in a very special system. The relevance of this invented question they have never attempted to make clear. To Adam Smith's problem of how to organize an economy in order to find desirable solutions they have, formally, nothing to say. (pp. 217-218)

While Loasby's critique is excellent, even stirring, his positive suggestions are disappointing. He offers little but the false choice of Arrow-Hahn *versus* Shackle-Keynes (the Keynes of the 1937 article, which he quotes at length). He adopts a troubling methodological stance similar to that of Shackle and Lachmann, which might be called "theoretical pluralism," that there are "dangers inherent in any single mode of theorizing." (p. 12) Such a view brings one perilously close to institutionalism. Austrians can applaud Loasby's attack on Arrowian general equilibrium theory, but they should recognize that systematic consistency *per se* is not a defect. ¶

Scholars Engaged in Writing & Research

We hope to feature this column regularly, but we depend on our readers for information. Scholars engaged in research are encouraged to write us describing their research interests and progress. It is also hoped that our readers can provide suggestions of problems which merit scholarly attention.

Richard Ebeling (45-35 44th St., Apt. 1-E, Long Island City, NY 11104), a graduate student at NYU, during the last year has written several papers analyzing contemporary economists. Two, "Reflections on John Hicks' 'The Hayek Story'" and "Some Reflections on the 'New' Monetary Theories of Clower and Leijonhufvud," were delivered at the Austrian Economic Seminar. For Professor Lachmann's seminar at NYU he presented a paper on "Keynes, Keynesians and First Principles." While at the Institute for Humane Studies this summer, Ebeling wrote a paper on "Alfred Schutz and the Praxeological Method." He is at present working on an analysis of Milton Friedman's monetary theory and will be writing a review of the revised edition of F.A. Hayek's *Denationalisation of Money*.

John Egger (Dept. of Economics, Goucher College, Baltimore, MD 21204) is examining the "rational expectations" literature from both theoretical and history of thought points of view.

Roger Garrison (Institute for Humane Studies, 1177 University Drive, Menlo Park, CA 94025) has just completed his dissertation proposal — "The Neoclassical-Austrian Paradox: A Study of the History of the Wicksealian Idea" — which contrasts two strains of thought derived from Wickseal's monetary theory. He is presenting his proposal at the October meeting of the Austrian Economics Seminar.

Henry Hazlitt is now working on a new book on inflation. Whereas his 1965 revision of *What You Should Know About Inflation* mainly brought statistics up to date, this forthcoming work is to be mostly new with an in-depth treatment of many problems not dealt with in the earlier work.

Naomi Moldofski (University of Melbourne, Parkville, Victoria, Australia, 3052) at present is pursuing research in comparative economic systems. She sees this as a very fertile area for the application of Austrian insights.

David Ramsey Steele (30 Chestnut Avenue, Queens Road, Hull, Yorkshire HU5 3 JP, England) is putting the final touches on his book, *The Impossibility of Communism*, which considers Mises' economic calculation argument in the context of the Marxian idea of socialism.

Lawrence H. White (901 Levering Ave., #4, Los Angeles, CA 90024), a graduate student at UCLA, has been working on the theory of entrepreneurship and the question of whether there is a tendency toward general equilibrium. He presented his "Entrepreneurship, Imagination and the Question of Equilibrium" at the Austrian Economics Seminar at NYU in March, 1976. White criticized what he saw as "a misplaced emphasis on arbitrage in Kirzner's *Competition and Entrepreneurship*" and marshalled arguments of Shackle and Lachmann to provide

another outlook. He has also applied this analysis in a long inquiry into theories of decision-making (subjective probability vs. Schackle's theory) and their relevance to entrepreneurship.

White now believes his previous emphasis to have been somewhat lopsided and has endeavored to steer a middle course between Kirzner and Lachmann in a short piece written this summer: "The Austrian School and Spontaneous Order: Comment on O'Driscoll." This paper is intended to help clear up the dispute among Austrians which was reported by Jerry O'Driscoll in "Spontaneous Order and the Coordination of Economic Activities" (*Journal of Libertarian Studies*, Vol. 1, no. 2).

He and Jack High are organizing a Los Angeles study group which will investigate the Hayekian theory of capital as presented in *The Pure Theory of Capital* and earlier works. If time permits, John Hicks' *Capital and Time: A Neo-Austrian Approach* will also be covered.



