Maximizing, Action and Market Adjustment

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their approach as a "rehabilitation" of the traditional approach. The characteristic of traditional modelling that is preserved is that an investigator keeps on respecifying and recomputing until a satisfactory outcome is achieved. Yet their contribution is hardly a rehabilitation when the aim of the research and the purpose of the respecifications are changed from verification to falsification. Perhaps they have in mind the general economist and practising econometrician who can hang the signs: "business as usual" and "no new methodologies wanted here."

There is still half a book to go when the rehabilitation of traditional modelling is completed. There follow essays on the econometrics of Hendry, Leamer and Sims—and one on the fashionable topic of cointegration of time series. They can be read independently of one another and—almost—independently of Part I. On the whole, these essays provide good non-technical accounts with some sensible criticism. The interesting theme of equilibrium and the long-run recurs in several of these essays but this is not integrated into any proper discussion of the role of theory in applied work. The least successful essay is on "General to Specific Modelling': Hendry's Contribution to Econometrics" which is admittedly the hardest assignment. Curiously the authors are very sympathetic to the Bayesian, Leamer and very unsympathetic to the Popperian, Hendry.

These essays are only *almost* independent of Part I because each has a veneer of methodological commentary. Sims's approach is easily dismissed: "no behavioural economic theories are stated in falsifiable form, therefore the approach is not part of science" [p. 128]. Cointegration is similarly dispatched: it "cannot be seen as part of the hypothetico-deductive method and, therefore is not capable of furthering our understanding of economic phenomena" [p. 143].

"Critical descriptions" of competing approaches is very desirable. Yet much of the more high-brow criticism in this book is like playing tennis with the net down. It is easy to apply Popperian formulae to smash Sims and company out of court. It is difficult to understand the arguments of opponents, to put them in their strongest form and learn something from them.

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Maximizing, Action and Market Adjustment.
By Jack High. Munich: Philosophia Verlag, 1990. *Pp. 186.*

Perhaps one of the most effective methods of learning is that of contrast. The exercise of contrasting idealized political and economic systems, or historical epochs, or systems of thought, has proven quite beneficial in the history of our discipline. *Maximizing, Action and Market Adjustment* is an outstanding study employing this method. By contrasting alternative economic explanations of market adjustment, High advances not only our understanding of the different approaches, but also the nature of real market processes.

High compares and contrasts stability analysis, search theory and market process theory. With very effective and efficient prose, the author examines the major problems these three paradigms face in studying market adjustment. High limits his discussion of market adjustment to those theories that are in the marginalist tradition, thus eliminating from consideration the theories of market dynamics found in institutionalist and Marxian writers.[1] This self-imposed limitation reduces the scope of the present study, but with the benefit of increased analytical depth.

By limiting his discussion to those theories that see market outcomes as the consequence of individual valuations on the margin, High begins with a solid basis of comparison. The key theoretical notion for analyzing the alternative approaches to market adjustment, according to High, is the formation and revision of *plans* and the compatibility or incompatibility of these plans with the plans of others. Disequilibrium theory's primary task, according to High, "is to *explain the process of plan changes that results from plans being incompatible, or that causes plans to become incompatible*" [p. 43, emphasis in original]. "The insight," he states, "that stability theory, search theory, and process analysis can all be brought under the same theoretical umbrella, by looking at disequilibrium theory as a process of changes in plans, should not lead us to

1. However, for a comparison of the Austrian market process analysis with Marxism see Lavoie [4; 5] and with regard to institutionalism see Boettke [1; 2]. Also see Ikeda [3, 84–90] for an examination of contemporary evolutionary theory in comparison with market process theory.

believe that all three approaches are essentially the same. One of the values to the theoretical unity that we have set forth is that it does not blur the important distinctions between the theories. It clearly recognizes the different assumptions, emphases, methods, and conclusions of stability analysis, search theory, and process analysis. To recognize that these three approaches, different as they are, all try to explain changes in the purposeful activities of market agents, gives us insight into the fundamental nature of disequilibrium theory" [pp. 44–45]. The result of High's effort should benefit all students of price theory.

Chapter One provides an overview of the questions that motivate the three different approaches to disequilibrium theory and market adjustment. Chapter Two discusses the Austrian theory of the market process in detail. This chapter is neatly divided into three sections: a comparison of the notion of human action with that of maximizing, an articulation of the Austrian theory of the rivalrous market process with a comparison to the model of perfect competition and a discussion of the ambiguities and problems associated with the equilibrium benchmark in economic explanation.

Chapter Three is devoted to an examination of search theory. High convincingly argues that one of the main problems confronting traditional search theory is that the assumptions that must necessarily be employed in order to use the mathematical techniques desired distort our understanding of the institutions of the market. The implications of the assumptions "are incompatible with market institutions. In order for buyers to maximize the expected value of searching, *they must know what prices are being asked by the sellers, but they must not know who is offering which price*. If the buyers know who, then there is no need to search: they will naturally gravitate to the low seller" [pp. 92–93, emphasis in original]. But, as High points out, most market channels of information do not convey information about distributions, but leave buyers in the dark about particular sellers. In fact, quite to the contrary most market information concerns itself with particular sellers. Retail advertising, brand names and consumer word of mouth simply can not be explained by the formal models of search theory. These institutions convey specific information about particular sellers to others.

