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REVISTA SEMESTRAL PUBLICADA POR UNIÓN EDITORIAL,
CON LA COLABORACIÓN
DE LA FACULTAD DE CIENCIAS JURÍDICAS Y SOCIALES
DE LA UNIVERSIDAD REY JUAN CARLOS
INTERNAL VS. EXTERNAL EXPLANATIONS: A NEW PERSPECTIVE ON THE HISTORY OF ECONOMIC THOUGHT

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CHRISTOPHER WESTLEY
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Abstract: The present paper is devoted to showing, via a reductio ad absurdum argument, that all externalist explanations for truth in economics are false, but that if any are used, it should not be the democratic one utilized by Rosen (1997). Rather, even though it is equally fallacious, it should be the one proposed in the present paper: the last publication in a debate indicates the substantive winner.

Key words: truth, economics, majority rule, democracy, debate, argument.

JEL classification: B0, B1, B2, B4.

It is true that democracy is the best of the political systems, in that it guarantees, through universal suffrage, a peaceful changeover of power. But democracy and its instrument, majority rule, is not a method to investigate the truth.

Rafaël Termes

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1 The authors wish to thank Wladimir Kraus, Doug Mackenzie, and Barry Simpson for bibliographical help.
Galbraith find themselves on the opposite side of an issue, e.g., the minimum wage, mentioned above, we deem the latter correct since he is more than 6 feet in height, and the former mistaken since he stands at less than five feet. If the right wing wants to win a debate, they must resurrect George Stigler, a tall economist and match him against someone like Robert Reich, a much shorter man, who pitches from the distaff side.

B. Weight. William Vickery, Murray Rothbard and Rob Mundell were/are portly economists, while Leland Yeager, Isr Kirzner and Jeff Herbener are on the thin side. With such objective criterion to lean upon as our guide, our path to the truth is clear and straight: when any member of the former set disputes any member of the latter, the fatties get the nod over the skinny. Generalizing outside of the economic realm, Nero Wolfe was a heavy detective, while Sherlock Holmes tipped the scales to more moderate degree. If the two disagreed as to the evidence of a crime, we know that Archie’s boss outranks Dr. Watson’s colleague.

C. Economic credentials. Anyone with a Ph.D. in economics shall be considered more highly credentialed than anyone without such a diploma. We may safely disregard the opinions of Adi Smith, David Hume, John Locke, Frederic Bastiat, Jean Baptiste Say, Henry Hazlitt, in favor of any still wet behind the ears graduate fresh off the assembly lines of any of our modern diploma mills. For similar reasons, the following world-class economists lack the requisite credentials; thus their views on any economic issue may safely be ignored as fallacious: Gordon Tullock (law degree), David Friedman (Ph.D. in physics), Hermin Mane (law degree), Richard Posner (law degree).

Is there anyone who actually believes in such abject nonsense? Height and weight as criteria are just plain silly, and credentialism constitutes an informal fallacy in logic: the argument from...
authority. Fortunately, for the present authors, there are scholars who maintain such premises; otherwise we would not have had the temerity to write the present article in criticism of external explanations. Rosen (1997) offers one such:

D. Democracy. That school of thought with the most adherents is closest to the truth. It amounts to no more than a nose counting definition of accuracy in economics. This is democracy run rampant. And yet, a reasonably prestigious journal saw fit to publish this highly problematic contention. This means that at least a few referees, and perhaps more than one editor of a scholarly, peer-reviewed journal, saw merit in this thesis. To add insult to injury, yet other authors supported the Rosen (1997) thesis, to one extent or another (Laband and Tollison, 2000). Ditto for yet more referees, editors, journals, etc.

