The Use of Labels in Doctrinal History: Comment on Baird

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In his lively and provocative paper, Charles Baird seeks to establish that "the economics of James Buchanan has much in common with modern Austrian economics." I am prepared to agree that Baird has succeeded—almost completely—in proving the validity of his claim. Although one may wish to quibble on matters of detail, there can be little doubt that Baird has learnedly and skillfully demonstrated that Buchanan shares many if not all of the fundamental economic insights generally held to be characteristic of the contemporary Austrian revival. Some questions, however, do remain, especially those pertaining to Baird's section on political economy. In particular, is there really an "Austrian position" on the appropriate constitution for government? And are Hayek's and Buchanan's views on this question part of their economics?

Beyond congratulating Baird on his sensitive and insightful survey of Austrian ideas, the reader must surely be inclined to wonder what the author wishes us to conclude from the demonstrated validity of his claim. Is it intended that one's judgment on who are the modern Austrians be revised to include so eminent a scholar as Buchanan? Or is it rather intended that card-carrying Austrians be persuaded to dissolve what others have seen as an overly self-conscious "priesthood," and even to discontinue using the label "Austrian," (since what was held to be characteristically Austrian has been shown now to be part of the well-understood doctrinal equipment of a prominent non-Austrian)?

At the very least Baird's paper is to be appreciated as a provocation to reconsider the use of traditional labels in doctrinal history. This issue is by no means a new one for Austrian economics. About a half-century ago, Austrians such as Mises, Hayek, and Machlup all main-

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tained that important Austrian insights had been successfully absorbed into the mainstream by the early 1930s, suggesting that a continued separate identity for Austrian economics was no longer required. Nevertheless, Mises and Hayek decisively distanced themselves from such a suggestion, while Machlup emphatically affirmed it to the end of his life.[1] What Baird has now done is to force present-day Austrians to reconsider, in the light of the economics of 1989, the legitimacy and expediency of their self-assumed doctrinal label.

The Uses of Doctrinal Labels

There seem to be several separate justifications for the use of doctrinal labels. First, such labels may have value in terms of the history of ideas. The history of economic thought *has* singled out an Austrian tradition. History does have its claims, and one cannot appreciate the work of Mises, say, without recognizing the provenance of his thought in the Menger-Böhm-Bawerk tradition within which he was trained. Perhaps, then, Baird is suggesting that this history-of-ideas basis for the Austrian label no longer pertains, since what was distinctive in that tradition has now been absorbed into the profession at large. Second, doctrinal labels may have strategic or semantic value in accentuating the uniqueness of a set of scientific insights, in arousing professional interest in them, or in identifying them in easily recognizable fashion to the world at large. Perhaps, then, Baird's paper is to be read as suggesting that such use of the Austrian label is, within today's economics, now confusing and inappropriate.

But clearly, discontinuance of the Austrian label on either of these two grounds would require more than a demonstration that a single prominent economist—even one so eminent as Buchanan—shares basic insights and views with the Austrians. Baird is careful, it appears, not to claim that the public choice school in general shares these Austrian views (although at certain spots he seems perilously close to implying this). When Lionel Robbins (1933, p. xv) noted that Philip Wicksteed's place in the history of economic thought was alongside that occupied by the Austrians, he was not placing Wicksteed in the Austrian School, nor was he declaring the notion of an Austrian School to be meaningless.

[1]My observations, in part, rest on Mises (1969, p. 41), personal conversations with Hayek, and Machlup (1981, p. 21). It is abundantly clear from Mises's writings since 1940 that he perceived a yawning gulf separating his own Austrian economics from mainstream doctrines. So that his 1969 statement must be read to imply that the fundamental Austrian ideas, absorbed into general economics by the 1920s came, somehow, to be lost from general economics by about 1940.

Yet one senses that Baird does, after all, wish us to draw lessons from his demonstration. It seems plausible, therefore, to read Baird as trying to correct an unfortunate attitude sometimes evident among Austrians, namely, an apparent conviction that there is no point in attempting to debate economists outside the narrow band of the Austrian faithful because non-Austrians simply do not (cannot) understand. Perhaps Baird wishes Austrians to recognize that, as exemplified by so prominent a scholar as Buchanan, Austrian ideas do have appeal to many economists outside the Austrian circle. So that it is time for Austrians to cast off their inward-facing insularity, and to embark with confidence on more open discussions with the rest of the profession. On this point, one can only heartily concur with Baird.

Are We All Austrians Now?

When key Austrian insights are presented to other economists these days, the ideas are, as a matter of fact, unlikely to be rejected outright. Of course, it will often be readily conceded, economics must remain methodologically individualistic, the consequences of ignorance and uncertainty must be explored, the nature of economic processes (as distinct from states of equilibrium) must be studied. But all this, some mainstream economists will contend, can be achieved, if at all, only at the very frontiers of highly technical research. The settled core of economic theory must necessarily—if only provisionally—deal with a more simplified model of reality. Thus, it is not that mainstream theory is today intrinsically inhospitable to Austrian concerns, but rather that it feels compelled to postpone addressing these concerns while comfortably pursuing its settled neoclassical agenda. Non-Austrian critics of mainstream theory (such as post-Keynesians), on the other hand, are likely to contend that Austrian insights are so devastatingly valid as to compel utter rejection of neoclassical conclusions. In effect, this means that rejection of Austrian appreciation for the coordinating capacity of markets may be grounded precisely in those insights on which Austrian dissatisfaction with mainstream theorizing has characteristically been based.