Larry White and John Egger converse at the Mills College Conference.

Albert Zlabinger (Assistant Professor of Economics, Valdosta State College, Valdosta, GA 31601) is currently translating a number of essays for two volumes to be published on the theory of market process and on monetary theory and the business cycle. These essays, originally published in the twenties and thirties in German, were written by Mises, Hayek, Schams, Mayer, Mahr, Rosenstein-Rodan, Lachmann, Hicks and Strigl.

A second project involves the papers of Carl Menger, which have been inaccessible since 1922 when Hayek, as a young student in Vienna, sorted them provisionally after Menger's death. Nothing in this collection of Menger's later writings, the product of thirty years of work, has ever been published. Much of it, however, was at one time ready for publication. In his research for the planned three additional volumes of the *Principles*, Menger found it necessary to study related disciplines. This material should be very interesting.

Austrian Economics At New York University

by Don C. Lavoie

The newly established Austrian economics program at New York University offers an excellent opportunity for students to work toward a Ph.D. in economics. For many years interest in Austrian economics centered on Ludwig von Mises' graduate seminar at NYU. This tradition has been carried on by Dr. Israel Kirzner, one of the most outstanding students of Mises, who has written several well-respected works in economic theory while teaching at NYU. In January, 1975, Dr. Ludwig Lachmann, a distinguished student of F. A. Hayek and preeminent Austrian capital theorist, joined Kirzner on the faculty as a visiting professor. With the addition of Professor Lachmann the educational value of the Austrian program increased inestimably, as any of the Austrian fellows can attest after witnessing and participating in some of the truly classic debates engendered by these scholars. The program was further enriched in the fall of 1976 when Mario Rizzo, a recent Ph.D. graduate from the University of Chicago, joined the NYU faculty as a post-doctoral fellow. Plans are now being considered to expand further the Austrian program. Fellowships covering tuition and living expenses are available for highly qualified students.

Students presently involved in the program include: Matt Krogdahl and Don Lavoie who have been studying at NYU for several years; Richard Ebeling, Ritchie Fink, and John Kunze who began graduate study in the fall of 1976; and Robert Kwasny, S. Narayanan, Rob Cohen and Benny Gilad who are now beginning their first year. Last year the program greatly benefited from the presence of Jack High who has now returned to UCLA to write his dissertation.

Although most of the official course work (including the rigorous core courses) is taught from a mainstream perspective, Professor Kirzner regularly teaches an excellent history of thought course and Professor Lachmann offers a challenging two-semester advanced seminar. In the future more Austrian courses will probably be available.

Among the opportunities to study Austrian ideas is the regular Monday Colloquium, a veritable feast of Austrian economics run by Lachmann, Kirzner and Rizzo. Consisting of oral presentations by a student or professor followed by extensive critical discussion, the Monday Colloquium provides a fruitful intellectual environment for advancing Austrian theory by bringing together different perspectives on a variety of topics.

Students have also greatly benefited from participation in the Austrian Economics Seminar. Meeting monthly at NYU, the seminar participants include economists from the New York area as well as distinguished visitors. The Newsletter's next issue will include an article on the AES.

Another valuable tool for the Austrian fellows is the Human Action Club which was independently organized by many of the graduate students and others from New York City. The Center for Libertarian Studies has provided a meeting place for this discussion group where students critically discuss major Austrian and related literature. Last year, for example, the group covered Mises'

Human Action, Buchanan and Thirlby's *L.S.E. Essays on Cost*, Hayek's *Collectivist Economic Planning*, and Lange and Taylor's *On the Economic Theory of Socialism*. In the 1977-78 academic year there will be two discussion groups. One will begin with a critical study of Murray Rothbard's *Man, Economy and State* and is primarily for the first-year students. The other will cover the major Austrian literature on capital theory, including Bohn-Bawerk's *Positive Theory of Capital*, Kirzner's *An Essay on Capital*, Hayek's *Pure Theory of Capital*, and Lachmann's *Capital and Its Structure*.

Of course the most important part of a Ph.D. degree is the dissertation. Students at NYU have the unique opportunity to write their dissertation with eminent professors interested in the Austrian tradition. It is hoped that the continued growth of interest in the Austrian tradition will make this challenging graduate program less of an anomaly in the 1980's.