This claim must be stopped in its tracks before it does even more irreparable harm to our profession than it already has. Accordingly, in an attempt to do just that, we offer the present article. In it, we offer yet another ersatz pipeline to the Man upstairs. To wit:

E. He who publishes last in an argument shall be deemed the winner.

Before we even explore what on earth this criterion could possibly mean, we hasten to state that the present authors, although we shall employ it, do not agree with it. We utilize it only as a *reductio ad absurdum*. That is, we do not adhere to the view that the last speaker in a debate is the man with the truth on his side. We offer this train of thought only as antidote to the opinions expressed by Rosen (1997), Laband and Tollison (2000) in support of option D above.

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8 Not on height and weight, of course, but on more "reasonable" grounds.

7 For support of the Rosen (1997) thesis, see Laband and Tollison (2000); for a critique of Rosen (1997) and/or his supporters on this issue, see Block (2000b), Yeager (1997) and Anderson (2000).

8 For a critique of democracy in the political sphere, see Hoppe (2001).

9 We were about to say "smoke it" when a whiff of political correctness came over on us and we forebore.

10 For a not totally unrelated use of the distinction between internalist and externalist explanations, see Block, Brennan and Elizenga, 1985.

11 For an articulation of the "argument from argument," which superficially supports the case being made in the text, but really does not, see Hoppe (1993, pp. 204-207). That is, Hoppe maintains that in arguing against free enterprise, communists must necessarily assume to be true what they oppose: property rights in persons and in nature. They do this since they could scarcely argue without a body, and a place to put it. In very sharp contrast, we are herein arguing, for reductio purposes, that the last contributor to an argument has made the more telling points.

12 We include articles accepted for publication; that is, those that are forthcoming in refereed journals.
sufficient reasons for this decision. First, publications are a matter of enduring public record in a way that even transcribed oral debates are not. Second and far more important, the order of speaking in formal debates is often determined arbitrarily, for example by a coin toss. It would be reach, even for rabid reductio ad absurdists such as ourselves, to invest any in meaning whatsoever in the order of presentation that eventuates from such a process. In contrast, there is a certain presumption that in published debates, he who laughs last laughs best: the one with the last word is the only one left standing in the intellectual arena, so to speak. Just as in boxing, where, typically, the one at the end still on his feet on the canvass is declared the winner, apart from when judges are called upon to make this determination, so is it for academic pugilists. The one who is still «swinging away» with the last publication is the presumptive winner, while his opponent skulks away as the loser.

Before getting to the specifics, let us, in yet a further attempt to distance ourselves from our own (tongue firmly in cheek) criterion of truth, explicitly mention why it is erroneous. That is, even though the rest of the paper shall be devoted to an exploration of the historical and recent debates between Austrian economists (such as the present authors) and their critics, we now hereby explicitly disavow this theory. The neoclassical or mainstream economists do reasonably well with their norm, as it cannot be denied that there are more of them than there are of us. However, turnabout is fair play. We Austrians do not have much of a chance in a pure nose counting exercise, but may do better, cannot possibly do any worse, when we ascertain who was the last contributor to any given debate.

What, then, are the difficulties with this position of ours?

a. Death

One of the participants in the debate might have died in the very middle of it. That is, the format might have been A, B, A', B'. Here, our criterion indicates that the B position is the correct one. However, at this precise point in time, A might have been in the process of outlining a devastating rebuttal to B', which

would have converted this series into A, B, A', B', A'', giving the nod to A, not B. But before A could put pen to paper (so to speak) for his third and final contribution to this compilation, he might have suffered a heart attack and died. If so, our criterion would be in error.

