

AUSTRIAN ECONOMICS, NEOCLASSICAL ECONOMICS, MARKETING, AND FINANCE

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If the neoclassical model of perfect competition were an accurate portrayal of reality, or even nearly so, there would be no need for advertising, marketing, brokering,¹ or, indeed, any other institution which addresses itself to the lack of knowledge about goods or services on the part of producers or consumers.² But these professions patently do exist. They are alive, healthy,

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¹With regard to the condition of “complete knowledge,” Stigler (1965, pp. 258-59) maintains that brokers can exist in perfect competition: “Or let there be indefinitely many brokers in any market, and let each broker know many buyers and sellers, and also let each buyer or seller know many brokers—again we have perfect competition.” This follows immediately upon his statement that:

If each seller in a market knows any n buyers, and each seller knows a different (but overlapping) set of buyers, then there will be perfect competition if the set of n buyers is large enough to exclude joint action . . . [hence] knowledge possessed by any one trader need not be complete; it is sufficient if the knowledge possessed by the ensemble of individuals in the market is in a sense comprehensive.

However, “the” price would have to be higher if brokers are involved in order to cover the expenses thereof. Thus, it would seem that in a “perfectly competitive” market, the services of brokers would be competed out of existence, as would the services of any other middleman. This is not to deny his point that no single individual need have complete knowledge directly, provided that he does so indirectly, through appropriate overlapping sets of incomplete knowledge.

²Stigler (1965, p. 259) also maintains, contrary to the standard version of neoclassical theory, that there is a role for entrepreneurs in perfect competition:

and productive. We must conclude from this that perfect competition is a highly unrealistic model³ that can play little or no role in an understanding or explication of economic reality.⁴ The neoclassicals, including Stigler, take the benefits of the perfect competition model to be “predictions that will have wide empirical validity” and the provision of “normative properties that will allow us to judge the efficiency of [governmental] policies” (Stigler 1965, pp. 261-62). The only “cost” of the perfect competition model they recognize is that it is unrealistic. To them, the benefits obviously outweigh the costs, and therefore the perfect competition model is and should be the dominant one in economic theory. While not denying that some of the work by economists working in the neoclassical tradition has been useful, even seminal, in adding to our understanding of the real world in some cases,⁵ we maintain that the perfect competition model is unnecessary to these developments⁶; moreover, it has wrought far more harm than good. In what follows, first we identify both the positive and normative essences of this model. We then critique them, pointing out the real costs thereof.

Since entrepreneurs in a stationary economy are essentially brokers between resource owners and consumers, it is sufficient for [perfect] competition if they meet this condition. That is, resource owners and consumers could dwell in ignorance of all save the bids of many entrepreneurs.

We repeat the problem pointed out in note 1 above: “the” price would have to be higher if entrepreneurs/brokers were involved in order to cover the expenses. Therefore, it would seem that in a “perfectly competitive” market, the services of entrepreneurs/brokers would be competed out of existence, as would the services of any other middleman.

³As Stigler (1965, pp. 261-62) states:

We wish the definition [of perfect competition] to specify with tolerable clarity—with such clarity as the state of the science affords—a model which can be used by practitioners in a great variety of theoretical researches, so that the foundations of the science need not be debated in every extension or application of theory. We wish the definition to capture the essential general content of important markets, so the predictions drawn from the theory will have wide empirical reliability. And we wish a concept with normative properties that will allow us to judge the efficiency of policies. That the concept of perfect competition has served these varied needs as well as it has is providential.

⁴For a critique of the perfectly competitive model, see Kirzner (1973); Mises (1966); Armentano (1972, 1982, 1991); Armstrong (1982); Block (1977, 1982, 1994); DiLorenzo (1997); Boudreaux and DiLorenzo (1992); High (1984/1985); McChesney (1991); Rothbard (1970); Shugart (1987); Smith (1983).

⁵See, for example, the work by Coase (1937) on the theory of the firm and by Williamson (2000) on transactions costs. See also, Cheung (1983) and Dauterive and Sibley (1990); for an Austrian perspective on the firm which does not rely upon perfect competition, see Machlup (1967); Lewin and Phelan (1999); Foss (1994); Klein (1999).

⁶The unrealistic assumptions of perfect competition are unnecessary for supply and demand analysis.