OSKAR MORGENSTERN (1902 - 1977)

Oskar Morgenstern, the distinguished economist, died on July 26, 1977, at the age of 75. Born in the Silesia district of Germany in 1902, Dr. Morgenstern received his doctorate from the University of Vienna in 1925. While a graduate student, he was assistant to Hans Mayer and was appointed by Mayer to the position of co-editor of *Zeitschrift für Nationalökonomie*, along with Paul N. Rosenstein-Rodan.

When the Austrian Institute for Trade Cycle Research was established in 1927, Morgenstern became assistant to Friedrich A. Hayek, the first director. When Hayek moved to the London School in 1931, Morgenstern took over the directorship of the Institute, a position he held until 1938. During the 1920's and early 1930's, Morgenstern was a frequent participant of the private Mises Seminar.

Professor Morgenstern is best known for his co-authorship of *The Theory of Games and Economic Behavior* (1944) and recently wrote of "The Collaboration Between Oskar Morgenstern and John von Neumann on the Theory of Games," *Journal of Economic Literature* (Sept., 1976).

In the 1930's, he wrote a number of articles within the "Austrian" tradition, concerned with the problems of imperfect knowledge, including "The Time Moment in Value Theory" (1933) and "Perfect Foresight and Economic Equilibrium" (1935). These have been published in *Selected Economic Writings of Oskar Morgenstern* (New York University Press, 1976). In 1950, he published his study *On the Accuracy of Economic Observations* (Princeton University Press, 2nd revised ed., 1963), analyzing the use and misuse of statistical data by economists.

Claremont, California Hosts Two Conferences

by Jack High

Claremont, California was the pleasant July setting for two economics conferences. Economic coordination was the subject of the first, while the other was on the economics of Carl Menger.

The formats of the conferences differed considerably: The coordination conference featured a small number of distinguished speakers who addressed an audience of about one hundred; the Menger conference was restricted to fifteen participants, about one-third of whom delivered papers. Both conferences were well organized and gracefully hosted by Dr. Arthur Kemp of Claremont Men's College.

ECONOMIC COORDINATION CONFERENCE

Gerald O'Driscoll of Iowa State University began the coordination conference with a forcible criticism of the idea of social cost. He argued that since cost is the utility of the most highly valued foregone opportunity and since utility is subjective and incapable of measurement, we cannot make interpersonal value comparisons. Not being able to add or subtract utilities, we cannot add or subtract costs, hence we have no way of arriving at a social cost.

The invalidity of interpersonal utility comparisons has been so well established that one would expect ready acceptance of O'Driscoll's argument, yet there was strong resistance to it. In the first place, it denies the validity of cost-benefit studies. Further, some felt that the concept of social cost is necessary for the bulk of economics. Granted, Pigovian welfare analysis and the Coase theorem collapse without it, but Wicksteed has surely shown that we can do a great deal of economics, and better economics, if we reject the notion of objective costs.

Axel Leijonhufvud's paper on the costs of inflation was more favorably received. He revived Cantillon's idea (later taken up by Mises and Hayek) that an increase in the money supply does not raise prices simultaneously or uniformly. Rather, price rises are, in Leijonhufvud's words, "ragged," resulting in ill-gotten gains and losses, bad feelings, and political agitation. Professor Leijonhufvud's insight is well born out by the study of history. From Diocletian's Rome to Nixon's America, inflation has wrought discontent and social strife. One hopes that other economists will also reject the simplistic assumption of perfectly anticipated inflation.

Friedrich Hayek's extemporaneous remarks reminded us of his earlier work, in which he had stressed the importance of prices in conveying information. The price system is such an efficient way to allocate resources that we are liable to overlook its function, in the same way we overlook the individual parts of a smoothly running car. And just as it is the job of the mechanic to point out the importance of proper care of our car, so it is the job of the economist to point out to the public the crucial role of prices in our economic lives.

The final paper of the conference, delivered by Ludwig Lachmann, criticized the current approach to information

theory. Economists have uncritically adopted an engineering approach, that is, they have assumed information to be something objective, measurable and predictable. While the information necessary to guide a rocket may be objective, the information necessary to make economic decisions is not. Instead, it is highly subjective. Decisions do not depend merely on some objective outside signal, but on the interpretation given those signals by a unique human mind.

