



## About This Book

The next chapter is autobiographical. I narrate things from which the present volume emerged.

## CHAPTER 3



# From a Raft in the Currents of Liberal Economics

Nowadays, we see a trend toward disregarding disciplinary boundaries and admitting that in our policy judgment, as expressed, for example, in statements about economic efficiency, there is something akin to aesthetic judgment. There is a trend toward admitting that economics is inherently less precise and less accurate than some had thought.

I grew up in Bergen County, New Jersey, outside of New York City, in a family that was Jewish but not religious, and Democratic and “liberal” in the fashion common to such folk. My father, a pediatrician, is now retired. My mother, now deceased for some time, left the house after the divorce and turned entrepreneur when I was ten, but she by no means left her four sons.

At age thirteen, though not the least bookish, I was put in the smart eighth-grade class at the public school. Gradually, I became friendly with a classmate of very prodigious intellect. We shared interests in music and in our classmates and teachers. I read nothing, but I did know one thing: I disliked school. I had enjoyed kindergarten and first grade, but from second grade, I was not inspired by the teachers, and I resented being pressed into their programs. With each year it had gotten worse.

My friend’s political inclinations were unconventional, but I scarcely knew how advanced he was in economics and philosophy. One day we were at his house playing ping pong in the basement, probably listening to the Beatles or Harry Nilsson or Queen, and he asked, “Have you ever thought about why school sucks?” I was puzzled and responded something like: “What do you mean? It’s boring, they treat you like children, the teachers suck...” He cut in: “No, no, I mean *why* it sucks. Why it is like that?” I was still puzzled.

He explained that our school is a government operation, getting its money from taxpayers and its students from jurisdictional assignment. Our parents go along, because otherwise they would have to pay twice for schooling. The school itself is without private owners, so no one has much motivation to improve it. If schools were, instead, privately owned and had to compete for money by winning families in individual choice they would be much better. Those rules would give rise to a wholly different industry. You and your parents would have chosen the school. That would alter the whole ethic of the enterprise and your involvement. Each school would have to keep its customers satisfied, for otherwise they would go elsewhere.

The explanation was a revelation. It spoke to personal experience. It spoke of a trouble that loomed large in years of despair—the malaise and alienation of school. It only made sense. Moreover, the principles had application to many other issues, such as drug prohibition. That conversation awakened me to the idea, the hope, of making sense of the social world in a way that did not just knuckle under to whatever interpretations were dominant and official.

The ideas would upset my family's political sensibilities. Surely, I saw a daring, even heroic, radicalism in the ideas. I was convinced that the criticism of government schooling was sound. Yet my parents, my grandparents, and officialdom all around us did not own up to the criticism and its sweeping implications. They did not give good counterarguments. The rust runs deep, and the young libertarian feels surrounded by a corrupt culture. He either keeps up the challenge or resigns and quietly submits. I kept up the challenge, along with that friend and others, forming a circle and finding validation from writers living and deceased, active intellectuals, and leaders of libertarian outfits, especially in and around New York City, and soon networks beyond. I have made a career from the mode of thinking revealed over ping pong.

Why do I relate such matters? As we go through life, we develop commitments. It is useful of authors to disclose where they come from. Gunnar Myrdal (1969) argued for self-disclosure, saying it alerts readers to the biases apt to lurk in the author's discourse. Also, the story says something about my bearings. It is not as though I went to college, took an economics course, imbibed blackboard theory, became a proud economics major, and deduced that schooling should resemble perfect competition. Rather, the ideas that our circle pursued were discursive and argumentative: Frédéric Bastiat and Henry Hazlitt. The ideas helped me to see schooling as a public-policy issue and to distance myself from the immediate experience.

They proved themselves in things that mattered and made sense in human terms. The government school system is not merely inefficient; it is tragic. By the time I came to blackboard economics, I had already regarded it as dangerous in its artificiality and malleable to all bents.

So, blackboard economics never captivated me.