While Buchanan, as ably demonstrated by Baird, is almost unique among economists generally in his appreciation for and depth of understanding of the importance of Austrian insights, he is by no means unique in recognizing the validity of these concerns. What our professional colleagues at large dispute is not the abstract validity of Austrian concerns, but what these concerns must mean for everyday economics. For mainstream neoclassicals these concerns mean that equilibrium theory must eventally grapple with yet higher orders of technical sophistication—without which, they will argue, one must settle provisionally for existing equilibrium theory. For post-Keynesian critics, again, these concerns mean that the traditional appreciation by economic theorists for the benign quality of market institutions must once and for all be given up. But for modern Austrian economists neither of these responses is acceptable.

Contrary to both neoclassical economists and their post-Keynesian or radical critics, the Austrian school's insights concerning process, discovery, and uncertainty provide precisely those elements necessary for understanding the market price system. Austrian economics is therefore ideally suited to uphold the traditional appreciation of economics for the market. It is not that markets work in spite of the open-ended uncertainty surrounding human action, but rather that they work *precisely because* of this quality of human action. The open-ended uncertainty of the environment itself provides the scope and possibility for an entrepreneurial process of competitive discovery. In sum, Austrian insights are central and essential for understanding markets and not merely refinements to our knowledge.

Modern Austrian economics, which is unique among contemporary schools of economic thought, did not spring up overnight. It evolved from the study and elaboration of the ideas of Ludwig von Mises and Friedrich Hayek. Mises emphasized the entrepreneurial nature of market processes; Hayek gave us the understanding of such processes in terms of the discovery and mobilization of hitherto dispersed and useless information. Modern Austrians have articulated and welded these elements into their contemporary formulations. There is every justification, from the perspective of the history of ideas, for retaining the identification of the modern Austrian understanding of markets with the Menger-Mises-Hayek tradition. It is difficult to imagine how contemporary formulations of the Austrian School's understanding of markets could have been forthcoming unless nurtured in the intellectual tradition traced back to Menger. Nor is it the case, by any means, that this understanding of markets—as distinct from the Austrian insights undergirding this understanding—has been absorbed into mainstream economics. Quite the contrary: Mainstream theorists understand the achievements of the market in terms which do *not* incorporate the Austrian concerns; radical and other critics of mainstream theory deploy Austrian concerns to deny validity to mainstream (and Austrian) appreciation for market coordination.

Buchanan may well be the brilliant exception to the generalizations of the preceding paragraph. It is a tribute to his open-mindedness, clarity, and profundity of thought that—coming from a rather different (Knightian) tradition (which Baird delicately reminds us also generated the most consistently neoclassical of contemporary schools)—Buchanan has independently arrived at so much that is central to modern Austrian economics. But to label Buchanan "Austrian" would be obviously bizarre in terms of the history of ideas (and insulting to the breadth of Buchanan's professional interests and influence). And to use Buchanan's commonality with Austrians as grounds for discontinuance (by Austrians and by others) of the "Austrian" label, as a means to identify the work of the disciples of Mises and Hayek, would appear to be equally unreasonable. The distinctiveness of the Austrian approach is surely still sufficiently significant for the doctrinal label to serve a useful identifying function—besides its justification in doctrinal history.

However, Baird is certainly on safe territory to imply that Austrians be more appreciative of insights shared with economists trained in other traditions. Such greater appreciation might well generate more fruitful interaction between Austrian economists and their colleagues. Such interaction can be expected to sweep away vestiges of the attitude perceived among Austrians that expresses the sense of an impenetrable barrier separating Austrians from their professional colleagues—an attitude to be explained, and perhaps excused, as a natural response to the refusal of the economics profession, as recently as 15 years ago, to see Misesian economics as anything but crude, obscurantist apologetics for capitalism. Dissolution of such a barrier, real or imagined, can only enhance common economic understanding and scientific progress. The prospect of such enhanced understanding does not, I would maintain, argue against recognizing the distinctiveness of modern Austrian economics, and of its doctrinal roots in a proud intellectual tradition. But, one may perhaps hope, this prospect may eventually point toward a climate of scientific understanding in economics in which continued Austrian distinctiveness may indeed no longer be called for. Baird is to be commended for a fascinating paper directed at that end.

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COMMUNICATIONS

Interpreting Keynes: Reflections on the Leijonhufvud-Yeager Discussion

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Introduction

In a recent exchange in this *Journal,* Leland Yeager (1988) and Axel Leijonhufvud (1988) consider the significance of Keynes's *General Theory* (1936) as a contribution to macro/monetary analysis. Yeager argues that "the Keynesian Revolution was a *diversion* from the path of progress in money/macro theory" (1988, p. 207, orginal italics).[1] According to Yeager, the *General Theory* contributed importantly to the neglect of traditional theories of monetary disequilibrium developed by pre–*General Theory* writers. It also was highly conducive to the disregard accorded to efforts by post–*General Theory* writers such as Clark Warburton to revive and extend monetary disequilibrium analysis (Yeager 1986a, 1986b). Leijonhufvud, on the other hand, has long maintained (e.g., 1968) that there is much in the *General Theory* to support the view that Keynes's monetary analysis is considerably more sophisticated than assumed in the Hicks-Hansen IS/LM caricature of income expenditure theory. An accurate and balanced interpretation of the *General Theory* and of Keynes's collected writings leads to the view, argues Leijonhufvud, that Keynes certainly did postulate a theory of monetary disequilibrium and a policy accentuating the importance of money. In contrast, it was the widespread proliferation of the IS/LM model within the profession

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[1]See also Yeager (1973, 1986a, 1986b).