PERFECT COMPETITION

What is perfect competition, and how does this doctrine create the difficulties outlined above? Machovec (1995), locating the origin of perfect competition, states that:

it sprang to life to satisfy Cournot's pursuit of definitional rigour, and eventually became the principal instrument of the *Elements* (Walras). The perfectly competitive model did not make its real debut as an analytical tool until the 1920s—after the profession had digested Frank Knight and after the influence of Alfred Marshall had waned. Until that time, the way economists reasoned about the market was “structurally different.” (p. 12)

and:

the seeds of the perfect competitor were being sown by the upcoming, mathematically-oriented members of the profession, and this is the conception which, during the 1920s, came to dominate the new cerebrum of economics. The development of the perfectly competitive model can be said to have emanated from a unique seed planted in 1838 by Cournot—an atypical seed which did not even germinate until 1874 (in Walras) and finally reached maturity nearly a half century later in Knight. (p. 241)

In subsequent years it became ubiquitous within micro and managerial economics, spreading out to a whole raft of other subdisciplines of economics such as labor, international, public policy, public finance, industrial organization, etc. It has also taken the textbook world by storm,⁷ making it impossible for any student to be untouched by this simplistic and misleading model.

As a positive model, the core of perfect competition is a market in which the goods and services are homogeneous⁸; each firm is so tiny that it produces so insignificantly small a proportion of the total output that any increases in its offerings cannot effect price even by a minuscule iota⁹; and full information is available to all market participants about all goods and services.¹⁰

⁷We defy the reader to unearth even *one* textbook that does not accord the perfectly competitive model a central position in economics, apart from Gordon (2000).

⁸Ultimately, this implies that there can be only one good in the economy; if there are any more than one, the cloven hoof of heterogeneity seeps in.

⁹This, too, is highly problematic as it would be true only in the case where a firm produced, literally, a zero amount, and continued to do so. Consider the opposite case. Assume there is a small automobile manufacturing concern that increases its annual output from two to three units. As long as there were a negatively sloped demand curve, it is not *possible* for there to be a zero reduction in price.

¹⁰It is important to stress that the assumption of full, complete, and accurate—indeed, perfect—information in a single, perfectly competitive market would mean that no firm in that market, qua its role in that market, could in any way benefit in the slightest from the

As a normative standard, the essence of the perfectly competitive model is that in equilibrium, a quantity Q is produced and sold at which Q the price, P , equals the marginal revenue, MR , which equals, the marginal cost, MC , which equals the average total cost, ATC ; that is, $P = MR = MC = ATC$. This is held to be the normative standard because of the following. First, as P measures the marginal “social benefit” and MC the marginal “social cost,”¹¹ $P = MC$ insures that Q is the socially optimum quantity; additional units of output will be produced and sold so long as the additional benefits thereof exceed the additional costs, and no unit will be produced if the cost exceeds its benefits. Second, as MR measures the benefits to the producer (that is, the private benefits), $MR = MC$ ensures that Q is the privately optimum (a.k.a. the profit maximizing) quantity. Third, $MC = ATC$ ensures Q is the optimum quantity in the sense that no other level of output could be produced at a lower per-unit cost. Fourth, $P = ATC$ ensures that normal profits are earned. There are no above-normal (“economic”) profits to induce existing producers to increase the level of production or induce others to enter the market, nor are there below-normal profits (that is, “economic” losses) to induce existing producers to decrease the level of production or to exit the market; therefore the market is in (short- and long-run) equilibrium when operating at this optimal level of output, Q . Fifth, $P = MR$ ensures that the marginal social benefit (P) and the marginal private benefit (MR) are the same, and therefore there is no divergence between the condition for social optimality ($P = MC$) and that for private optimality ($MR = MC$).

It is not hard to understand how economists enamored of mathematical formalism and model building could be seduced by a model with such properties. What a standard—virtual perfection!

PERFECT COMPETITION AS A POSITIVE MODEL

The primary critique of perfect competition as a positive model is that it is so unrealistic as to be misleading.

Its main drawback as a normative standard is that no real-world firm, industry, or market can satisfy it and therefore governmental intervention to regulate the behavior of every firm, industry, and market is warranted, subject only to an analysis of each proposed intervention to ensure that the benefits exceed the costs.¹²

use of financial markets and institutions, or from advertising and marketing. There would be only the firm, its customers/users, and its suppliers/producers of resources. No middlemen of any type allowed.

