BOOK REVIEW

THE CONCEPT OF EQUILIBRIUM IN DIFFERENT ECONOMIC TRADITIONS: A HISTORICAL INVESTIGATION

BERT TIEBEN
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In The Concept of Equilibrium in Different Economic Traditions, Bert Tieben offers a full-length, extensive study of the concept of equilibrium that chronicles its four-century evolution from the prehistory of classical economics to the heyday of neoclassical economics and contemporary heterodox economics. The book, a daunting exploration of mountains of literature that runs in nearly seven hundred pages, is based on Tieben’s 2009 dissertation at the Vrije Universiteit of Amsterdam. Although there are few advanced mathematical equations that might baffle the reader, the book is not easy to read and presupposes a detailed knowledge of economic theory.

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The book is divided into four parts: a theoretical framework (chapters one and two), research methodology (chapter three), historical review (chapters four to twelve), and comparison and summary (chapters thirteen to seventeen). In these seventeen chapters, Tieben mainly addresses three related issues: the meaning of economic equilibrium, the reason for its persistence and dominance in economic analysis, and its role in controversies among various schools of economic thought (pp. 11, 612). After briefly summarizing the book’s main contents, I will comment on the author’s interpretations of Austrian economics.

Chapters one and two mainly explore the meaning of economic equilibrium and propose an analytical framework for the rest of the book. To avoid becoming trapped in semantics, as Fritz Machlup’s review of equilibrium concepts, Tieben correctly points out that in studying the historical development of the equilibrium concept, one should go beyond definitions. Even so, one must start with a definition, and he implicitly adopts a Hayekian equilibrium concept—the mutual compatibility of individuals’ different plans for action—as a benchmark. He argues that plan compatibility or plan coordination is roughly consistent with viewing equilibrium as a metaphor, like the invisible hand, to explain economic order, harmony, or decentralized coordination (pp. 12, 36, 612). Moreover, he provides an analytical framework that distinguishes between static and dynamic concepts of equilibrium, that is, equilibrium as an end state or a process. Scholars choose one or the other based on their distinctive ideologies (what Tieben calls visions), similarly to what Joseph Schumpeter described as scientist’s subjective evaluation before beginning a scientific inquiry (p. 36). Thus, Tieben concludes that it is impossible to give value-free scientific statements (p. 46).

Chapter three discusses the methodology related to the mainstream, neoclassical equilibrium concept. Tieben asks whether the concept’s dominance and persistence stem from its validity as a scientific tool for explaining economic phenomena (p. 612). His answer clearly is no. He examines the scientific criteria adopted by Deirdre McCloskey (rhetoric), Roy Weintraub (the Lakatosian methodology of scientific research programs [MSRP]), Alexander Rosenberg (instrumentalist) and Daniel Hausman (the laws of economics) one by one, although he does not explain why he
chooses these scholars. Tieben largely agrees with McCloskey’s rhetorical view of economics and her opinion that mathematical equilibrium theory not only leads to “an erroneous history of economic thought” (p. 49), but inappropriately purports to be the scientific standard. As for Weintraub’s Neo-Walrasian Research Program (NWP), Tieben compares it to Lakatos’s MSRP and concludes that it fails to incorporate the requirements of having both a theoretical “hard core” (p. 55) and a “protective belt” (p. 57) of surprising empirical results. Next, according to Rosenberg, the criterion of science is predictive success. He argued that economics is at best a branch of mathematical politics rather than an empirical science. However, Tieben points out, Rosenberg’s view is not convincing because he never assessed any empirical inquiries in detail. Finally, Hausman considered economics as a science based on seven fundamental laws or assumptions of economics (p. 75). Yet, Tieben noted that not all economists follow—indeed, some economists even employ the opposite assumptions. One conjecture is that the popularity of the idea of general equilibrium may stem from chance considering that William Jevons and Léon Walras did not obtain immediate or foreseeable success in their time (p. 293–94).

Since, as Tieben sees it, no objective scientific standard can explain the status quo dominance of the neoclassical concept, he turns to the history of economic thought in chapters four through twelve. Tieben reviews how the founders of and contributors to preclassical, classical, neoclassical, and heterodox economics, especially Austrian economics, employed the equilibrium concept.

