

BOOK REVIEW

LIVING ECONOMICS: YESTERDAY, TODAY, AND TOMORROW

PETER BOETTKE

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This is a book about the general applicability of economics and how it “affects all walks of life” (from the back-cover blurb). No less than 23 endorsing statements are printed at the front end of the book, including praise from luminaries such as James Buchanan, Vernon Smith, Gordon Tullock and Israel Kirzner. Nassim Taleb also chips in. Given the way the book is described, one may perhaps expect a Becker or Landsburg kind of book which applies economics to unusual settings, generating new insight. However, the book is very different from this. Instead, Boettke delivers a set of highly personal statements in the form of 22 informal essays, most of which have been previously published, and

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which describe his “love affair with economics” (p. xv). Perhaps because of the way in which the book has been conceived and put together, there is a good deal of repetition; indeed, the book could have been compressed to something shorter and more succinct (my preference would have been for a deeper examination of the differences between “mainline” and “mainstream” economics; more about which later). However, Boettke writes in an engaging and often journalistic way, so the book is an easy read. He is also good at coming up with fancy and helpful 2x2 matrices to organize the material; in fact, while reading through the book, the thought struck me more than once that Boettke could have been an excellent management writer.

However, while Boettke’s book is highly personal, it actually, but perhaps less intentionally, gives a portrait of a specific way of thinking about Austrian economics as well as practicing it. We may call this the “Masonian way,” not just because George Mason University is where our author is institutionally located, but also because of his institution-building efforts in that place. To be sure, parts of the book are dedicated to traditional Austrian projects, such as criticizing Keynesian economics, and I doubt any Austrian will found much to disagree with in these parts. However, Boettke has long more or less explicitly argued that there is a specific way of doing Austrian economics which (at least to this outside observer) seems to be an amalgam of, on the substantive side, traditional Austrian economics (perhaps more with a leaning towards Hayek and Kirzner than Mises and Rothbard), the economics of governance as represented by Oliver Williamson and Elinor Ostrom; public choice economics *à la* Buchanan and Tullock; on the philosophical side “Continental” influences, notably ideas from hermeneutics and phenomenology; and on the methods side, fundamentally anthropological empiricism.¹

Because of Boettke’s institution-building efforts and general influence in parts of the Austrian community, it appears that a number of other Austrians, mainly (but not exclusively) associated with George Mason University, buy into the Boettkian worldview.

¹Note that Boettke’s approach to Austrian economics is one among other approaches. For example, see Salerno (2002) for a very different approach to modern Austrian economics.

It is therefore of interest to look more closely into this view. The present book serves as a handy guide.

INTELLECTUAL HERITAGE AND THE BOETTKE MELANGE

The Boettke worldview involves holding certain key economists in very high esteem, to the point of idolizing them. For example one chapter is titled “The Genius of Mises and the Brilliance of Kirzner.”² Boettke seems to hold James Buchanan and Kenneth Boulding in particularly high esteem. Indeed, in the Boettkian Pantheon Buchanan seems to be Zeus, placed on a higher level than Mises and Rothbard; while Kirzner and Hayek are gods that are close to Buchanan. Small-god status is assumed by, for example, Ostrom.

A particular place is reserved for the late Don Lavoie, who before his passing in 2001 served as a sort of local guru to the emerging Masonian Austrian community. The particular importance of Lavoie, we are told (chapter 12), was that he made it clear that the philosophical roots of Austrian economics lies in Continental Europe, meaning phenomenological and hermeneutical traditions rather than analytical philosophy. Boettke does not go into great detail here, but there is mention of Husserl and Gadamer. The problem, of course, is that “Continental Philosophy” is extremely varied and the label is not terribly informative. Additionally, there are those, particularly Robert Nozick and Uskali Mäki, who have actually addressed key Austrian ideas from the perspective of analytical philosophy.

There is nothing wrong with idolizing important economists. This is a good way of building group identity, based on the examples, lives and teaching and writing of those economists. Importantly, the particular economists that are idolized in Boettke’s books serve, of course, as the main inspirations for what we may call the “Boettke mélange,” a combination of Austrian economics, public choice theory, economics of governance, and “continental philosophy.” It is not a clear concoction we are talking about here, for it is not transparent, for example, what is the really the shared ground between Oliver Williamson and Ludwig von

² Of course, there are also intellectual villains or at least opponents, in Boettke’s account, particularly Abba Lerner and John Maynard Keynes.