¹¹This ignores divergences that might arise on the supply side; that is, so-called market failures as a result of negative externalities. In contrast, negative externalities are a property rights problem; that is, they arise because the legal system either does not acknowledge or does not enforce property rights. See Cowen (1988).

¹²This determination necessarily admits of at least some level of arbitrariness, given the essentially subjective nature of much in economics, particularly including so-called cost benefit analysis. On this, see Barnett (1989, pp. 137-38); Buchanan and Thirlby

Neoclassicals use an instrumentalist defense of perfect competition as a positive model, maintaining that it is but a mere endpoint of the analysis, the analogue of an ideal gas in chemistry or a frictionless system in physics. No one expects to actually encounter the situation depicted in this model; it serves only as a useful simplification of the real world in order to facilitate analysis. One reaches a “first-cut” analysis of economic activity using the perfect competition model; then, with that understanding, more accurate progress can be made by removing the attendant less-realistic, simplifying assumptions. Just as the assumptions of the ideal gas must be dropped by the physicist near the condensation point in order to understand the observed phenomena involving intermolecular attractions and condensation, so also must the simplifying assumptions of perfect competition be dropped in order to understand the observed marketing behavior. States Stigler (1965):

Finally, we should notice the most common and the most important criticism of the concept of perfect competition—that it is unrealistic. This criticism has been widespread since the concept was completely formulated and underlies the warm reception which the profession gave to the doctrines of imperfect and monopolistic competition in the 1930’s. One could reply to this criticism that all concepts sufficiently general and sufficiently precise to be useful in scientific analysis must be abstract: that, if a science is to deal with a large class of phenomena, clearly it cannot work with concepts that are faithfully descriptive of even one phenomenon, for then they will be grotesquely undescriptive of others. This conventional line of defense for all abstract concepts is completely valid, but there is another defense, or rather another form of this defense, that may be more persuasive.

This second defense is that the concept of perfect competition has defeated its newer rivals in the decisive area: the day-to-day work of the economic theorist. Since the 1930’s, when the rival doctrines of imperfect and monopolistic competition were in their heyday, economists have increasingly reverted to the use of the concept of perfect competition as their standard model for analysis. Today the concept of perfect competition is being used more widely by the profession in its theoretical work than at any time in the past. The vitality of the concept is strongly spoken for by this triumph.

Of course, this is not counsel of complacency. I have cited areas in which much work must be done before important aspects of the definition of competition can be clarified. My fundamental thesis, in fact, is that hardly any important improvement in general economic theory can fail to affect the concept of competition. But it has proved to be a tough and resilient concept, and it will stay with us in recognizable form for a long time to come. (pp. 266-67)

(1981); Buchanan (1969); Mises (1966); Rothbard (1993, 1997); Cordato (1989, pp. 229-44); DiLorenzo (1990, pp. 180-95); Garrison (1985); Gunning (1990); Kirzner (1986); Mises (1966); Rizzo (1980, pp. 641-58; 1979, pp. 71-90); Rothbard (1979, pp. 91-96; 1993; 1997); Schmidtchen (1993, pp. 61-84).

In reality, the expectation is for some sort of imperfect competition, such as monopoly, duopoly, or oligopoly. In these cases, there is no need to assume full information and thus to assume away the possibility of marketing. States Kirzner in this regard: “It follows that, since perfect competition precludes selling effort, where advertising or other selling effort is in fact engaged in, this must be attributed to the monopolistic elements in the market structure” (1973, p. 164).

However, while imperfect competition is far more realistic than its “perfect” counterpart regarding such things as size of firm, homogeneity of goods, entry costs, etc., it is not—or, rather, need not be—as far as *information* is concerned. That is, it is still possible to combine the assumption of complete information with imperfect competition. Say what you will about monopolistic competition, it remains an *equilibrium* model for the neoclassicals. The imperfectly competitive model is an end-state theory, not one of process, and disequilibrium.¹³ As such, it continues to be compatible with the assumption of full information. Thus, while advertising *may* be compatible with imperfect competition, this is not necessarily the case. It is still possible for advertising to be ruled out of court by the assumptions, not only of perfect competition, but of imperfect competition as well, in any of its varieties.