I did have some immersion in a different sort of modernist or proudly scientific economics. I have moved in libertarian circles that have had deep connections to the intellectual traditions that, especially from the 1970s, have been fashioned into a movement known as Austrian economics. This movement unfolded in two camps, one led by Murray N. Rothbard, the other by Israel M. Kirzner, both of whom during the 1950s were protégés of the Austrian émigré Ludwig von Mises. During the winter of 1979–80, I dropped out of high school and enrolled at Rutgers University in Newark, New Jersey, to join a program in Austrian economics. According to Mises, Rothbard, and, somewhat less emphatically, Kirzner, economics is based on axioms, such as “man acts,” and, they say, the laws of economics are logically deduced from these axioms. Since the fundamental axioms are certain and the logic is valid, the resultant theories carry an “apodictic” and categorical truth. They call this style of reasoning *praxeology*. Shortly after I had joined the Austrian economics program in Newark, it moved to George Mason University in Fairfax, Virginia, and I moved with it.

As an undergraduate at George Mason in the early 1980s, my comrades and I dwelled deeply in Mises and Rothbard, and I certainly drew much from them that remains central in my thinking. It really was not long, however, before I was doubting the things most distinctive to their economics, namely, their image of economic science. I never warmed to Mises, and I have long felt that his argumentation exhibits crankishness. Early on with me, there were grave doubts and occasional raillery.

My reverence for them was—and remains—great. More than any other single person, Mises is the bridge from classical liberalism to modern libertarianism. More than any other single person, Rothbard set out for modern libertarianism an idea of liberty as an analytic fulcrum in the policy sciences and as an engine of inquiry, challenge, and debate. I felt, however, that they were overly ambitious, sometimes even ridiculous, in the claims they made for their core ideas, in their spirit of paradigm. I sensed that it was in those claims—and only in those claims—that they could claim to have a distinctive identity and brand of economics, and so I was never very comfortable in the corresponding “Austrian economics” identity. By the end of my undergraduate career, I was increasingly dubious of such

identity, and had, in a quite conscious way, a merely “libertarian economist” selfhood.

Next, I went directly to get a PhD. I had been admitted to a few programs, and I chose New York University, where I had been awarded entrance and support in the Austrian economics program conducted by the faculty members Kirzner, Mario Rizzo, and Lawrence H. White. The program, with its faculty, visitors, associates, and students meeting every Monday afternoon to discuss a paper in a ninety-minute colloquium, had been and still is the long-standing center of Austrian economics in New York and a legacy of Mises’ instruction and seminars at NYU. I did not go to NYU to develop myself as an Austrian economist. My reasons for choosing NYU were that Austrians are libertarians, I was assured of funding, NYU was a reputable school from which to enter the academic job market, and the location was suitable to me (I moved back to Bergen County).

I think it was during my second year at NYU that the Austrian colloquium hosted Donald (now Deirdre) McCloskey to present the “Rhetoric of Economics” article that had recently appeared in *The Journal of Economic Literature*. I was immediately taken with the paper and with McCloskey as a personality, thinker, and figure. I waxed about the book *The Rhetoric of Economics* (1985) in a review published by the Cato Institute, and I avidly mined the pragmatist tradition that McCloskey pointed to, especially William James and Richard Rorty. Meanwhile, two of my closest comrades, then studying at Harvard, were reading W.V. Quine and auditing Hilary Putnam, so philosophical pragmatism had come to me and my pals. McCloskey’s attitude of mere ethics, of broad learning, of candid purpose behind that better-organized conversation we might call science—with a small *s*—of indifference toward strutting methodological precepts, of aversion to sectarianism: all fit the selfhood I was working on. And he (now she) was even libertarian! It all fit! McCloskey validated my selfhood and richly instructed and provided for its cultivation.

At NYU I participated in the Austrian colloquium and took courses with Rizzo and White, but I concentrated on “normal science” and especially game theory. My job-market paper was a game-theoretic model of credit reporting and promise keeping in the extended social order. I was fascinated by game theory, and I went on to teach it at both the undergraduate and graduate levels, but it never got in the way of my McCloskeyan attitudes. “Equilibrium” is meaningful only in reference to a specified model, and model building is itself a malleable art, so one can construe equilibrium in any phenomena under the sun. The model-building genre of creative literature has standards of elegance and, one

hopes, relevance to problems discussed by concerned, purposive scholars. The stories were formally about machines, robots, but they can be useful as metaphors. My professors in game theory told stories laden with math; Thomas Schelling, whose works I especially admire, did it with less math and greater richness.