Then, it is always possible to «pick» on an already diseased economist. For example, Rothbard (1995b) criticized Smith (1776) and there was little chance that the latter would offer a rejoinder. On the other, in this particular case, there was no shortage of modern economists who defended the latter against the former, and, indeed, this episode is included in our list of debates.

b. Disgust

Another possibility concerns A, B, where we would have to call B the winner. But A might be a genius insight, and B a misbegotten failure to appreciate the sheer enormity, learning and brilliance of A. But A, instead of replying to a B he considers beneath his dignity, goes on to other work. Again, our criterion would be counterproductive.

c. Derailment

Robert Nozick (1939-2002) had a long and very illustrious career as a philosopher. His many publications were subjected to the most intensive scrutiny, much of it critical. Yet, he never once replied to a single solitary published criticism of any of his works. When asked for an explanation of this behavior, Nozick replied in terms of «derailment»: [13] if he replied to all or even to many of his critics, or, indeed, since there were so many, to even a small fraction of them, he would never complete the work he wanted to finish. Instead, he would be derailed from his own goals by writing endless replies. So, he ignored them all, and focused on work he considered yet more important. However, in terms of our taxonomy, we would

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[13] Informal discussion with the senior author of the present article; paraphrased.
have an endless series of A, B, where A would be a magisterial Nozickian edifice, B would be, possibly, a carping sniveling criticism, barely worth the paper it was printed on, something to which this author did not condescend to reply to. Yet, in terms of our analysis, we would have to judge that the critic had the better of the argument — in each and every case.

d. Dread

Sometimes, the reason an author may fail to respond to a sally against him is fear of losing a job, or dread. Consider a case in point: A (Block, 1977), B (Demsetz, 1979), A' (Block, 1995), B' (Demsetz, 1997), and finally A'' (Block, 2000a). Note the long hiatus between B and A', a period of 16 years. If matters had ended in 1979, the series would have been A, B, and Demsetz would have had to have been declared the winner. In the event, however, it extended all the way to Block 2000a, so our conclusion would then have to be reversed. The gap of more than a decade and a half is explained by the fact that Block (by coincidence, the lead author of the present paper) was employed by an organization that revered Chicago-esque economics in general, Demsetz certainly amongst them, and this author feared that writing a reply to Demsetz (B in our terminology), namely A', would cost him his job. As it happened, Block was fired from this position in 1991 for other reasons, whereupon he got back into the fray with alacrity. However, had Block kept that position permanently, and never replied to Demsetz with his A', the score card would have continued to read A, B, and we would have been forced to conclude, using our criterion, that the latter was correct. However, given A, B, A', B', A'', we come to the diametric opposite conclusion. If any one thing can convince us of the sheer enormity of the error of this last-to-publish criterion, this incident might qualify.

e. Defeat admission

Suppose the sequence A, B, A', B', A'', B'''. Ordinarily, were we to cleave strictly to our criteria, we would declare B the winner of the debate, since he was the only one standing when it ended. But, suppose that B''' consists of a surrender on B's part to A, admitting that the latter was correct, and that he, B, was in error. Logic, coherence, common sense would all seem to dictate that A was the winner of this debate. None of this for us, however. Consistency may be «the hobgoblin of little minds,» but in this case we side with it: in our lexicon, we would declare B the winner, since he came last, and position is our motto. Happily, there are no such cases in our inventory.

f. Divergence

At what point in the creation of a publication should we count it as partaking in a debate? Obviously, when the paper is published, it should be counted. How about when it is formally accepted for publication, and thus is forthcoming in a refereed journal, but has not yet appeared in print. We have decided to include this as well, since, usually, it is only a (short) matter of time before such an essay would achieve the previously mentioned status. But what about an article that is just an idea in the author's head, or is partially completed? What should be the status of a manuscript that has been sent out to an editor for publication,

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14 We do not necessarily hold the view that Nozick was always in the right, and his critics always in the wrong. Certainly this would not apply, in our view, to Block (1980), Barnett (1977), Childs (1977), Evers (1977), Rothbard (1977), Sanders (1977).
15 Alliteration uber alles.
16 This is strengthened by Demsetz's (1997, 101) statement: «I ... refuse to join in any future similar exercise...»
17 Demsetz (1997, 101) completely misconstrues Block's motives when he says «Block should have put this matter behind him rather than stewing over it for the 16 years between his current reply and my 1979 paper.» Contrary to Demsetz, there was no «stewing» going on; fear and trembling, rather.
18 A' (Block, 1995) wasn't published until 1995, but the writing of it began in early 1992.

