

THE MARKET: ETHICS, KNOWLEDGE, AND POLITICS.
BY JOHN O'NEILL. ROUTLEDGE, 1998.

Professor O'Neill raises a large number of issues in this important book, including the value and nature of autonomy, the merits of equality, and whether political institutions should be neutral between differing conceptions of the good. (He thinks they should not be.) Although our author sympathizes with socialism, he greatly respects the work of F.A. Hayek, and he is particularly concerned to examine Hayek's epistemological arguments for the market.

I propose to confine the present examination of Professor O'Neill's book to one central topic, likely to be one of interest to readers of the *Quarterly Journal*. In these pages, and in our predecessor journal the *Review of Austrian Economics*, there has been much concern with the nature of the socialist calculation debate. Is there one calculation argument or two—one based on calculation and the other on knowledge? Did Mises and Hayek advance the same argument, with minor variations, or were their contentions quite different? Professors Herbener, Hoppe, and Salerno, on the one hand, and Yeager, on the other, have not been in full accord on these matters.

Professor O'Neill has an interesting and original view of the calculation argument, and, as will be seen, he to a large extent supports the "separationists," though with a very different assessment.

Like Herbener, Hoppe, and Salerno, our author sees the reduction of economic values to measurable units as central to Mises's case.

For Mises any rational decision, beyond the most simple, requires the commensurability of different values. There needs to be a single common unit which reduces the choice between different options to a matter of calculation. Mises assumes an algorithmic conception of practical reason. Rational decisionmaking requires the application of mechanical procedures of calculation to arrive at a determinate answer to any question. (p. 115)

Our author has, as it seems to me, seriously mistaken Mises's views. Mises does indeed stress the need for reduction to a common unit when making decisions. But what he is concerned with are decisions that involve the use of means of production to achieve competing ends. Should I, e.g., use a supply of

steel to produce dentures in Russian style or to service surgeons who require plates to insert in their patients' skulls?

Mises does *not* say that all decisions can be reduced to a common denominator of money prices. In particular, he does not claim that a person's ends can be reduced to a common unit of measure. I should have thought it well known that Mises believes utility is ordinal and not cardinal. So far as ends are concerned, he denies precisely the thesis that our author attributes to him.

Our author's misunderstanding leads him seriously to underestimate the power of Mises's position. Thus, he correctly points out, "Mises recognizes that, even in a market economy, there exist 'noneconomic goods,' those 'which are not the subject of exchange value.' Environmental goods provide the exemplar of these" (p. 117). In response, Mises says that those who wish noneconomic goods can, in a system of market prices, know how much these goods cost them.

About this answer, Professor O'Neill observes,

Mises is assuming that every choice is implicitly an exercise in economic evaluation. In such hard choices, whether or not we like to admit it to ourselves, we are implicit accountants, putting a price on unpriced goods. The agent in a choice of this kind knows not only the value of everything, but also its price. (p. 117)

No, no, no! Someone who chooses a noneconomic good over a good with a price has not put a price on the good he chooses. Rather, he prefers the noneconomic good to the good of a given price. I cannot think that our author has fully grasped the distinction between ordinal and cardinal utility.

He is entirely right, though, to stress in Mises's calculation argument the importance of a reduction of production alternatives to a common set of money prices. Now begins our author's new perspective on the argument. Mises's most famous opponent, Oskar Lange, agrees with Mises about the importance of a common unit of measure.

Lange shares Mises's positions on commensurability and the nature of practical reason. . . . The central thrust of Lange's argument is to show that there is a technical solution to the problem of choice possible within a form of socialism which has a market in consumption goods but not in production goods. (p. 119)

In an important sense, then, Mises and Lange were on the same side in the debate: both accepted what Professor O'Neill terms the "algorithmic" conception of rationality.

Opposed to them stands our author's paladin, Otto Neurath. Neurath denied Mises's fundamental assumption that choice between values requires

commensurability. Quite the contrary, economic choices can be made by on-the-spot practical judgments that do not require reduction to a common unit. True enough, we must sometimes use general principles and rules-of-thumb in making economic decisions; but these do not support Mises's all-embracing demand for calculability.

In taking this view, our author thinks, Neurath adopted a position similar to the line of thought taken by Hayek, in his contribution to the calculation debate.

In Hayek's work the issue of calculation is largely absent. His main contribution to the debate is to attempt to show how, given a market, one can have rational decisions without a calculation procedure for different social options. In making this move Hayek's position is closer to Neurath's than it is to Mises's. (p. 120)

Thus, with only slight exaggeration, we can say that Professor O'Neill sees Neurath and Hayek as allies against Mises and Lange.

What is one to make of all this? I think that our author overestimates the plausibility of Neurath's approach and misreads Hayek. In order to resolve questions by practical judgment, there must exist some practice in which the judgment takes place. Sammy Sosa can judge how to hit a baseball, because he is part of a social practice, the game of baseball, in which such assessments can be made. But there is no social practice called "coordinating the economy without market prices." People cannot use tacit knowledge to make decisions if there is no set of activities in which such decisions take place. Absent such a social practice of decisionmaking, Neurath has "solved" the calculation problem by stipulation.

As to Hayek, our author has fallen into error by his disregard for the context of the argument. Hayek's main contribution to the debate was his criticism of Lange, who, it will be remembered, acknowledged that Mises was correct about the need for commensurable units for calculation. It is only within the framework of this shared assumption that Hayek raises his problems about gathering information and the use of tacit knowledge. Hayek does not deny the importance of calculation: he takes it for granted.

As suggested earlier, many other topics in this book deserve our attention. Readers should not miss, e.g., the author's claim that John Stuart Mill's argument for a single measure of value commits a quantifier-shift fallacy (pp. 123 ff.).

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