

Books

Tomorrow, Capitalism: The Economics of Economic Freedom, by Henri Lepage. Open Court, 254 pp., \$14.95.

Enter the new economists

ISRAEL KIRZNER

FROM ALMOST EVERY point of view this book must be described as brilliant and exciting. It is the English-language version of a French work, published in 1978, that has enjoyed remarkable popularity in Europe and been translated into six languages. Its author is described in Professor James Buchanan's foreword as having appeared, in 1976, as an "intense young journalist." But there can be few other journalists, young or old, and of whatever degree of intensity, that could write so lucid and readable an account of contemporary developments in American economic research, and link these rather abstract developments so provocatively with burning social and public-policy issues being fought over at the ideological barricades.

What Henri Lepage has done in nine chapters is to survey the contributions to current economics of a range of scholars whom he dubs the "new economists" (most of them are associated in one way or another either with the University of Chicago or with the Virginia Polytechnic Institute) and to argue persuasively that these contributions provide, at last, the intellectual and scientific ammunition needed to defend a philosophical commitment to the free-market economy. In the course of his survey Lepage examines the historical roots of capitalism and its key institutions, as set forth by writers such as Douglass North, R. M.

Hartwell, and others. He considers the works of the property-rights theorists such as Coase, Alchian, and Demsetz. Lepage further explores the prolific research done by the school of Public Choice economists, led by James Buchanan and Gordon Tullock, in applying the tools of economics to understanding the incentives operating on persons, like government officials, who are confronted by nonmarket choices. In a separate chapter Lepage reports on work done by writers from a variety of different schools on the economics of regulation and on the standard policies of the typical modern welfare state. The author devotes considerable attention to what he terms the "Gary Becker Revolution," focusing particularly on the theory of human capital as applied to a wide range of phenomena that had, in the past, been traditionally the domain of other disciplines such as sociology, rather than of economics. Finally, the ninth chapter probes the monetarism of Milton Friedman and his followers, and its implications, at the level of macroeconomics, for the "death of Keynes."

In this rapid but thorough and competent survey, there are few aspects of the works of these various schools that are not brought within reach of the general reader. Lepage's capacity to sponge up ideas, digest them, and reorganize them in systematic and popular form is quite extraordinary. He reports on the work of scores of writers, and his bibliography runs close to 200 highly significant items. Were this book to be no more than a popular introduction to these important contemporary fields of economic research, it would have earned an honorable place indeed in the rather sparse an-

nals of "economics for the intelligent layman."

BUT THE VOLUME OFFERS far more than a remarkable layman's-version of somewhat esoteric work at the frontiers of economics. It promises its readers that this body of thought will be shown to provide, for the first time, the definitive scientific case for no less unpopular a social system than capitalism itself: "Recent advances in economic theory . . . now give us the means of showing that belief in economic and social freedom is not founded on a simple act of faith in an ungraspable 'invisible hand' but is supported by a rigorous analytical and scientific approach." It is doubtless this aspect of the book that is responsible for the unusual interest the book has aroused. And it is this aspect that I shall be scrutinizing in what follows.

How powerful a case does Lepage present? Will honest critics of capitalism who read this book be convinced that their time-honored arguments against it have indeed been pulverized by the cogency of its pro-laissez-faire logic? Should veteran defenders of the free market indeed feel heartened by the message of this book: that, at long last, their staunch faith has been rewarded, that the validity of what they have, up until now, merely believed or asserted, has finally been incontrovertibly demonstrated?

The case for capitalism presented by Lepage rests primarily on his conclusion that the "new economists" he reports on in this book have, for the first time, provided "empirical corroborations of the *Homo oeconomicus* paradigm . . . that serves as a basis for all economic analysis." It is this that Lepage sees as holding "cataclysmic implications for the future of the philosophy of economic freedom." This philosophy, Lepage asserts, is based on the "economic view" of human behavior, seeing man "simply as a rational being who makes coherent decisions as a function of the problems of choice imposed on him by the scarcity of resources." It is appar-

ISRAEL KIRZNER is professor of economics at New York University and the author of *Competition and Entrepreneurship*.