Chapters four through seven apply the analytical framework proposed in chapter 2. For each tradition or period, Tieben identifies representatives of the end state and process approaches to equilibrium analysis. For preclassical economists, the distinction between end state and process lies in different aspects of a self-regulating economy: the stability of this order or the disruptions away from equilibrium (p. 96–97). The preclassical economists Sir Dudley North and Pierre de Boisguilbert, respectively, pioneered these approaches (p. 97). Next, Tieben maintains that Richard Cantillon, who emphasized the equilibrating role of entrepreneur, followed North. He also asserts that François Quesnay and the Physiocrats (except A.R.J. Turgot) followed Boisguilbert instead of
Cantillon by focusing on an unstable process of capital reproduction and economic decline.\(^1\) Differences of views about equilibrium continued and grew among the classical economists. Because their works are so comprehensive (or inconsistent) and modern interpretations also varied, it is hard to identify definitively these authors’ predecessors. However one interprets their works and the origins of their works, though, the classical economists were engaged in the two branches of equilibrium studies, which were to transform greatly in the neoclassical period.

In contrast to the earlier chapters, chapters 8 through 12 do not contrast two scholars who took opposite positions, but only underline the dominant aspect—end state or process—of specific traditions. Chapter 8 and 9 discuss Jevons on partial equilibrium and Walras on general equilibrium.\(^2\) Their neoclassical economics transformed the equilibrium paradigm by concentrating only on the characteristics of static equilibrium. Chapter 10 investigates the contributions of Austrian economics as a type of heterodox economics that focuses on disequilibrium analysis. It is laudable that Tieben does not dismiss Austrian economics, as most mainstream economists do, but some of his arguments are doubtful, as I discuss below. Finally, chapter 11 focuses on J. M. Keynes’s contributions to monetary equilibrium. And chapter 12 is on monetary dynamics by studying Stockholm and Austrian schools, which arrived at opposite conclusions on whether public policy should aim to achieve monetary equilibrium although their starting points are similar (p. 467).

The remaining chapters investigate disequilibrium studies, such as in Keynesian macroeconomics, Kirznerian entrepreneurship theory, and evolutionary and institutional economics. In the concluding section, the writer insightfully points out that the equilibrium concept is indispensable in disequilibrium studies: “What better way to study this world than by freezing it for a second” (p. 615). However, he fails to identify the value of “freezing,” as

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\(^1\) For Boisguilbert and the Physiocrats, economic decline is a synonym to disequilibrium.

\(^2\) As cofounders of marginal revolution, not only do Jevons and Walras significantly differ from Menger, but also huge differences exist between Jevons and Walras (p. 270).
an imaginary construction\textsuperscript{3} in, rather than the goal of, economic analysis. In arguing that non-Walrasian theory is more visionary but achieves less satisfactory results than neoclassical theory, Tieben implicitly and incorrectly assumes a tradeoff between the fruits of mathematical formalism and ideological vision. In describing Austrians as artists (p. 614), for example, he deprecates their analytical insight.

I turn now to Tieben's remarks on Austrian economics. After subtly distinguishing subjective value from marginal utility, Tieben asserts that “the proper name of the revolution … should be the subjective revolution” (p. 299) instead of the marginal revolution. But while it is true that Carl Menger did not use the term “marginal utility,” his theory of value reflected its meaning precisely. Tieben correctly notices that Menger defined the value of a given quantity of good as the “satisfaction of least importance” (p. 311). However, Tieben fails to see that it expressed the essence of marginal utility exactly. One possible reason is the ambiguity of the concept: whereas marginal utility in Austrian economics means the values individuals attach to marginal units of discrete goods, mainstream economics discusses bundles of goods instead of particular goods (Klein 2007). Salerno (1999) perceptively saw that Menger reconstructed the theory of price based on marginal utility instead of subjective value.

Tieben's second error is in his repeated claim that disequilibrium is at the heart of the Austrian tradition, while price is of secondary importance (pp. 303, 310). This neglects Klein's (2008) argument that the study of equilibrium may not be important to Austrian economics. The essence of Austrian economics is not the market process, but rather price theory and its applications. Prices are the end results of the process of exchange, incidental manifestations of economic activities, and symptoms of an economic equilibrium (Menger, 2007). Only through understanding price formation can we understand specific economic events and how production, exchange, and consumption are conducted to satisfy people’s diverse wants (Schumpeter 1951; Salerno 1997).