A better tack may be the one taken by Stigler (1961). This economist posits not full knowledge of everything under the sun, as with perfect competition, but, rather, of entire probability distributions.¹⁴ In this more sophisticated vein, however, there is no information available concerning individual events, except for the fact that they belong to a given probability distribution.

Under these assumptions, there is now room for advertising in the neoclassical world, but only of the informational variety.¹⁵ Suppose you move to a new city and want to purchase a home. You will be very interested in ascertaining prices, quantities available, location, etc., of specific houses. Each day of search is expected to bring you lower prices, *ceteris paribus*, for a dwelling of a given quality, but, to put this in Stiglerian terminology, at a decreasing rate (for example, the marginal benefit curve declines with time). On the other hand, the money costs of staying, temporarily, in a motel are constant, while the inconvenience of living out of suitcases increases as time goes on (the marginal cost curve is an increasing function of time). Eventually, the rising marginal costs meet the falling marginal gains, and you end your search and finally make a purchase. You are willing to buy information through advertising, or from brokers, since in this case you save search time (by shifting the marginal benefit curve to the left). You gain less new information every day, which results in lower marginal savings, since, with the aid of your informational mentor, you

¹³See on this Mises (1966) and Kirzner (1963, 1973, 1975, 1979, 1985, 1986, 1989).

¹⁴That is, nothing whatsoever is known about any given observation or occurrence, but everything is known about the universe of which it is only one small sample.

¹⁵For a critique see Kirzner (1973, pp. 151-80) and Block (1991, pp. 68-79; 1997, pp. 221-35).

start out with more knowledge. If you had full information, and in perfect competition, the marginal benefit curve would be coincident with the Y axis, and your search time would be zero.

This is indeed an improvement on perfect competition, but the Stigler search model has drawbacks of its own. The weakness is that it covers only “name, rank, and serial number” kinds of information. Advertising of this sort would impart knowledge about when the house was last roofed, the capacity of the air conditioner, or the warranty on the boiler. But this does not even begin to scratch the surface of the full-bodied, robust advertising we see all around us every day, replete with Michael Jordan and Bugs Bunny, and super-models hawking everything from tractors to underwear to diamonds.

Ludwig von Mises had this to say about that type of marketing:

The consumer is not omniscient. He does not know where he can obtain at the cheapest price what he is looking for. *Very often he does not even know what kind of commodity or service is suitable to remove most efficaciously the particular uneasiness he wants to remove.* At best he is familiar with the market conditions of the immediate past and arranges his plans on the basis of this information. To convey to him information about the actual state of the market is the task of business propaganda.

Business propaganda must be obtrusive and blatant. It is its aim to attract the attention of slow people, to rouse latent wishes, to entice men to substitute innovation for inert clinging to traditional routine. In order to succeed, advertising must be adjusted to the mentality of the people courted. It must suit their tastes and speak their idiom. *Advertising is shrill, noisy, coarse, puffing, because the public does not react to dignified allusions.* It is the bad taste of the public that forces the advertisers to display bad taste in their publicity campaigns. The art of advertising has evolved into a branch of applied psychology, a sister discipline of pedagogy.

Like all things designed to suit the taste of the masses, advertising is repellent to people of delicate feeling. This abhorrence influences the appraisal of business propaganda. Advertising and all other methods of business propaganda are condemned as one of the most outrageous outgrowths of unlimited competition. It should be forbidden. The consumers should be instructed by impartial experts; the public schools, the “nonpartisan” press, and cooperatives should perform this task. (1966, p. 320; emphasis added)

The point is, Stigler cannot account for anything “shrill, noisy, or coarse.” Yet, this describes most real-world advertising. Therefore, the search model cannot explain this aspect of economic reality. Moreover, while Stigler’s contribution is at least relevant for those goods and services which the consumer is already aware of, it does not at all apply to those commodities about which “often he does not even know.” Yet, *before* the advent of Mozart, or rap music, or the hula hoop, or the horseless carriage, or the personal computer, or email, which of us was walking about the shopping mall of the day, searching

for these items? No one, of course. But this only indicates the paucity of the neoclassical explanation of this phenomenon, as compared to the Austrian explanation.