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SEPTEMBER 1982

ently because this *Homo oeconomicus* paradigm has hitherto not been empirically validated, Lepage strongly implies, that up until now economic arguments in support of the free market amount to no more than “rhetoric” or “faith.” I must confess that, for all my enthusiasm for this book, I find this line of argumentation profoundly disturbing in and of itself, as well as likely seriously to erode the case offered by the book on behalf of the free market. Let us probe further into this “rationality” upon which Lepage’s brief for capitalism rests so heavily.

At one point, in drawing attention to the wide range of untraditional phenomena that the “new economists” treat as within the scope of their tools, Lepage perceptively links this view of microeconomics with the term *praxeology*, as “used by von Mises in his monumental work, *Human Action*.” One is fleetingly drawn to hope that Lepage will see that the rationality upon which the truths of economics depend is indeed the same as that rationality that sustains Mises’s praxeology—a rationality involving nothing more specific than the omnipresent *purposefulness* of human action. Unfortunately, it turns out that this is not the case. Early in the book, for example, Lepage states that the new economics has the merit of “accounting for apparently irrational phenomena (like the desire for . . . altruism and philanthropy).” Now this strikes one immediately as puzzling. Why should altruistic behavior be considered somehow not to be purposeful? When one presses on to the discussion of altruism in chapter eight, it becomes abundantly clear that the altruistic individual *seems* irrational because he refrains from maximizing some narrowly defined maximand, but that the new economics, coming to the rescue,

shows him to be rational and maximizing after all, since what he is maximizing is, for example, “esteem, the importance of what others think of us” (for the acquisition of which ostensibly altruistic behavior is an available means). Apparently the idea of a person’s acting *genuinely* unselfishly for the sake of purposefully enhancing the well-being of another, and for nothing else, violates the “rationality” postulate as understood by Lepage and the “new economists.” The case for cap-

On the one hand he is at pains to point out that the economic view does *not* consider man “as an egoistical monster but simply as a rational individual who makes coherent decisions. . . .” This seems aimed at reassuring us that rationality is neither repulsive nor unrealistic, and is in fact nothing more than the altogether plausible and natural manner in which we all know choices to be always made. It is this very *plausibility* of the all-pervasive rationality assumed in the “new economics” that permits

Lepage to claim that this new economics is able for the first time to escape the charge that it is “divorced from reality.” On the other hand Lepage elsewhere defends, on “instrumentalist” grounds, the rationality construct not as a *realistic* feature of society at all. Of course, he tells us, economics is not guilty of so crass a view as “to reduce all of human nature to *Homo oeconomicus*”; that would be “mad.” In “positive” economics the unrealism of the rationality hypothesis is of no moment; the model generates valid predictions, and that is all we can ask for.

Clearly, then, what exempts the economic view from the charge of being divorced from reality is *not* the plausibility of the rationality hypothesis (which is in fact not being claimed by Lepage). So that the repulsiveness of the ego-

istical monster (which does after all seem to be necessary for Lepage’s economic view) need not perhaps be so disturbing, since that concept does not necessarily correspond to anything in the real world. But, again, how much enthusiasm for the results of free-market choices is to be expected of those not prepared to embrace a theory in which the realism of its assumptions about human choice is held to be of so little significance?

These reflections lead one, in fact, to



BARBARA STEVENS

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italism, we gather most apprehensively, is to be built on the new empirical “demonstrations” that man is indeed the hard-boiled, hard-nosed, tough-minded *Homo oeconomicus* of nineteenth-century notoriety. One wonders how solid a case for capitalism, and perhaps as importantly, how persuasive a case, can be built upon so unattractive a foundation.