Thanks to the Institute for Humane Studies, I spent a year at Stanford University and then went on the market and accepted a job, starting in 1989, at the University of California, Irvine. I was making efforts in normal-science fields, such as game theory, economic history, and transportation economics. These efforts did not meet with complete failure. But I shared with both McCloskey and the Austrians the conviction that things were fundamentally amiss in establishment economics. I began to realize that I could never be embraced by a field community; I could not really be one of them. I would never be faithful to any such community.

I was isolated at Irvine. Searching for God, as it were, I took up teaching the introductory course in microeconomic principles and started a group called the Liberty Society of Irvine. When Friedrich Hayek died in the spring of 1992, I decided that I would give a lecture on his life and work, and I immersed myself in his writings.

My thoughts dwelled on the broad verities of liberal economics *per se*, their formulation and content. Hayek was foremost in my thoughts, but for additional points of departure and connections to living communities, I found myself returning to the work of my NYU professor Israel Kirzner, now with more interest and fascination as well as a better living understanding of the predicament of his tradition. At Irvine I increasingly departed from normalcy.

The Austrian economics movement is pretty uniformly libertarian, but there is an important division within the movement. Rothbard fashioned an Austrian economics in which, as it were, Mises was the great authority and Rothbard himself his apostle and interpreter. In lucid, intrepid prose, Rothbard reduced matters of social welfare to issues of voluntarism. Each person acts to better his condition, so restricting his action reduces the welfare of him and his trading partners, and hence reduced social welfare. He made it openly formulaic and categorical, giving little ground to aberrations of human folly, externalities, and the like. The praxeological laws of economics are deduced, yielding a science of economics. Many libertarians find Rothbard's axiomatic, formulaic approach refreshing, invigorating, and powerful. It would seem to coincide with the revelation that I experienced during the ping pong game in my friend's basement. Young

libertarians naturally take to this approach and often buy into its precepts, image of science, heroes, narrative, and so on.

In Rothbard's view, Hayek was an intellectual cousin, but squishy, obscure, convoluted, and too conservative; not well aligned to Mises. To Rothbard, Hayek was something of a rival. Rothbard was often vigorous in criticizing rivals. He wrote that Hayek's eminence and influence might derail the science of liberty. The other camp of Austrianism, led by Kirzner, embraced Hayek along with Mises. The theory and historical intellectual narrative provided by Kirzner attempt to integrate Mises and Hayek, and, in suggesting that the integration is latent in both, to homogenize Mises and Hayek. Kirzner's influence within the Austrian realm is huge; he has often been called the "dean" of Austrian economics. Peter Boettke has been a leader of the Kirzner camp, and his own, often-repeated way of expressing Kirzner's view is: "The best reading of Mises is a Hayekian one and the best reading of Hayek is a Misesian one" (quoted in Horwitz 2004: 308).

I undertook explorations under the two rubrics stated in the title of the present book: knowledge and coordination. Under the knowledge rubric, I wrote of the discovery factors of economic freedom and offered a "deep-self" refinement of Kirzner's ideas about discovery, entrepreneurship, and error. The latter paper was published in *The Review of Austrian Economics* and even awarded a prize. I received warm letters about these papers from Kirzner, who also was writing recommendation letters in my behalf. By virtue of an invitation from Mario Rizzo, I contributed to a tribute on the occasion of Kirzner's retirement from NYU.

I also explored coordination. I distinguished two kinds of coordination, and I suggested that the distinction clarified some of the controversies surrounding the issue of whether successful entrepreneurial action disrupts coordination, as in "creative destruction," or enhances coordination, as Kirzner maintains. I was offering what I again thought was a useful refinement and clarification, ultimately affirming Kirzner's drift. I was invited to give the paper at NYU. At the seminar, Kirzner took demonstrative exception to the paper. He subsequently published a piece critical of that early paper.