and is still in the refereeing process? A line has to be drawn somewhere, and we have decided to do so at this point. That is, we do not count articles still being refereed, or only partially written and not yet submitted for publication. As a practical matter, we have very little information about such works in process. Then, too, not every article undergoing refereeing sees the light of day. The problem with this otherwise reasonable choice, if we say so ourselves, is that the «winner» of a debate will continually diverge over time. At one point, we must declare A the victor of a given argument. But, then, a few months later a refereed article from B is accepted for publication, and we change our mind on this matter.

g. Dishonesty

There is a certain amount of dishonesty that earmarks refereed professional journals in economics. Often, this takes the form of ideological bias (Klein and Chiang, 2005; Thornton, 2004). To the extent that this occurs, we do not have a «level playing field.»20 But, if an objective «winner» is to be declared, we must have ceteris paribus conditions. We can make no such declaration if there is a thumb on one side, but not the other, of the scales of justice as orchestrated by journal editors.21

Yet another form of dishonesty is the rescinding of an acceptance. There are more than a few authors who have received letters of acceptance, only to have them followed up by another missive rescinding the offer to publish.22, 23

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20 In international trade, the last thing we want is a level playing field. To the extent that this occurs, specialization and the division of labor are lessened.

21 Had there been no Austrian journals willing to publish Block (1999) and Hülsmann (1999), Caplas (1999) would have been declared the winner of this particular debate. See below.

22 For one documented instance of such reneging, see Block and Whitehead (2005, footnote 1).

23 Also, a journal might go out of business before actually publishing an accepted article.

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h. Disinformation

This compilation is unfair to the mainstream neoclassical economist, and improperly gives weight to the Austrian side, if that the former may simply be unaware of critiques published by the latter. The former appear in, and, presumably, read journals such as the American Economic Review, the Journal of Political Economy and Econometrica. For the latter, the counterpart are the Quarterly Journal of Austrian Economics, the Review of Austrian Economics, and Advances in Austrian Economics. Thus, an Austrian critique of a mainstream publication appears in one of the latter journals, its target may never have so much as ever seen it. Such ignorance may not be bliss, but it could certainly account for the Austrian having the last word in a «debate» of which one of the partners to it was completely unaware.

But suppose the Austrian critic actually sends his critique publication to his neoclassical target. Then, presumably, the latter can no longer plead ignorance? Not so, not so. One must realize that in terms of prestige within the profession, the neoclassical occupy the pinnacle, and the Austrians the outer reaches. The former are to be found at the top research universities, again in terms of prestige,24 and numerous of them are winners of Nobel Prizes in economics. Yes, there are some exceptions: Hayek won the Nobel Prize in economics and taught at the University of Chicago,25 while Kirzner was a member of the New York University economics department. But these exceptions prove the rule. The typical mainstream professor located at a prestigious research university who is sent an offprint criticizing his views published in journal not in the top 50 of the rankings is likely to toss it in the round file. He would not condescend to even read it, let alone reply to it. This is not very open minded, not very scholarly, no very collegial. But this sociological reality does account for the one sidedness of the debates listed below. With but a few notable
exceptions, the Austrian «debating» a mainstream economist is likely to be perceived by the latter in the same way as an elephant being bitten by a fly. Then, to be fair to the neoclassical economists who reside at the apex of the profession in terms of prestige, for every rejoinder received by an Austrian, they must receive one hundred, or more. They simply cannot reply to all of those who wish to establish their own reputations by attacking these leaders. If they published replies to even a small percentage of the critiques they receive over the transom, they would never be able to do the research they wish to do.

i. Arbitrary

Often the winner of a debate will depend upon whose article comes last in a journal. But this is typically determined, solely, by the editor. There is thus a certain element of capriciousness embedded in our calculations.