Let us put this in other words. The weakness of the Stiglerian-University of Chicago perspective on this matter is that it applies only to goods and services for which the consumer already has a demand; namely, it is limited to that which the buyer already knows about *prior* to being subjected to a marketing campaign. This search model can function reasonably well with regard to items such as houses, cars, and TV sets, which are already fully well known to the potential buyer. But unless the customer is in the act of shopping, already intending to purchase, holding off only until he determines the best deal, the Stigler model is helpless to account for his behavior. As such, it cannot take into account advertising, the purpose of which is not merely to inform, but to *motivate*.

Kirzner (1973) explains:

What I wish to point out is simply that to treat *all* informational aspects of advertising *exclusively* as providing a separate distinct service (“information”) fails utterly to perceive the crucially important role of the entrepreneur as one who *brings available opportunities to the awareness of the consumer*. (p. 155)

But consider now the case of the man who has no inkling that a certain commodity exists. We may, of course, *imagine* his demand curve for this commodity once its existence has become known to him. But if we wish to discuss the commodity in its unknown state we are simply unable to talk of the consumer’s demand for it. It is not that his demand curve coincides with the price axis; that he would buy none of it at any given price. It is rather that the very notion of demand has no place under these circumstances. It is nonsense to discuss the upper limit of the price this consumer is willing to pay for this unknown commodity; it is nonsense to discuss the quantity he would be prepared to purchase at a given price. These discussions refer to the eagerness with which a consumer wished to pursue perceived opportunities. With no opportunities *perceived* the notion of consumer demand has no meaning. (p. 158)

PERFECT COMPETITION AS A NORMATIVE STANDARD

Perfect competition is defended as a normative standard on the grounds of the model’s optimality conditions. That is, the optimality conditions provide standards by which to gauge the performance of real-world firms and markets, and thereby to assist in the development and enforcement of governmental economic policies; for example, antitrust.

The vitality of the competitive concept in its normative role has been remarkable. One might have expected that, as economic analysis became more precise and as the range of problems to which it was applied widened, a growing list of disparities between the competitive allocation

of resources and the maximum-output allocation would develop. Yet to date there have been only two major criticisms of the norm. . . . The first is that the competitive individual ignores external economies and diseconomies, which—rightly or wrongly—most economists are still content to treat as an exception to be dealt with in individual cases. The second, and more recent, criticism is that the competitive system will not provide the right amount (and possibly not the right types) of economic progress, and this is still an undocumented charge. The time may well come when the competitive concept suitable to positive analysis is not suitable to normative analysis, but it is still in the future. (Stigler 1965, p. 266)

Because perfect competition is a normative standard, as well as a positive one, neoclassicals' defenses of perfect competition as a positive model and as a normative standard become conflated. Real-world behavior is compared to perfectly competitive "behavior" with reality found wanting, thereby justifying the potential desirability of ubiquitous governmental intervention in the real world, subject only to the outcome of a cost-benefit study in each particular proposed intervention. Therefore, the comparison of perfect competition to the ideal-gas and frictionless-system models is a disanalogy. Unlike an ideal gas or a frictionless system, which are strictly positive models, perfect competition is a normative standard as well; for example, it serves as the linchpin of antitrust legislation. To the extent that a firm deviates from the strictures of this model, it is liable to become enmeshed in the machinations of the Justice Department. In contrast, no one is indicted for failure to adhere to the niceties of the ideal gas.

UNACKNOWLEDGED PROBLEMS WITH PERFECT COMPETITION

The neoclassicals rationalize and justify the use of the highly unrealistic perfect competition model on the ground that it is useful for predictions and as a standard of behavior and that the benefits of the uses outweigh the costs of unrealistic assumptions. However, other costs of this model go unacknowledged. First, perfect competition is applied more widely than is appropriate, in situations where the reality is so different from the assumptions that not only is it not useful, save for the purpose of making the analysis mathematically tractable, but the conclusions reached are positively misleading. There is no better example to illustrate this claim than the billions of dollars that have been wasted both prosecuting and defending against antitrust lawsuits, and the vast harm supposedly antimonopolistic laws have done to the structure of the economy.¹⁶

¹⁶For the case in favor of the complete elimination of antitrust legislation, see Anderson, William et. al 2001, pp. 287-302); Armentano (1972, 1982, 1991); Armstrong (1982); Block (1977, pp. 271-79; 1982; 1994, pp. 35-70); DiLorenzo (1997, pp. 43-58); Boudreaux and DiLorenzo (1992, pp. 81-96); High (1984/1985, pp. 21-34); McChesney (1991); Rothbard (1970); Shugart (1987); Smith (1983, p. 23).