But High does not suggest that economists disregard the insights of subjective probability analysis. On the contrary, subjective probability theory is vital to any satisfactory explanation of the market. "The importance of subjective probability to economic theory is not as a mathematical theory, but as a mental category that recognizes that we must act in face of uncertainty" [p. 121]. Providing an explanation of the way individuals act in the face of uncertainty and the evolution of market institutions that arise to cope with this uncertainty should be the task of any satisfactory theory of market adjustment. Entrepreneurial search and judgment, High argues, lie in a domain outside of mathematical theory, and therefore, the technique of maximizing probability functions provides an insufficient basis for a general theory of market adjustment.

Chapter Four attempts to employ the insights of the market process approach to develop a simple model of price and quantity adjustment. High is aware of the limitations of this chapter. On the one hand, he has successfully demonstrated how a market of self-interested individuals can adjust prices without recourse to the Walrasian auctioneer. On the other hand, the model developed worked with very barren constructions of markets. But the limitations of this chapter serve as a useful reminder to all theories of price adjustment. As High points out, "convergence results hold under such a limited set of circumstances that we can hardly claim that equilibrium will ever characterize actual markets. A movement toward a single market clearing price is definitely a force in markets, a force activated by self-interest. But it is only one force, and has no claim to be singled out as the primary feature of markets. An immediate implication of this insight is that disequilibrium theory does not provide a basis for preoccupation with equilibrium theory. Rather disequilibrium theory is important in its own right, and is the theory of markets in any realistic sense" [p. 169].

Maximizing, Action and Market Adjustment is an exemplar of scholarly civility and seriousness. While an exercise in contrast and comparison, High gives everyone his due and steers clear of setting up any "straw men." The book is most consistently in the "Austrian" tradition, but it also addresses several of the shortcomings of the traditional Austrian approach to questions such as equilibration and market coordination. *Maximizing, Action and Market Adjustment* will prove of great benefit not only to those interested in Austrian economics, but students of price theory in general. Extremely well-written and well-argued, High offers the reader a first-class work.

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The Return of Scarcity.
By H. C. Coombs. New York: Cambridge University Press, 1990. *Pp. x, 171. $17.95 paper, $39.50 cloth.*

Written over the last 20 years, Coombs's essays in *The Return of Scarcity* reflect his "anxiety as a private citizen and a member of the academic community about the threat to our society and its future arising from the failure of economic and political analysis to deal with . . . long-term problems . . ." [p. ix]. H. C. Coombs's objective in writing this book is to identify the origin and nature of "the failure of economic and political analysis to explore the contribution of simple economic theory to the design of policies which might mitigate" the impact of the problems associated with natural resource scarcity. He indicates that his essays are aimed at "intelligent generalists rather than professional economists."

At the outset the author, a retired Governor of the Australian Reserve Bank, indicates that his perspective is that of an "Australian aboriginal advocate." Consistent with this advocacy perspective is his focus on the effect of economic development on an economy that depends heavily on the sale of natural resources as a source of foreign exchange.

Chapter 1 provides a statement of the primary goal of the book, "toward a sustainable society" which forms the organizational framework for the book. Chapters 2 through 6 deal with areas of conflict in reconciling economic and ecological concerns. Chapter 2 (written in 1979), "Scarcity, Wealth and Income," provides a discussion of the role of prices in resource allocation, rents, resource scarcity, and the effect of technology on labor's bargaining power. Chapter 3 (written in 1972), "Matching Ecological and Economic Realities," focuses on the characteristics of an ecologically acceptable economic system. Chapter 4 (written in 1979), Science and Technology—For What Purpose?," addresses the nature of scientific inquiry and the role of technology in society. Chapter 5 (written in 1974), "Economic and Ecological Issues in Resource Management," uses the example of water management as a general case of resource allocation in a society having a mixture of market and political mechanisms. Chapter 6 (written in 1985), "Resource Management and Environmental Law," contrasts the sustainability of an aboriginal resource management approach and the environmental risks produced by resource intensive approaches such as mining and cattle raising.

Chapter 7 (written in 1977), "The Quality of Life and Its Assessment," assesses the avenues by which economic and ecological concerns affect the quality of human life. Chapter 8 (written in 1979), "Is Democracy Alive and Well?," comments on the performance of political systems in dealing with quality of life issues. Chapter 9 (written in 1980), "Technology, Economic Change and Political," explores political and economic strategies directed to the achievement of a sustainable society.

Coombs employs a Neo-Malthusian model which relates "population to finite resources" in the ways used by Ehrlich and the "doomsters" [2; 3; 4].[1] He incorporates the arguments of natural resource accounting, the concept of "ecological and natural resource sustainability," and applies the logic of the Neo-Malthusians to the resource rich country of Australia. Coombs argues that "a basic shortage of a particular resource can be temporarily countered by new discoveries or technological improvements in use," but contrary to the work of Simon, he argues that it will not last [5]. Foremost in his mind is Australia, country that is heavily dependent upon resource exports sold at prices which Coombs fears "bear no relationship to their capital value or their potential to add to the long-term national product."

The author makes distributional consequences the basis for his argument that national accounts do not reflect "how far the proceeds are in fact used or available to create other capital assets, or how far their

1. As contrast see, e.g., Julian Simon [5].