My papers on knowledge and coordination were, to my mind, true to Hayek and useful as they connected to Kirzner, in refining and clarifying some of his ideas, and qualifying some of his claims. In time, however, it grew increasingly clear to me that those alterations, even though they affirm the importance of entrepreneurial discovery and its relation to coordination, threaten the Misesian aspects of Kirzner's doctrine, and

hence his whole variety of Austrian economics. It seems to me that Kirzner grew to see that, too. He grew chillier toward my work. As the intellectual conflict grew more apparent, the Austrians of the Kirzner camp, too, grew chillier, without, I felt, giving good reasons. I felt that they were circling the wagons. Eventually I felt impelled to write (with Jason Briggeman) a lengthy and rather fierce critique of Kirzner, calling again for certain alterations. Kirzner replied, and I rejoined.

One alteration is to weaken our claims about the coordinative properties of entrepreneurial activity, and of liberalizing reforms generally. We should not even aspire to make them categorical. Rather, they are, by and large, presumptive—and, in consequence, less brittle, more robust. This attitude flies in the face of the Misesian approach of axioms and logical deductions.

Meanwhile, I pondered why all of us of the Hayek-Kirzner traditions seemed to carry two obsessions, namely, an obsession with knowledge and an obsession with coordination. The connection between the two rubrics remained unclear to me. I had the feeling that the two were connected in ways not adequately understood. The connection I eventually found comes from Scotland, from works written more than a century before Ludwig von Mises was born.

I was growing increasingly intimate with Adam Smith's works. I came to realize that Smith's ethical approach necessarily involves an allegorical spectator representing a conception of the social, and that the moral faculties of such a spectator are inherently like aesthetics—not precise and accurate, but, to use Smith's expression, "loose, vague, and indeterminate." I had adopted such a spectatorial approach in my papers on coordination. I came to see how Smithian allegory could be further deployed to give better formulation to economic talk of market communication, social cooperation, social error and correction, and other basic ideas in economics. Under the knowledge rubric, I had worked out an understanding of the richness of the agent's knowledge, involving the agent's information, interpretations, judgment, discoveries, plans, disappointment or fulfillment, regret or affirmation, and error and correction. Now, we may take that understanding and apply it to the Smithian allegorical being as the agent in question. It is precisely the applying of what is developed under the knowledge rubric to the allegorical being that gives meaning and coherence to a number of key ideas under the coordination rubric. To do so the allegory would have to be further developed, openly and unabashedly. We find Shaftesbury, Francis Hutcheson, Bishop Butler, and Smith writing of virtue as cooperation with the Deity (four quotations are appended at



the end of this chapter), but the formulation can work for agnostics, atheists, and secularists, too, if they understand the beholder to be allegorical, socially shared and yet under contention, a cultural legacy and a work in progress.

In confessing the Smithian approach, we confess that economics is nested within ethics and that the composite involves aesthetics. We manage to develop some rules for our ideas of the social good, but they remain rather vague, like rules that might be offered for a good novel. There is disagreement over aesthetic rules. If our ideas of the social good conformed to precise and accurate rules, there would be less disagreement. They would be more like grammatical rules, about which we little disagree.

Thus, a second alteration to Kirzner is that our very notion of coordination is not precise and accurate but inherently somewhat loose, vague, and indeterminate, akin to our aesthetic sensibilities. This alteration, too, conflicts with the paradigmatic approach of Mises, and indeed with most any proudly scientific image of economic science. I am jettisoning what is really distinctive to Mises. In aligning my interpretations with Hayek, I am dehomogenizing Mises and Hayek.

I might concur with Peter Boettke that the most charitable reading of Mises is a Hayekian one. The most charitable reading of Hayek, however, is *not* a Misesian one. Arguably, the most charitable reading of both is a Smithian one. A principal aim of the present book is to give further development to the alternative centered on Smith.