Second, past generations of economists have been, and future generations are being, trained along these lines rather than in praxeology and market process analysis. The costs are the value of the alternative uses to which the resources used for such modeling would possibly be put, precluding greater progress in economic theory and history.

Third, the perfectly competitive model is embedded within the very bowels of neoclassical economics. It pervades all else. It carries all before it. It completely overwhelms even “transactions costs analysis,” which has also swept the economics profession like a firestorm in terms of the grip it has over the profession of economics. When business students or those earning MBAs are subjected to economics of the mainstream variety, they cannot help but take it in to their worldview—which will tend to undermine their openness to, and ability to function in, the real world of poor information, advertising, marketing, etc.

Moreover, virtually all graduate schools of business incorporate into their core curricula courses in marketing, advertising, brokering and intermediation, financial and otherwise. However, also included in the business foundation are economics courses that are invariably predicated upon the neoclassical model of perfect competition. Thus, there is an inner contradiction in all such curricula: by including marketing, etc., business schools at least tacitly indicate the importance placed upon such disciplines. But by admitting a school of economics whose principal model disparages them, they take back with one hand what they have given with the other. Worse, economics (micro and managerial economics are the worst offenders in this regard) is often made a prerequisite for these other business courses. This is to add insult to injury. It is to lay a foundation that is at loggerheads with the rest of the edifice.

When you build a house, the foundation undergirds the upper floors. These upper stories, in turn, rest upon the foundation. If there is any incompatibility between these two parts of the edifice, the entire entity is to that extent weakened. If they are incongruent with one another to a sufficient extent, the top part can even topple over.

It is much the same with regard to the offerings of the business school (and, of course, all other) curricula. The prerequisites, or the business core, serve much the same function with regard to these other academic offerings as does the foundation of the house to its upper stories. Indeed, this series of courses is even often called the business “foundation.” The student first enrolls in these required courses, and the other ones in the curriculum, those which come later, are built upon what came before. As in the case of the home, if there is any disparity between these two sets of courses, if there is a lack of “fit” between them, then the entire curriculum is less efficient than it otherwise would be. Its purpose—to confer knowledge, experience, and training upon the student, and to inspire him to attain these ends on his own—is to that extent compromised.

Typically, the contributions of economics to the business core consist of microeconomics, macroeconomics, managerial economics, and statistics. The

difficulty with mainstream microeconomics (this holds for managerial economics as well), as we have seen, is that it is predicated upon the assumption of either full information about everything, or, in its more sophisticated Stiglerian manifestation, upon full knowledge about all possible probability distributions. In *either* case, precious little scope remains for robust marketing, advertising, brokering, intermediation, financial insights, management, etc. But these, to a large part, are precisely of what the remainder of the business curriculum consists.

All graduate schools of business include a course of study of economics in their curricula; there are no exceptions known to the present authors. As it happens, there are in principle good and sufficient reasons for this state of affairs. For one thing, economics is itself part and parcel of business. No holder of the MBA degree, to say nothing of the D.B.A. or Ph.D. in business, can be considered fully qualified if he is ignorant of the teachings of the dismal science. For another, there are large complementarities between economics and other business disciplines such as accounting, management, finance, marketing, real estate, etc. This interdisciplinary support is a two-way street: economics undergirds these other subjects, and, in turn, they support it.¹⁷

Thus, all is not as well as it could be in the area of business curricula. The mainstream economic school of thought typically represented in a business school is almost totally incompatible with at least one of the other disciplines, marketing. Specifically, virtually all economists located at schools of business practice neoclassical economics; not for them are the niceties of the Austrian School with its emphasis on the entrepreneur, advertising, marketing, etc. To put this another way, for the mainstream economist, the role of the entrepreneur virtually vanishes (Kirzner 1973). For the other departments in the business school, in sharp contrast, the entrepreneur is crucial.