CARL MENDER CONFERENCE

The format of the Carl Menger conference made it one of the most informative and enjoyable I have ever attended. The interchange of ideas was greatly enhanced by the small number and high quality of the conferees.

Larry Moss led off the conference with "Carl Menger and William Stanley Jevons: A Comparison of their Theories of Exchange." Moss' interesting thesis concerns two interpretations of Aristotle's classic problem — in an exchange of equivalents, what is it that is being equilibrated? Jevons' answer (familiar to all students of constrained maximization) is that the ratios of marginal utilities are equilibrated. Menger, on the other hand, thought Aristotle had posed a pseudo-problem. Aristotle had assumed that trade involves an exchange of equals while Menger insisted that a trader values what he receives more than what he gives up. It is this inequality which generates the process of exchange.

Dolores Martin, in "Entrepreneurship and the Economic Process: Menger and his Critics," contrasted the views of Knight with those of Schumpeter on the Mengerian entrepreneur. She concluded that Knight's criticism of Menger was based on a misunderstanding. Indeed, Martin argued, Schumpeter correctly pointed out that Menger and Knight held similar views.

"Was Carl Menger a Neoclassical economist?" was asked by Gerald O'Driscoll. His purpose was to show that the theories of Jevons, Menger and Walras differed and have been the basis for different streams of thought. The Austrians, he pointed out, have always been concerned with uncertainty, limited knowledge and the market process. It is encouraging that other economists are also becoming interested in these ideas.

Susan Cole's paper, "Time and Uncertainty in the Economics of Carl Menger," nicely illustrated how Menger differed from Jevons and Walras. Menger was interested in causality rather than functional relationships, hence his concern with understanding the process of economic change. Thus, time and uncertainty became an integral part of Mengerian theory. Cole left no doubt that while Jevons and Walras adopted various devices to eliminate the effects of uncertainty and time in their theories, Menger made every effort to incorporate them into his analysis.

Albert Zlablanger presented a translation of Menger's expanded version of "Geld" ("Money"), an article which appeared in the 1909 volume of *Handwoerterbuch der*

Staatwissenschaften. His translation is clear and precise and the article is highly interesting and suggestive. Especially important were insights on the importance of money prices for economic calculation which no doubt sowed the seed for the work of Mises and Hayek on socialism and calculation.

The conference ended with Hayek discussing his student days in Vienna. Menger had left the university before Hayek arrived, so Hayek heard him speak only once. Nevertheless, like all the economics students in Vienna, Hayek studied Menger's writings. Interestingly, although impressed with Menger's work, Hayek did not at the time perceive much difference between Menger and the other marginalists. It was not until much later that he began to appreciate Menger's unique contributions to economics, contributions that are now being identified and elaborated by the younger economists in the Austrian tradition.■

Studies In Economic Theory

by Richard M. Ebeling

Under the sponsorship of the Institute for Humane Studies, Sheed Andrews and McMeel has begun a new book series entitled "Studies in Economic Theory." This series, edited by Laurence S. Moss, consists of original works and reprints of classic volumes in the Austrian tradition.

The first four titles appeared in 1976. The first was a reprint of Murray N. Rothbard's *America's Great Depression*, with a new preface analyzing the "stagflation" problem of the 1970's. Professor Rothbard first presents the theoretical foundation of "Austrian" monetary and trade cycle analysis and then applies the framework for understanding the political and economic factors at work in the 1920's that culminated in the crash of 1929. He continues the study through the Hoover years and examines the interventionist politics that intensified and prolonged the depression.

The second volume in the series was Israel M. Kirzner's *The Economic Point of View*. Professor Kirzner discusses what it is that economists have thought they have been studying during the two hundred years of an organized science of economics. He analyzes the progressive refinement of the "economic" concept, from the idea that economics was the science of wealth and welfare to economics as a science of market exchange. Kirzner explains the development of the economic concept in the 20th century, where it first became the study of the allocation of scarce means among competing ends, and, finally, culminated in a general science of purposeful human action.

