But if the criterion is not a measure of welfare, what is its purpose? Why is the mere spread of knowledge taken to be a good in itself? Kirzner wants a criterion that relies on commonly accepted ethical principles, but he does not come close to providing that. One can easily think of cases such as his pilots example in which an increase in knowledge is noncontroversially good. I venture to suggest, though, that these examples will be ones where knowledge increases welfare. Absent this, the criterion rests on nothing.

Why is it taken as obvious that the more people can achieve the goals they anticipate, the better?

Our author of course dissents. He claims, if I have understood him, that anyone "morally concerned that members of society undertake their actions in a way that does not inevitably spell disappointment and/or regret (such as must ultimately ensue from patterns of action which incorrectly anticipate and depend upon the actions of others in the system)" (p. 145) should endorse the coordination criterion.

By no means has he shown this. Why is it taken as obvious that the more people can achieve the goals they anticipate, the better? Perhaps in other circumstances, more people will fail to achieve their plans, but at the same time will face alternatives that they judge more desirable than those they would face under coordination. You might well prefer an even chance of being hanged to the certainty of execution, even though you can much more readily anticipate the actions of others in the latter situation.

However much one may disagree with Professor Kirzner on various points, one cannot but admire the painstaking skill in conceptual analysis he displays in this outstanding book. ✦

OVERVALUING UNCERTAINTY

Capital in Disequilibrium: The Role of Capital in a Changing World

PETER LEWIN
ROUTLEDGE, 1999
IX + 255 PGS.

Peter Lewin here undertakes a difficult task and carries off his mission with notable success. He studied with the late Ludwig Lachmann, by whose thought he has been greatly influenced. But to carry on the work of his mentor, as Dr. Lewin in this book endeavors to do, *prima facie* raises a difficulty.

Lachmann famously argued that uncertainty pervades economic action. Action aims to achieve a result in the future, and future knowledge is by definition now inaccessible. Our author succinctly states Lachmann's central theme: "He [Lachmann] considers it axiomatic that the passage of time cannot occur without the arrival of new knowledge. Each moment in time is unique and time is irreversible. 'As soon as we permit time to elapse, we must permit knowledge to change.'. . . I have referred to this as Lachmann's axiom" (p. 24).

> Ludwig Lachmann famously argued that uncertainty pervades economic action.

Here the difficulty arises. If economic actors always act in the face of radical uncertainty, can the theorist say anything useful about action at all? Is he not reduced to playing endless variations on the theme of uncertainty? Lachmann's critics have not hesitated to speak in this connection of theoretical nihilism. Is economics in the style of Lachmann possible?

Dr. Lewin decisively meets this challenge. He convincingly shows that stress on uncertainty, far from dissolving economics, often promotes theoretical insights. To support his contention, he adduces a wide variety of topics in capital theory, including Hicks's view of capital and time and Becker's concept of human capital. One example must here suffice to show the power of our author's approach.

He argues that in the battle of the Cambridges, both sides relied on a false premise. The celebrated controversy pitted Joan Robinson and her acolytes at Cambridge University against Robert Solow and Paul Samuelson of MIT (located in Cambridge, Massachusetts). Mrs. Robinson devised ingenious counterexamples to the capital and growth theory that Solow and Samuelson had set out. This theory took capital to be part of a "production function"; like land and labor, it earns a fixed rate of return. "Because capital, like any other input, is subject to diminishing returns, it will be accumulated up to the point where the value of its marginal product just repays the opportunity cost of its employment" (p. 81).

The critics found this growth model beset with indeterminacy. How can one assume a fixed rate of return to capital, when the amount of capital cannot be measured apart from prices and the distribution of income? "It is not possible to separate the *value* and the *quantity* of capital" (p. 81). The thrusts of the Cambridge Neo-Ricardians forced Solow and Samuelson to execute a strategic retreat. They admitted some of the enemy's points but claimed that these were of dubious relevance to the actual world.

Dr. Lewin, putting to good effect what he has learned from Lachmann, indicts both groups for a common failing. Both assume equilibrium conditions; but this is precisely to ignore Lachmann's foremost lesson. Because economic actors face radical uncertainty, equilibrium models distort reality. "Neither side in the debate raises any questions relating to the availability or use of knowledge or expectations regarding production techniques. . . . Neither side wondered about the relevance of their framework to the market process as we know it" (pp. 82–83).