Mises. Indeed, what does one do with a committed equilibrium economist like Harold Demsetz in this *mélange*?

What keeps the *mélange* together, Boettke says, is a commitment to “two fundamental observations of commercial society: (1) individual pursuit of their self-interest, and (2) complex social order that aligns interests with the general interest” (p. xvii). Unfortunately, this way of describing it desperately lacks discriminating power: Numerous other economists, including many that Boettke presumably would think of “mainstream,” “neoclassical,” “formalists,” etc. would subscribe to these two tenets without feeling any particular commitment to Austrian principles. In an attempt to further characterize the nature and content of the *mélange*, Boettke turns to a distinction between “mainline economics” and “mainstream economics.”

MAINLINE AND MAINSTREAM ECONOMICS

This distinction is a key theme in Boettke’s book. It is discussed, sometimes using different terminology, many times. It is clearly a distinction that Boettke invests in and believes is of crucial importance. I first learned of it sixteen years ago when Boettke and I were both on the Ph.D. committee of Frederic Sautet in Paris. We discussed it through the evening in the central-Paris apartment of Pascal Salin (Sautet’s advisor in France). I remember being skeptical of the distinction back then, and I still am. Let me explain.

“Mainline economics” is, according to Boettke, sound, basic economics; it is the Good Guys-stuff:

The mainline of economics, in my narrative is to be contrasted with the ‘mainstream’ of economic thought. Mainline is defined by a set of positive propositions about social order that were held in common from Adam Smith onward, but mainstream economics is a sociological concept related to what is currently fashionable among the scientific elite of the profession (p. xvii).

In terms of names, mainliners are the economists/philosophers of the Scottish Enlightenment, the Austrians, the public choicers, as well as new institutionalist economists, such as Coase, Demsetz, North, Williamson, et al.

There are several problems with the way Boettke presents and elaborates on the distinction. First, “mainline economics” is characterized in a way that is perhaps best, and hopefully not too unfairly, described as “bland.” It seldom goes much beyond things like “markets work,” “individuals make choices,” “the unintended consequences of those choices are usually beneficial (if the rules are “right”), or, “an exchange is an exchange is an exchange.” Additional potential content is suggested by the inclusion of verbal economists Demsetz, Coase, Ostrom, Stigler and Williamson, as well as the quite formalistic Jack Hirshleifer, in the mainline economics club. Thus, one suspects that mainline economics is also about property rights, governance structures, search behavior, and so on, but it is not really made clear (at least in this book) how such insights fit into the broader Boettkian program. One is then left with a fairly non-specific characterization of mainline economics. An obvious problem with this is that any mainstream (so-called) economist can simply retort that mainstream economics has done much to identify the exact conditions under which mainline economics—which he would see as essentially loose, verbal, normatively-laden basic/commonsense economics—hold true. Boettke may reply that the key differential is the attention to process, but again, this only characterizes part of mainline economics, and a mainstream economist is not going to be impressed by the way “process” is handled in mainline economics anyway.³

Second, the characterization of mainstream economics is sometimes quite dated. The examples in the book are mainly general equilibrium theory. But, as Boettke points out in one place in the book (drawing on the work of Abu Rizvi), general equilibrium economics does not at all hold the sway over the profession that it did in the 1960s and 1970s. Thus, he recognizes that in fields such as industrial organization, partial equilibrium game theoretical models have taken over. Our economist will have no truck with such theorizing, however. This gives rise to a third problem.

³ Interestingly, in developing the process theme as a critique of mainstream economics, Boettke relies heavily on the work of a mainstream economist, namely Franklin Fisher (1983). Apparently, formalism is acceptable when it yields negative conclusions about the mainstream.

Third, the separation between mainline and mainstream economics involves a distinction between verbally stated, highly abstract, basic principles of economics and formal modeling of specific mechanisms in specific settings (e.g., specific manifestations of the “agency problem” and how it can be (partially) resolved by contractual means). “Models” do not appear to have a role in mainline economics, except as thought experiments *à la* the Coase theorem or the Misesian evenly rotating economy. The kind of partial, mathematical formalizations of a mechanism that could potentially be at work in the real world do not seem to be part of the Masonian understanding of economics. However, this kind of work is what takes up the bulk of the space in the economics journals.