The proceedings of a symposium on *The Economics of Ludwig von Mises*, held at the Southern Economics Association Convention in 1974, was the third volume in the series. Subtitled, "Toward a Critical Reappraisal" of Mises' works, the volume includes essays by Fritz Machlup, Israel M. Kirzner, Murray N. Rothbard, Willaim Baumgarth, Karen J. Vaughn and Laurence S. Moss. They analyze Mises' writings on monetary theory, capital theory, the socialist calculation debate and political economy.

Also in 1974, a Conference on Austrian Economics was held at South Royalton, Vermont. Lectures on methodology, history of economic thought, money, the market process, capital theory and political economy were given by Ludwig M. Lachmann, Israel M. Kirzner, and Murray N. Rothbard. The papers were published in the series as *The Foundations of Modern Austrian Economics*. A paper by Gerald P. O'Driscoll and Sudha R. Shenoy on "Inflation, Recession and Stagflation" was added to the volume.

Professor Rothbard edited and introduced the fifth volume entitled *Capital, Interest, and Rent: Essays in the Theory of Distribution*, by Frank A. Fetter. The articles include those in which Fetter developed a pure time-preference theory of interest and criticized Böhm-Bawerk for having latent productivity elements in his interest theory.

Presently planned for mid-October release are *Capital, Expectations, and the Market Process: Essays on the Theory of the Market Economy*, by Ludwig M. Lachmann, and *Economics as a Coordination Problem: the Contributions of Friedrich A. Hayek*, by Gerald P. O'Driscoll, Jr.

Forthcoming volumes include *The Ultimate Foundation of Economic Science* by Mises; *New Directions in Austrian Economics*, ed. by Louis Spadaro, papers given at an Austrian conference at Windsor Castle in 1976; *The Free and Prosperous Commonwealth*, by Mises; *Capital and Its Structure* by Lachmann; *Economic Calculation in the Socialist Society* by T.J.B. Hoff; *Epistemological Problems of Economics* by Mises; and *Principles of Economics* by Carl Menger.■

RECENT AND UPCOMING PUBLICATIONS

F. A. Hayek. *The Denationalisation of Money*. London: Institute for Economic Affairs; revised, enlarged edition, Oct. 1977.

_____. *Further Studies in Philosophy, Politics and Economics and Social Justice*. Chicago: University of Chicago Press, October 1977.

Ludwig von Mises. *Money, Inflation and the Trade Cycle*. (contains three essays not otherwise available) Dobbs Ferry, NY: Free Market Press, Dec. 1977.

_____. *Critique of Interventionism*. New Rochelle, NY: Arlington House, November, 1977.

_____. *Notes and Recollections*. South Holland, IL: Libertarian Press, December, 1977.

The following are being released in the Center for Libertarian Studies' *Occasional Papers* series:

Lawrence H. White. *Methodology of the Austrian School*. March, 1977.

Murray N. Rothbard. *Toward a Reconstruction of Utility and Welfare Economics*. September, 1977.

Ludwig von Mises. *The Clash of Group Interests*, (contains several other essays as well) Fall 1977.

_____. *The Austrian Theory of the Trade Cycle*. (Contains several essays by Mises, Haberler, Rothbard and Hayek.) Fall 1977.

Richard M. Ebeling. *Austrian Economics: an Annotated Bibliography*. Spring 1978.

THE DEVELOPMENT OF AUSTRIAN ECONOMICS

On the Theory of Costs

by Richard M. Ebeling

The rehabilitation of the theory of costs was an inevitable outgrowth of the subjectivist-marginalist revolution of the 1870's. If the law of demand was to be given a foundation in the subjective evaluations of market actors, it was an obvious step to show then that costs, also, must be tied to the choices of human beings.

The first step in this direction, on the part of the Austrians, was carried out by Friedrich von Wieser. He explained that ultimately, "Estimation of costs shows us in each particular case what utility the productive elements would confer if they were consumed otherwise than in turning out the produce desired." However, while cost was seen as the displaced or foregone utility, the opportunity foregone was often expressed as the product that might otherwise have been produced. Also, though the concept of costs was firmly tied to the valuations of human actors, those costs, for the early Austrians, was still seen as a regulator toward which prices tended to converge.

Wieser developed his concept of cost in two works:

Über den Ursprung und die Hauptgesetze des Wirtschaftlichen Werthes (1884).

Natural Value [1888], (New York: Kelley & Millman, 1956) pp. 171-214.