If the contribution of economics to the business foundation undercuts the very need for the advanced electives, if the former is incompatible with the latter, in what sense can it be said that the one can serve as an appropriate or relevant prerequisite for the other? Like the poorly constructed edifice, a curriculum of this sort is at best unsteady and, at worst, it continually threatens to topple over that which it is expected to support.

Our views on this matter may be summarized as follows:

the typical neo-Marshallian economics course is lacking in usefulness for the typical business student. In the business curriculum, one needs an economics that actually makes real references to choices made by those in business, as opposed to an economics that is so heavy in mathematical and geometric analysis that it is so rigid as to be nearly useless for someone who looks to use economics as a business tool.¹⁸

¹⁷Our emphasis in this paper, however, is in only one of these directions: that leading from economics to the other business courses.

¹⁸This is part of a comment made by an anonymous referee for this journal.

WHAT CAN BE DONE?

What can be done to alleviate this situation? A quick and easy solution would be to eliminate microeconomics (and managerial economics) from the business curriculum. One advantage of such a plan is that this would save scarce and therefore precious academic resources. Another is that advertising and marketing courses, etc., would no longer be undermined by their ostensible foundations.

The drawback, of course, is that economics, at least ideally, can indeed contribute to the education of the business student, and significantly so. Indeed, it is probably no exaggeration to claim that the graduate business major, let alone the MBA who is completely innocent of economics, is far less prepared for a business career than he either could or should be. Without economics, the future business leader will have to do without a handle on profits, interest rates, unemployment, the business cycle, economic incentives, innovation, economic freedom, present discounted value, and the list goes on and on.

A better solution, therefore, would be not to delete economics from the business curriculum entirely, but rather to eliminate only that school of thought which is incompatible with the other business disciplines. In a word, to substitute for an economics based on the simplistic assumptions of full information one that is not so puerile or unrealistic.

One potential candidate for this role is, of course, Marxism. But to substitute this variety of economics for the neoclassical would be to jump out of the frying pan and into the fire. It would be particularly unfortunate and unwarranted in an era that has seen the fall of the Berlin Wall, the collapse of the economy of the U.S.S.R., and the radical transformation of the People's Republic of China. This is not a promising strategy, moreover, in that Marxism is even less supportive of private business than is neoclassical economics. According to the socialist dogma, there shouldn't *be* any businessmen at all; the government should manage the economy.¹⁹

A far better candidate is the praxeological school, or Austrian economics. It is far more receptive to business and private enterprise than Marxism,²⁰ and it certainly exceeds neoclassical economics in this regard. In terms of the phenomenon with which we have been concerned—the assumption of full information—Austrianism is far superior to mainstream economics. For one thing, the concept of perfect competition is entirely absent from it, indeed, alien to it. Praxeologists have specifically criticized the distinction between perfect and imperfect competition.²¹ For another, Austrians have written supportively and

¹⁹For an Austrian critique of socialism, Marxism, and central planning, see Hayek (1954, 1948); Hoppe (1989); Mises (1981, 1972, 1966); Böhm-Bawerk (1959; see particularly part 1, chap. 12, "Exploitation Theory of Socialism-Communism"); Block (1992, pp. 260-86); Boettke (1993; 1990; 1994, pp. 267-93); Boettke and Anderson (1993, pp. 101-18; 1997).

²⁰This is the understatement of the century.

²¹See references cited in footnote 4.

analytically²² about advertising, marketing, entrepreneurship, and a whole host of concepts integral to a proper business-school education.²³ A more moderate suggestion would be not to replace all neoclassical economists in business schools with Austrians, but instead to adopt an “affirmative action” program with regard to the latter. In this way, at least there would be some increased representation in our nation’s business colleges of a school of thought that is conducive to their overall mission.²⁴

Finally, because the model is so unrealistic, both economists and the discipline of economics lose credibility with businessmen and the public.

It seems, then, that taking into account these problems, as well as those of unrealistic assumptions and a harmful standard, the costs far outweigh any benefits to be had from the perfect competition model that could not be had from supply-and-demand analysis without the detritus of the perfect-competition assumptions.

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²²See references cited in footnote 4.

²³In the interest of full disclosure, all three of the present authors are on the faculty of a business school and support the Austrian perspective.

²⁴For a particularly effective Austrian defense of advertising, combined with a critique of Galbraith’s views on this subject, see Hayek (1967).

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