To conclude this introduction, we focus on an actual benefit to our procedure, although, strictly speaking, it is not even tangentially related to «our thesis» that truth emanates from the man with the last word in the argument.26 The advantage is that our model looks at the history of economic thought through an entirely different lens than has ever before been applied to it. The story of the economics profession has previously been organized in many ways: by date, by topic, by author, by nation, by geographic area, or by school of thought (Heilbroner, 1991; Rothbard, 1995). But our literature search has failed to discern even a single case of the employment of the present method under discussion: as a series of debates, culminating with a score of one point for each side that «wins» it, again according to our (entirely erroneous) criterion.

The history of economic thought is an important subject, contrary to the views of those graduate economics departments that have busily dropping this subject from their Ph.D. programs.

26 However, «our thesis» can draw some comfort from these words of Rothbard (1962, 548): «Mises, who has had the last ... word in this debate, has demonstrated irrefutably that ...» (cited in Boettke and Coyne, 2004, 74).

These are the men who see this subject as of antiquarian interest only. But, in our view, if you don’t know where you have been in the past, you are less likely to know where you are going. This de emphasis on the history of our profession makes sense only on the stipulation of the Whig theory of history: that everything is getting better and better, continually, as we move through time; the leading lights of the past have nothing to teach modern economists, since the latest econometric equations, in the most recent journals, incorporate and amalgamate all that we have learned from the past. Such is not our position. Very much to the contrary, we are of the opinion that economic theory can sometimes and even often retrogress; that there is no guarantee of continual progress. That being the case, it is all-important that the history of economic thought once again take its rightful place in our profession. And we know of no better way to help accomplish this task than to look at it in an entirely new way. If the present paper accomplishes no more than that, it will have been worthwhile.

Sections II and III consist of non annotated and annotated bibliographies, respectively, of a series of debates, ending with a point scored either for the Austrians or the mainstreamers, depending upon who had the last published word. It is to this, the heart of our paper, that we now turn. We conclude in section IV.

II.
NON ANNOTATED DEBATES

Unless otherwise noted, these debates are listed in the order of the last name of the non-Austrian participant.27

1. Akerlof (economic psychology)


Winner: Anderson and Block, Austrians.

2. Bagwell (monopoly exports)


Winner: Block, Austrian.

3. Bagwell and Ramey (advertising)


Block, Walter. 2003. «Coordination Economics, Advertising and Search Behavior in Retail Markets by Kyle Bagwell and Carey

4. Barone, Taylor, Dickinson, Lerner, and Lange (socialist planning)


Winner: Hayek, Austrian.28

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28 The awarding of this debate to the Austrians is perhaps the most controversial of such decisions in this paper. That is because we somewhat arbitrarily end the give and take with Hayek (1968). But there are dozens of modern socialist writings on this topic, and not a few Austrian replies as well, with more appearing in print, seemingly, every month. Thus it is a bit capricious on our part to determine the winner in this manner. But this emanates from the fundamental flaw in our basic premise: that the winner of a debate is the author who last publishes. However, in

5. Bardham and Roemer (market socialism)


Winner: Horwitz and Caldwell, Austrians.

6. Barrotta (methodology)


Winner: Barrotta, non-Austrian.

7. Becker (1, demand analysis)


our own «defense» on this matter, we emphasize that no subsequent publication explicitly responds to Hayek’s last paper.

8. Becker (2, property rights)


9. Bernhardt and Scoones (wages)


10. Blaug (methodology)


11. Bork, Brozen and Posner (Anti trust)


Smith, Jr, Fred L. 1983. «Why not Abolish Antitrust?», Regulation, Jan-Feb, 23.


13. Bruce and Waldman (income transfers)


Winner: Block, Austrian.
14. Buchanan and Tullock (public choice)


Winner: Rothbard, DiLorenzo, Block, Austrians.

15. Bukharin (socialism):


Winner: Bukharin, non Austrian.

16. Burczak (1. praxeology)


Winner: Caldwell, Austrian.