Wieser twice explained and defended his theory to English and American economists in the 1890's:

"The Austrian School and the Theory of Value," *Economic Journal* (March, 1891) pp. 112-113.

"The Theory of Value, a reply to Professor Macvane," *Annals of the American Academy of Political and Social Science* (March, 1892) see section II on "Cost and Marginal Utility," pp. 38-52.

What soon became known as "Wieser's Law" was expounded by Eugen von Böhm-Bawerk, as well, in his treatise,

The Positive Theory of Capital [1889] *Capital and Interest*, vol. II, (South Holland: Libertarian Press, 1959) pp. 168-176 & 248-256.

Böhm-Bawerk, also, participated in debates with English-speaking economists. What is of particular interest is his explicit criticism of Marshall's supposed two-bladed scissor, representing demand and cost. Böhm argued that both blades were fundamentally based on utility:

"The Ultimate Standard of Value," *Annals of the American Academy of Political and Social Science* (Sept., 1894) reprinted in *Shorter Classics of Böhm-Bawerk* (South Holland: Libertarian Press, 1962) see pp. 343-370.

Böhm also argued against a reply by Edgeworth, in which the latter defended the concept of "pain costs."

"One Word More on the Ultimate Standard of Value," *Economic Journal* (Dec., 1894) pp. 719-724.

The Austrian theory of value and cost was soon adopted by a number of English economists. The first full English-language exposition of the Austrian value and cost

concepts was presented in 1888 by James Bonar:

"The Austrian Economists and Their View of Value," *Quarterly Journal of Economics* (Oct., 1888), on costs p. 20.

This was soon followed by a book length presentation by William Smart, with several sections devoted to the theory of costs:

Introduction to the Theory of Value, on the Lines of Menger, Wieser and Böhm-Bawerk (London: Macmillan, 1891) pp. 67-83.

Around the turn of the century, the subjectivist character of cost was extended by Philip Wicksteed, in his monumental work,

The Common Sense of Political Economy (London: Macmillan, 1910).

Wicksteed showed that cost could be seen from either the backward-looking or forward-looking perspective, but that cost in the relevant sense was only forward-looking; only within the context of actions not yet undertaken could costs, as alternative possibilities, still influence human activity.

The Austrian theory of costs, as it appeared after the first half-century of development, was summarized by Paul N. Rosenstein-Rodan, in his exceptionally fine 1927 essay,

"Marginal Utility," *International Economics Papers* (1960) pp. 86-88.

A few years later, the link between subjectivism and opportunity cost was expressed by Ludwig von Mises. Mises stated that the alternatives foregone were the courses-of-action the actor perceived as possible. But his examples were in the backward-looking perspective in explaining the nature of foregone opportunities:

"Development of the Subjective Theory of Value," (1931) reprinted in *Epistemological Problems of Economics* [1933] (Princeton, Van Nostrand, 1960) pp. 164-166.

Human Action, a Treatise on Economics [1949] (Chicago: Henry Regnery, 3rd revised ed., 1966) pp. 339-350.

"Profit and Loss" (1951) reprinted in *Planning for Freedom* (South Holland: Libertarian Press, 1974) pp. 125-127.

The greatest stimulus for further development of the subjectivist interpretation of costs came from Lionel Robbins and Friedrich A. Hayek, at the London School of Economics in the 1930's. Robbins had discussed various interpretations of opportunity cost and demonstrated the fallacy of viewing costs from the perspective of foregone objective products; instead, costs always had to be analyzed in terms of the evaluations of market participants:

"Remarks Upon Certain Aspects of the Theory of Costs," *Economic Journal* (March, 1934) pp. 1-19.

Hayek argued that once economic analysis went beyond the study of one individual and, instead, came to encompass a study of a multiple of individuals interacting, the subjectivist character of "market datum" became evident; how people perceived future events and the future actions of others might in no way completely or partly coincide with what would happen. Hence, all choices and, implicitly, all costs were dependent upon the subjective points-of-view of the respective actors:

"Economics and Knowledge," *Economica* (Feb., 1937) pp. 33-54, reprinted in *Individualism and Economic Order* (Univ. of Chicago Press, 1948).