All of this may seem like factional strife, but the viability of a discursive liberal economics, viability in terms of both the professional and the public cultures, would be significantly enhanced if more young liberal scholars, disenchanted with establishment economics and initiated to powerful insights, circumvented Austrian strictures and pretenses and found their way to Hayek and, especially, to Smith. The present formulations are sensibly discursive and human; they honor, credit, and preserve what is valuable in Mises, Rothbard, and Kirzner while avoiding some of their shortcomings. They strengthen our connections to the rich tradition of Smith and the original arc of liberalism.

“Heterodox” left economists often paint free-market economics as philosophically naive, as modernist or positivist. Some free-market economists are like that. More and more, though, they are like Adam Smith. I try to give expression to a character of liberal economics, an expression I hope serviceable to economists and others. The book expresses sensibilities highly congruent, I think, with those of Adam Smith. The present book,

then, is a work in *liberal* economics. If one prefers to say “libertarian,” that is OK, too, for libertarianism itself also grows more Smithian.

**VIRTUE AS COOPERATION WITH THE DEITY:  
SHAFTESBURY, HUTCHESON, BUTLER, AND SMITH**

Shaftesbury, Hutcheson, Butler, and Smith make a warm tradition. I mentioned that these authors wrote of virtue as cooperation with the Deity. I thought it would be good to provide these quotations, because we are pursuing parallel ideas. I have added the underlining (the italics are in the original).

The Earl of Shaftesbury, Anthony Ashley Cooper (1671–1713), wrote:

I consider, That as there is *one* general Mass, *one* Body of the Whole; so to this Body there is *an Order*, to this *Order* a Mind: That to this *general* Mind each *particular-one* must have relation; as being of like Substance, (as much as we can understand of *Substance*) alike active upon Body, original to Motion and Order; alike simple, uncompounded, individual; of like Energy, Effect, and Operation; and more like still, if it co-operates with it to general Good, and strives *to will* according to the best of *Wills*. So that it cannot surely but seem natural, “That the *particular* Mind shou’d seek its Happiness in conformity with the *general-one*, and endeavour to resemble it in its highest Simplicity and Excellence.”

(1709/2001 vol. 2: 201)

Francis Hutcheson (1694–1746) wrote:

But if we have no other Idea of Good, than Advantage to our selves, we must imagine that every rational Being acts only for its own Advantage; and however we may call a beneficent Being, a good Being, because it acts for our Advantage, yet upon this Scheme we should not be apt to think there is any beneficent Being in Nature, or a Being who acts for the Good of others. Particularly, if there is no Sense of Excellence in publick Love, and promoting the Happiness of others, whence should this Persuasion arise, “That the Deity will make the Virtuous happy?” Can we prove that it is for the Advantage of the Deity to do so? This I fancy will be look’d upon as very absurd, unless we suppose some beneficent

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Dispositions essential to the Deity, which determine him to consult the publick Good of his Creatures, and reward such as co-operate with his kind Intention. And if there be such Dispositions in the Deity, where is the impossibility of some small degree of this publick Love in his Creatures? And why must they be suppos'd incapable of acting but from Self-Love?

(1726/2008: 109)

Bishop Joseph Butler (1692–1752) wrote:

We have then a declaration, in some degree of present effect, from Him who is supreme in Nature, which side he is of, or what part he takes; a declaration for virtue, and against vice. So far therefore as a man is true to virtue, to veracity and justice, to equity and charity, and the right of the case, in whatever he is concerned; so far he is on the side of the divine administration, and co-operates with it: and from hence, to such a man, arises naturally a secret satisfaction and sense of security, and implicit hope of somewhat further.

(1736: I.I.III)

Adam Smith (1723–90) wrote:

The happiness of mankind, as well as of all other rational creatures, seems to have been the original purpose intended by the Author of nature, when he brought them into existence. No other end seems worthy of that supreme wisdom and divine benignity which we necessarily ascribe to him; and this opinion, which we are led to by the abstract consideration of his infinite perfections, is still more confirmed by the examination of the works of nature, which seem all intended to promote happiness, and to guard against misery. But by acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind, and may therefore be said, in some sense, to co-operate with the Deity, and to advance as far as in our power the plan of Providence.

(TMS: 166)