\textsuperscript{3} Cantillon pioneered the method of imaginary construction (p. 133). One famous imaginary construction is evenly rotating economy (ERE), which is employed by Mises (1949) in order to study the role of entrepreneurship and human action.
Third, Tieben is mistaken to argue that the Kirznerian entrepreneurial process is governed by uncertainty in the Knightian sense (p. 523). Kirzner (1963) followed the Misesian tradition that defines entrepreneurship in terms of uncertainty and uncertainty in terms of ignorance. But Kirznerian ignorance is much narrower than Knightian uncertainty. As High (1982) explained, Kirzner implicitly relied on “a distinction between ignorance that causes uncertainty and ignorance that does not.” Kirzner called the latter “sheer ignorance”; it refers to a situation in which a person is unaware of something’s existence, which in turn relates to realized facts. Ignorance that does cause uncertainty—Knightian uncertainty—by contrast, refers to a situation in which one does not know both the probability and distribution of an instance because it impossible to form a class of instances applied to future circumstances (Knight, 1921). This may be one reason Kirzner is, as Tieben writes, “on the brink of being labeled a hard core neoclassical by his own brethren” (p. 521).

Tieben makes some minor errors. He points out “Menger’s doubts about the use of mathematics” (p. 305); however, as Hayek (1976) showed, Menger “does not even refer to the mathematical method in any of his writings on methodology.” Tieben argues that Mises’s belief in the “confluence of all marginalist currents… was wrong” (p. 349), simply by quoting Mises’s statement about the similarity among the Austrian, Anglo-American, and Lausanne schools (p. 346), while ignoring its context. As Salerno (2009) pointed out, “Mises’s remarks were intended as a generic defense of theoretical research in economics,” and “Mises’s opinion was delivered at an economics conference in Germany that was heavily attended by the still influential remnants of the German Historical School who were antagonistic to economic theory” (p. xxviii–xxix). In sum, Tieben misunderstands the nature and certain contributions of Austrian economics, which may be a result from inappropriate citations and overreliance on one or two scholars’ analyses.

This book includes many interesting comments and anecdotes, although some of these are presented without detailed evidence. For instance, Walras held to a scientific socialist vision (p. 266) and was not original in inventing the equimarginal principle (p. 274–275); Karl Menger “rescued general equilibrium analysis from oblivion” (p. 294); Marshall “never considered economics as a mathematical science” (p. 201); and the “socialist calculation debate made Hayek
and Mises aware of the essence of Austrian thought” (p. 349). Also, Tieben makes many interesting remarks on the priority of academic discoveries, such as that the “first ideas concerning economic equilibrium” came from the ancient Greeks, Aristotle was the “first to recognize that traders have a reciprocal benefit from exchange,” James Steuart was the first to use the word “equilibrium,” and Marshall was the “first to realize the usefulness of equilibrium theory” in studying complex economic phenomena.

It is intellectually challenging for most narrowly specialized Ph.D. students in economics to set off on a march through a history of economic thought. In this regard, Tieben has done a good job. Given the comprehensive range of topics covered, it is inevitable that the author relies on many secondary sources and draws some quick conclusions. Yet, the book might have been more penetrating if he had discussed how the social or economic contexts influenced on economists’ understanding of the equilibrium concept, as Hoselitz (1951) did in documenting the evolution of entrepreneurship definitions.

On the whole, I recommend this book. This book may sharpen mainstream economists’ understanding of the nature of economics. Austrian economists may read the chapters on the Austrian school, Austrian monetary economics, and Kirznerian entrepreneurship theory with mixed feelings. It is inspirational to learn that the Austrian school attracts more and more attention, while it is a pity to know some details and even some important Austrian concepts are not correctly understood. However, reading this book still helps in the sense that Austrians can get a general idea of how Austrian economics is understood by other scholars such as Tieben and be induced to provide more clear and precise explanations. Moreover, it may expose readers to some questions they may have never considered before. A final bit of practical advice for reading such a thick book: it may be good to read first the discussion of Marshallian and Walrasian equilibrium, as it is likely to be already familiar, and then to go back to the other chapters.

REFERENCES