These two articles worked as a catalyst for the contributions of G.F. Thirlby. Thirlby explained that costs were not only subjective but, also, were always *ex ante* in their influence on human activity. Events that had already occurred were no longer open to action. Thus, past choices and costs did not directly influence the actors preferences and actions. Costs influenced choice only within the forward-looking perspective, for only here was it still possible to weigh the alternatives that would have to be foregone. Thirlby developed this theme in four major articles:

"The Subjective Theory of Value and Accounting Cost," *Economica* (Feb., 1946).

"The Ruler," *South African Journal of Economics* (Dec., 1946).

"The Economists' Description of Business Behavior," *Economica* (May, 1952).

"Economists' Cost Rules and Equilibrium Theory," *Economica* (May, 1960).

Thirlby's approach was then applied to concrete policy problems by Jack Wiseman:

"Uncertainty, Costs and Collectivist Economic Planning," *Economica* (May, 1953).

"The Theory of Public Utility Price—an Empty Box," *Oxford Economic Papers* (1957).

More recently the Austrian-Thirlby theory of costs was integrated within a general treatise on economics by Murray N. Rothbard. He analyzed and compared the alternative Austrian-subjectivist method with the standard textbook "cost-curve" approach:

Man, Economy and State [1962] (Los Angeles: Nash Publishing, 1970) pp. 290-294 & 528-537.

The subjectivist cost method was also very effectively integrated with general price theory by a student of Mises, Israel M. Kirzner:

Market Theory and the Price System (Princeton: Van Nostrand Co., Inc., 1963) see chapter 9 on "Costs and Supply," pp. 183-209.

The Austrian theory has been ably explained and contrasted with "orthodox" views of costs by James M. Buchanan. A history of the theory's development is followed by a clear presentation of what a subjectivist method of costs involves. Buchanan then attempts to relate the theory to his own work in public choice:

Cost and Choice (Chicago: Markham Publishing Co., 1969).

With G.F. Thirlby, Buchanan has collected the most important of the subjectivist contributions since the 1930's: *L.S.E. Essays on Cost* (Birkenhead: Willmar Brothers, Ltd., 1973).

Included in the volume are the above mentioned articles by Robbins, Hayek, Thirlby and Wiseman. Also in the collection are:

R.S. Edwards, "The Rationale of Cost Accounting" originally published in *Some Modern Business Problems*, ed. by A. Plant (London: 1937).

Ronald H. Coase, "Business Organization and the Accountant," *The Accountant* (Oct.-Dec., 1938).

The book is introduced with an essay by Buchanan entitled "L.S.E. Cost Theory in Retrospect."

Unfortunately left out of the volume, but of equal interest in understanding the development of the subjectivist method are:

Ronald H. Coase, "The Marginal Cost Controversy," *Economica* (Aug., 1946).

G.F. Thirlby, "The Marginal Cost Controversy: a Note on Mr. Coase's Model," *Economica* (Feb., 1947).

Though not within the Austrian tradition, there have also appeared a couple of works that have emphasized the subjectivity of costs and choice along lines that are somewhat similar to that of Mises and Hayek. G.L.S. Shackle has argued that by its very nature choice involves uncertainty because of the imperfection of knowledge. All choices involve imagined possibilities that could occur. Thus, costs, too, are the expected opportunities that the actor believes he would have to forego. These expectations are based on the subjective interpretations of the individuals themselves and have no existence outside the mind of the actor:

Epistemics and Economics (Cambridge University Press, 1972).

And building upon Shackle's work Brian J. Loasby has recently attempted to apply these ideas to the problems of decision-making within the firm:

Choice, Complexity and Ignorance (Cambridge University Press, 1976).



Murray Rothbard addressing the Mills College Conference

UPCOMING EVENTS

In line with our function of aiding communication between Austrian economists, we plan to announce upcoming events. We would appreciate receiving any information which our readers have about conferences or symposiums which might be of interest to other Austrians. Please provide us with such information at your earliest convenience so we can announce the events well in advance.

A symposium on the Methodology of the Social Sciences will be held at the University of Delaware from Saturday evening, November 19, to Wednesday noon, November 23. The conference is sponsored by the Institute for Humane Studies (1177 University Drive, Menlo Park, CA 94025; 415-323-2464) and directed by Leonard Liggio. Papers will deal with such topics as methodological individualism, subjectivism, positivism, and growth of knowledge theories. Participants will include: Randy Barnett, Craig Bolton, Samuel Bostaph, Robert Bradley, Frederic Jennings, David M. Levy, David Osterfeld, Mario Rizzo, John T. Sanders and Gary Short.