Our author's stress on time and uncertainty leads him to adopt the pure time preference theory of interest, and he brings to light a convincing argument from Lachmann against the possibility of negative rates of time preference (p. 106). But in one respect his laudable desire to convey the insights of his mentor betrays him. So anxious is he always to bring uncertainty to the fore that he advances fallacious arguments against Mises and Rothbard for daring to derive time preference as a pure category of action.

He charges Mises with logical contradiction: "he assumed the absence of uncertainty in order to 'prove' the necessity of time preference as an implication of action, where action in a world without uncertainty is, by his own definition, logically impossible" (p. 104). But action under conditions of certainty *is* possible.

The argument to the contrary proceeds in this way: if you knew with certainty that something would happen, action would be pointless. Why attempt to bring about the inevitable? But suppose that you know both that an event will occur if and only if you act and that you will act. I know that I shall take in the mail if and only if I go to the mailbox and I know that I shall go there. Here action and certainty are quite compatible, Dr. Lewin to the contrary notwithstanding.

Here action and certainty are quite compatible, Dr. Lewin to the contrary notwithstanding.

No more convincing is another argument to show that time preference depends on uncertainty. He asks us to consider a familiar thought experiment: "The teacher takes out a ten-dollar bill and asks the class which they [sic] would prefer: (1) the ten dollars right now or (2) the same ten dollars this time next week. He adds that the students may not earn any interest on the ten dollars. Of course, everyone opts for (1)" (p. 105).

The experiment aims to bring home to the student the reality of time preference, but Lewin maintains that it works only if uncertainty is assumed. "[I]f we assume that (2) and (1) are equally and completely certain, then *a priori* it does not seem to be possible to say that one will be preferred to the other. The knee-jerk preference for (1) over (2) seems to be crucially bound up with the fact that the students automatically realize that the passage of time brings with it unexpected events" (p. 105).

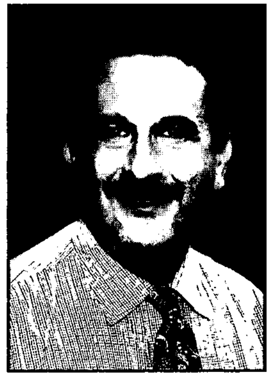
Our author here falls into a fallacy that at times ensnared Lachmann.

Dr. Lewin has not asked himself a basic question: why does the subject in the experiment want money? If the money is not to be spent but simply held, then given complete certainty it does not matter whether the teacher or student holds the money. All that is on offer is the certainty, either way, that the student will have available to do with as he wishes ten dollars next week. No real difference exists between the two options. If, however, the student is allowed to spend the money as soon as he gets it, will he not prefer to have it now rather than next week? Otherwise, he must wait to satisfy his desires. Uncertainty has nothing to do with the case.

Our author here falls into a fallacy that at times ensnared Lachmann. Rightly seeing how important uncertainty is for economics, Lachmann and his followers press their point too far. Uncertainty lies everywhere around them; and they often concoct bad philosophical arguments to elevate their favored concept into a metaphysical necessity. Why, e.g., should one accept Lachmann's axiom? Granted that the future does not now exist, how is it supposed to follow that we cannot now know what will happen? Is the argument supposed to be that we cannot know what people will freely choose to do, since their choices are by hypothesis undetermined by law? It is not apparent, though, that one cannot know when someone will freely choose. I know that Dr. Lewin will not endorse minimum wage laws tomorrow, but he is free to do so.

Lachmann and his school merit praise for their concern with the philosophical foundations of economics; but I venture to suggest that they do not always grasp the difficulty of the subject. With becoming modesty, Dr. Lewin tells us that he makes "no claims to expertise in the field of epistemology" (p. 221, n. 4). Perhaps he should have then steered clear of controversial pronouncements about it. Fortunately, this flaw does not much mar his excellent book. ✦

David Gordon, who writes *The Mises Review*, is a senior fellow at the Mises Institute. He was educated at UCLA, where he earned his PhD in intellectual history, and is the author of *Resurrecting Marx: The Analytical Marxists on Exploitation, Freedom and Justice; The Philosophical Origins of Austrian Economics; Critics of Marx;* and *An Introduction to Economic Reasoning*. He is also editor of *Secession, State, and Liberty* and co-editor of *H.B. Acton's Morals of Markets and Other Essays*. Dr. Gordon is a contributor to such journals as *Analysis, The International Philosophic Quarterly, The Journal of Libertarian Studies*, and *The Quarterly Journal of Austrian Economics*.



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