Now Lepage is not insensitive to this kind of problem. But his strategy in dealing with the problem is troubling.

question most seriously the wisdom of Lepage's strategy in resting the case for capitalism so exclusively on the work of the "new economists." Before the models of the new economists appeared, Lepage suggests, there *was* no scientific basis for a persuasive case for capitalism. But it surely does not require us to question the impressive quality and volume of this new work in order to demur that (a) two hundred years of earlier work by brilliant economists from Adam Smith on, who understood the virtues of free markets, is not to be dismissed so lightly, and (b) the new work, whatever its scientific merit, is in some respects, at least, likely to be found *less* convincing than some earlier approaches cavalierly brushed aside by Lepage.

THE TRUTH SURELY IS that the view of man and of the market offered by Lepage in the name of the "new economists" is in significant respects likely to be unpersuasive in winning converts to capitalism. Not everyone will be able to keep it firmly in mind that the assumptions of the new economists are not supposed to be taken as realistic. For these, the view of man as single-mindedly selfish, and as endowed with Stigler-Becker preferences that *never* change, is likely to seem an unattractive foundation for the free market—and, moreover, a view hardly consistent with any deep enthusiasm for the value of individual freedom in all its richness and inherent unpredictability. For those laymen who will, on the other hand, keep firmly in mind that Lepage is *not* claiming realism for these assumptions, it must surely appear that the work of many of the economists cited does not in fact provide any satisfying causal explanation of *how* free markets achieve efficient results—we are simply provided with efficient as-if models, which the econometricians assure us do fit the statistics. But those whose untutored intuition assures them, say, that free markets are likely to result in chaotic, jungle-like social outcomes, are unlikely to see in the new economics convincing explanations of exactly how their intuition has betrayed them.

It is surely no disparagement of the "new economics" to remind Lepage that earlier economists (including several mentioned favorably in this book) have provided an understanding of the market that, without sacrificing one iota of scientific rigor, offered elucidations of the market process that generations of intelligent laymen have found thoroughly persuasive. This earlier tradition reached its high point, perhaps, with the work of the Austrians, Ludwig von Mises and F. A. Hayek. This approach did not, indeed, depend upon apparent econometric validation of arbitrary models. Rather, it drew upon a simple realistic understanding of how men choose, how they err, and how they learn—an understanding that has proved remarkably convincing and fertile. Economics in this tradition emerged as a "science of human action" in which free markets are shown to be marvelous engines for spontaneous error-discovery. (It is my understanding that in *Demain le libéralisme*, a later work as yet untranslated from the French, Lepage does incorporate insights stemming from this tradition.)

Lest my critical remarks be misconstrued, let me reemphasize my continuing enthusiasm for this book. As a popular exposition of difficult but exciting work at the frontiers, it is simply a tour de force. It provocatively draws attention to the important ideological and policy implications flowing from this work, implications that certainly lend support, in almost any way of looking at the matter, to defenders of the free market. Certainly, one may, as does this reviewer, question the strategic wisdom of grounding a popular case for the market *exclusively* upon this work. But there can be no question that Lepage has, in drawing together the strands of ideas presented in *Tomorrow, Capitalism*, offered lovers of liberty powerful weapons, and readers of all persuasions illuminating insights. For all this he has earned our admiration and our gratitude. ■

THE DEVIOUSNESS OF OBJECTS OF DESIRE

Nothing overt as lust led to this moment,
But years of mere encounters each remembers—
Humorous meeting of the eyes, or banter,
Or laughter, or a pause in summer shade.

Now we are in shadow—oh indeed—
And in each other's arms: meeting so intense
I barely feel your flesh, feeling

A fantasy grow warm between my hands:
A shade itself, a spectre intervening while the moment
Grows immense with its reality,
Immense with fact.

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Getting out of a habit of sadness—
It would be
Like climbing off a train
At a station which was, apparently,
Your destination—
You'd get off and watch it pull away, watch
The other people watch back,
Watch it disappear, and then
Turn toward the street,
Take the first step.

—Diane Middlebrook

DIANE MIDDLEBROOK's first collection of poems, *Gin Considered as a Demon*, is about to appear from Elysian Press.