During the weekend of January 7, a conference will be held at New York University. Entitled "Issues in Economic Theory: An Evaluation of Current Austrian Perspectives," Mario Rizzo will be the director and the conference will be sponsored by the NYU Department of Economics and the Center for Applied Economics at NYU along with the Institute for Humane Studies. The program will include Gerald O'Driscoll (Iowa State) speaking on stagflation and the political business cycle with a comment by Richard Wagner (Virginia Polytechnic Institute). A paper on competition as a process will be presented by Harold Demsetz (UCLA) after which John Egger (Goucher College) will offer a critique. Harvey Leibenstein (Harvard University) is scheduled to talk on x-efficiency and the role of the entrepreneur; Israel Kirzner (NYU) will comment. Leland Yeager (University of Virginia) will discuss capital reversal and its relationship to Austrian capital theory. Roger Garrison (U. of Va.) will follow with a comment. Sir John Hicks' talk on the role of time in economics will be discussed by Ludwig Lachman (NYU). Finally Mario Rizzo will present a paper on an Austrian approach to the economics of law with a critique by Murray Rothbard (Polytechnic Institute of New York). Arrangements are being made to publish the proceedings.

It certainly appears that Dr. Rizzo has organized an outstanding conference which should help develop Austrian ideas on several problems of current economic theory. Information may be obtained from Mario Rizzo (500 Tisch Hall, New York University, New York, NY 10003).

The Institute for Humane Studies is planning its third annual Instructional Seminar in Austrian economics for late June of 1978. The seminar will be directed by Fred Glahe (University of Colorado-Boulder) and is to be held at Boulder, Colorado. Previous Instructional Seminars, held at the University of Delaware and Mills College, were quite successful in introducing Austrian ideas to young economists, and the Boulder conference will no doubt continue this fine tradition. ■

Cato Institute Promotes Austrian Economics in Printing and Lectures

The recently established Cato Institute (1700 Montgomery Street, San Francisco, CA 94111) is becoming actively involved in promoting Austrian economics. They intend to expand and improve significantly the *Studies in Economic Theory* series, republishing virtually all out-of-print Austrian works as well as publishing new contributions in the Austrian tradition. Included in this series will be precursors of more recent Austrian theory, such as the writings of the French classical liberals. The Cato Institute also plans to expand the Austrian lecture series presented at the University of Chicago last year. Under this program prominent Austrians will present papers to the faculty and graduate students at various universities in order to familiarize the economic profession with Austrian insights on contemporary economic problems. ■

AEN BEGINS PUBLICATION

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The main purpose of the Newsletter is to function as an information device. We plan to help keep Austrian scholars informed of the work being done by other Austrians, to draw attention to current literature of interest, to report on recent and upcoming conferences, to cite some earlier and lesser-known Austrian articles, and to discuss economic topics to which the Austrians may be able to contribute. Our aim in providing this information is to aid and encourage work in Austrian economics, and to show it to be the vital and healthy arena for scholarly study that it is.

To accomplish these goals successfully it is essential that we have the active support and cooperation of our readers. We need to know about your current research. If you know of a session of interest to Austrians at an upcoming conference, let us know, or give us a report if it has already taken place. Perhaps you have found a relatively unknown book or article which others would find valuable, then by all means send it to us. The only way this Newsletter can work is if you provide us with information to pass along to other Austrians. If you have any suggestions on the ways in which we might be able to aid and encourage Austrian research more effectively, submit them to us. Please write to John Kunze, Austrian Economics Newsletter, 200 Park Avenue South, Suite 911, New York, NY 10003. It perhaps goes without saying, but the Newsletter does not represent the views of anyone except the authors. We make no pretext of presenting an "official" Austrian position on any subject. Rather, we hope to show that Austrian economics is a vibrant and healthy field of study with many areas of controversy and disagreement in need of additional analysis. We intend to generate interest in and draw attention to these difficult questions in the hopes of encouraging further study and better answers.

Finally, we would like to thank the Center for Libertarian Studies for helping to make the Newsletter possible through their financial support of this independent project.

— The Editors