Boettke contrasts mainline economics with recent formal economics, what he calls “formalistic historicism” (p. 325), a (mostly game-theoretical) way of doing economics where “any particular proposition can be proved using one language (formal) (p. 327). However, formal economists may reply, and I think rightly so, that although their work is specific, focused and formal, they certainly accept the basic principles of the logic of choice; they are not historicists. Additionally, they may counter that their theoretical work addresses the workings of mechanisms that will be at work in certain kind of contexts. If the context (incentives, institutions) is the “right” one, people will behave as predicted by the model. This is not “historicism,” it is simply the *ceteris paribus* clause at work. I do not think Boettke has presented a compelling argument why it is fundamentally un-Austrian or at variance with so-called mainline economics to engage in such work.

Moreover, consider Boettke’s own view of what successful empirical Austrian economics entails, namely “analytical narratives”: “The analytical narrative entails the application of Austrian economics as a tool of interpretation of ethnographic data. This approach emphasizes the open-endedness of choice as opposed to the close-endedness required by formalistic interpretations of rational choice.... The person as chooser returns with both human character and particular circumstances.” (p. 328). This sounds nice, but it is somewhat unclear what it actually means. I think it simply means applying basic logic of choice to historical explanation, and this is supported by Boettke explaining that the “analytical narrative makes the *aprioristically* deduced pure logic

of choice the handmaiden of institutionally focused ethnographic research" (p. 211).

If used retrospectively, as a tool of interpretation and organizing data, choice theory is indeed so flexible that it can "emphasize the open-endedness of choice." Any behavior can be explained as somehow rational *ex post*; a particular explanation is concocted that makes sense out of what we observed in terms of the incentives and other "particular circumstances" that confronted "the person as chooser." This is uncontroversial. But there are problems here. Remember that Boettke is very critical of mainstream formal economics modeling of particular mechanisms in particular settings, which he criticizes as being "formal historicism." But such formal economics modeling is still based on key principles that inform a class of models or indeed all of mainstream economics, such as maximizing some objective function. As Buchanan has explained, this is one way to make the pure logic of choice concrete. The difference then is that the Boettkian applies praxeology to concrete historical analysis, while mainstreamers apply what can be seen as a particular way of focusing the pure logic of choice to modeling particular mechanisms. Viewed thusly, the differences between applied mainline economics and mainstream economics do not seem that major. If anything, the latter seems more generalizable and predictive.

To illustrate, consider Masonian Peter Leeson's (2007) paper in the *Journal of Political Economy*, a leading mainstream outlet. This is a well-crafted piece that certainly throws light on the understanding of pirate organization and the economic forces that made buccaneering successful for some time. Is it specifically Austrian? No. Could it, in principle, have written by other economists with a good command of price theory, insight in the economics of governance and the like? Yes.

A SUCCESSFUL PROJECT?

Ultimately, Masonian economics as described by Boettke is not likely to be successful, if by "success" we mean sustained, high-level impact on the economics profession. First, because it does not play by the current rule book. Second, because it offers little *specific* that is not already somehow part of the mainstream. And third, because

it deliberately abstains from engaging in policy-related work on a concrete level. As Boettke says, the “role of the economist is not a savior to society; he or she is not a technical expert to be relied upon to fix ill through social engineering. No, the role of the economist is the far humbler one; that of a student of society and teacher of the basic principles of the discipline” (p. 56). Quite apart from the point that for some strange reason economists are not allowed to teach the non-basic principles of the discipline, this seems overly defeatist. Imagine that you find yourself in the shoes of Austrian economist, Stephen Littlechild, around 1980, having been tasked by the Thatcher government to engage in denationalizing the UK electricity industry, a project that one suspects many Austrians would be sympathetic to. To engage in this socially highly beneficial piece of “social engineering” you surely have to engage in a good deal of highly technical and involved economics (and econometrics) and rely on “technical experts.”

In sum, while there are many excellent points being made in this book—which in many ways is an enjoyable read—I remain skeptical of the fundamental aims of the Boettke project. This is rooted in my overall conviction that the Austrian tradition is not best preserved and furthered by being hostile to mainstream economics (see also Salerno, 2004). A *modus vivendi* is possible, in which Austrians regard formal, mainstream economics as less general and more contingent than the pure principles of fundamental Austrian economics, but nevertheless theory that is worth doing. (I realize that readers of this journal may disagree here). In fact, Austrian economics may in certain key respects be furthered by a formal approach.⁴ But that, to borrow a phrase, will be the subject of a future paper.

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⁴ For a thoughtful discussion, see Hudik (2015).

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