The Capitalist Alternative: An Introduction to Neo-Austrian Economics
by Alexander H. Shand, New York: New York University Press, 1984, pp. 242

Reviewed by Pete Boettke

A frequent question among students of Austrian economics is: "How did you get interested in these ideas?" Some simply stumbled across the writings of Mises or Hayek. Others became interested through the libertarian writings of Rothbard, or intrigued by the ideas of novelist/philosopher Ayn Rand. In my case, it was sheer accident: I happened to attend undergraduate college at a school where the only economics taught was Austrian economics. My principles course introduced Austrian ideas through Henry Hazlitt's *Economics in One Lesson* and then later Mises' *Socialism*. Although I consider myself fortunate for having had this educational opportunity, I did not really appreciate what Austrian economics was all about until I discovered what other economists were up to. As a professor once remarked to me, the problem with teaching an undergraduate course in Austrian economics is that one has to spend a lot of time explaining neo-classical economics in order to explain why Austrian economics is different.

It is by this method of contrast, however, that understanding is obtained. By taking a "systems approach," in which one contrasts either the workings of economic systems (feudalism, socialism, or capitalism) or systems of thought (Marxian, Neoclassical, Institutional, or Austrian), one obtains a greater appreciation for the perspective of others, as well as one's own perspective. For example, Mises' *Human Action* becomes a new book when read with Terrence Hutchison's *The Significance and Basic Postulates of Economic Theory* or Hal Varian's *Microeconomic Analysis* in mind.

Though there are benefits to be reaped from such an exercise, it would be unreasonable to expect someone who merely wants an introduction to Austrian economics to read these books and comprehend their meaning. What recourse is left then for the student who wants to discover what Austrian economics is all about? Well, up to now there has been none; either the interested person tackled the thousand pages of *Human Action* or *Man, Economy and State,* or she looked to an exercise in doctrinal exegesis, such as Kirzner's *The Economic Point of View.* Professor Shand's book is a mostly successful attempt to fill the gap between Hazlitt and Mises and to provide Austrian economics with an introductory text.

Shand's purpose "is to introduce the ideas of the neo-Austrian school of economics and to compare these ideas with the more familiar methods of conventional or orthodox economics" [p. xiii]. Throughout the seventeen chapters of this book, Shand is true to his purpose. He presents a fairly thorough, mostly sympathetic (but not uncritical) survey of Austrian contributions, from methodology to policy. Furthermore, Shand conducts his survey admirably, first stating the orthodox position, then presenting the Austrian reaction, and finally revealing his evaluation.

The first two chapters are devoted to Austrian methodology. Shand demonstrates an important point: the Austrian approach is more than just another way to do economic analysis; it is a philosophical reaction against the mainstream.

The subsequent chapters, (3-6) elaborate the Austrian analysis of market activity from this perspective. Particularly interesting are Chapters 3 and 5, which discuss the notion of equilibrium and its relevance to economic science. Shand, under the influence of Lachmann and Shackle, recognizes that the Austrian market process point of view should be seen as an alternative to equilibrium economics, rather than be viewed as simply filling in the gaps left by general equilibrium theory. In other words, rather than seeing Austrian economics as emphasizing the process by which equilibrium is obtained, market process theorizing is a competing approach to general equilibrium theorizing. Shand's analysis, however, is still couched in equilibrating language, and the reader is left wondering what Austrians are up to. The author cannot be faulted too heavily for this, since the role of equilibrium in economics is a point of continuing debate among Austrians themselves.[1]

Chapter 6 deals with profit and entrepreneurship and while Shand does present the differing Austrian views, such as Rothbard's criticism of Kirzner's treatment, his discussion on the supply of entrepreneurs seems misleading. The term "entrepreneur" in Austrian literature does not refer to some indi-

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vidual possessing superior business sense. Moreover, entrepreneurship is not merely alertness to profit opportunities, but is also characterized by exercizing judgment on those opportunities.[2] Thus, entrepreneurship is an aspect of all action; we are all entrepreneurs. This point could have been made clearer in Shand's discussion.

The discussion in the book next turns to the theory of market failures. The orthodox treatment of the problem is laid out in two chapters. Shand correctly perceives that Austrians trace "market" failures, such as pollution, to defects of the legal system. The problem, in other words, rather than being caused by the market, is the result of ill-defined property rights or the perversion of the incentive system caused by poorly implemented rules. In addition, many apparent market failures are derived from comparing reality with the zero transaction cost world of equilibrium. The economist thus commits the "nirvana fallacy" if he condemns reality because it does not conform to the model.[3]

After an excellent chapter on monopoly theory, Shand turns his attention to macroeconomics. Although the subsequent chapters are good, the author elaborates too little on the Austrian view of the inflation process (of which the business cycle theory is but a special case) and on the Austrian theory of capital (which is vital for understanding intertemporal coordination). Without an understanding of these subjects, Austrian macroeconomics loses much of its relevance and meaning.

The remainder of the book deals with the relationship between the individual and the State. It should be pointed out that Austrians have not always been strictly freemarket economists, nor is a belief in the freemarket a prerequisite for the acceptance of Austrian insights.[4] However, given the epistemological critique of central planning, as presented by Mises and Hayek, there do appear to be strong arguments in favor of free markets and against centralized economic control or governmental intervention through regulatory control.[5] The most disappointing feature of Shand's survey is his failure to explain the calculation debate. Given the importance of the debate to the subsequent development of Austrian ideas, this weakness is significant.

Overall, Alexander Shand's book provides a good introduction to Austrian economics. The book also contains a preface by Professor Shackle and a very useful bibliography. This book will bridge the gap between Hazlitt and Mises, and should whet the appetite of some young economists, so that they will explore more deeply the avenues of this alternative approach to economic analysis. ***MP***

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FOOTNOTES

[1] See Lawrence H. White "The Austrian School and Spontaneous Order: Comment on O'Driscoll," *Austrian Economics Newsletter,* Vol. 2, No. 1, Spring 1979, pp. 6-7, and the correspondence between Lachmann and White, *Austrian Economics Newsletter,* Vol. 2, No. 2, Fall 1979, pp. 6-7. Also see Lachmann's and Kirzner's reviews of Mario J. Rizzo and Gerald P. O'Driscoll, *The Economics of Time and Ignorance, Market Process,* Vol. 3, No. 2, and Tyler Cowen and Richard H. Fink, "Inconsistent Equilibrium Constructs," *American Economic Review,* Vol. 75, No. 4, September 1985.

[2] See Jack High, "Alertness and Judgment," *Method, Process and Austrian Economics,* ed. Israel Kirzner, Mass: Lexington Books, 1982.

[3] See Harold Demsetz, "Information and Efficiency: Another Viewpoint," *Journal of Law and Economics,* April 1969.

[4] See Stephan Bohm, "The Political Economy of the Austrian School," *Gli economisti e la politica economica,* a cura di Piero Roggi, Napoli: Edizioni Scientifiche Italiana, 1985.

[5] See Israel M. Kirzner, *The Perils of Regulation,* Miami: Law and Economics Center, Occasional Paper, 1978, and Don Lavoie, *National Economic Planning: What Is Left?,* Cambridge, Mass: Ballinger, 1985.