Winner: Carabelli and De Vecchi, non Austrians.
18. Caldwell (equilibrium)

Winner: Salerno, Austrian.29

19. Caplan (1, methodology)


29 Note, that we declare Caldwell, as an Austrian, the winner of the Burczak debate, while in our view Caldwell loses the Caldwell debate to Salerno, and in this case we consider Caldwell the non-Austrian. Is there any contradiction here? Not a bit of it. There is no logical inconsistency in the present authors considering Caldwell and an Austrian, and a non-Austrian, in two different and separate contexts.

20. Caplan (2, information):


30 We count forthcoming articles, accepted for publication.


Winner: Block, Austrian.

22. Clark (1, capital)


23. Clark (2, interest):


Winner: Böhm-Bawerk, Austrian.

24. Coase (1, social cost)


31 While this is the last exchange between Clark and Böhm-Bawerk, Clark (1895, p. 98) states at the beginning of the paper that «Professor v. Böhm-Bawerk is entitled to the last word in the pending discussion. I will neither repeat my former argument nor extend it, but will gladly accept the verdict to which readers may be led by a study of the discussion already published.»

32 Medema (1997, 1998, 1999) has replied to many, many criticisms of Coase; he has practically made a cottage industry out of this. But he has not replied to a single criticism of Coase published by any Austrian.


Winner: Austrians.

25. Coase (2, public goods):


Winner: Coase, non-Austrian.53

26. Cowen (business cycle)


Winner: Cowen, non-Austrian.

27. Cowen and Fink (equilibrium)


Winner: Cowen and Fink, non Austrians.

53 Barnett and Block (unpublished) cannot be counted, since it is not published.
28. Crampton and Farrant (economic calculation)


Winner: Crampton and Farrant, non-Austrians.

29. Davidson (macroeconomics):

Davidson, Paul. 1989. «The economics of ignorance or ignorance of economics?» Critical Review, 3 (Summer/Fall), pp. 467-87.


Winner: Davidson, non-Austrian.

30. Demsetz (1, property rights vs. Block)


Winner: Block, Austrian.

31. Demsetz (2, property rights vs. Egger)


Winner: Egger, Austrian.34

34 Egger «wins» based on pagination.
32. Drewnowski (Soviet economics)


Winner: Roberts, Austrian.

33. Easterbrook (inside trading):


Winner: Padilla, Austrian.

34. Eichengreen and Mitchener (business cycle)

Eichengreen, Barry and Kris Mitchener. 2003. «The Great Depression as a Credit Boom Gone Wrong.» paper delivered to the Conference on «Monetary stability, financial stability and the business cycle,» 28-29 March, Basel

Winner: Eichengreen and Mitchener, non-Austrians.

35. Elzinga (anti trust)


Winner: Tucker, Austrian.

36. Freeman (labor markets):


Winner: Block, Austrian.
37. Friedman (1, misc.)

Winner: Rothbard, Austrian.

38. Friedman (2, gold)


39. Friedman, David (methodology)

Winner: Murphy, Austrian.

40. Galbraith (advertising)

Winner: Hayek, Austrian.

41. Gallaway and Vedder (unemployment)

Winner: Barnett and Block, Austrians.

42. Gutierrez (methodology)

Winner: Block, Austrian.

43. Hahn (investment)

Winner: Lachmann, Austrian.
44. Harberger (admirable economists)


Winner: Block, Austrian.

45. Hilferding (tba)


Joan Robinson also criticized Böhm-Bawerk (cited tba).

Winner: Hilferding, Robinson, non-Austrians.


Winner: Block, Austrian.

47. Hill, G. (Keynes on capitalism):


Horwitz, S. 1998. «Keynes and capitalism one more time: further reply to Hill.» *Critical Review*, 10 (summer), pp. 95-111


Winner: Hill, non-Austrian.

48. Hummel (business cycle):


Winner: Barnett and Block, Austrians.

49. Hutchison (methodology)


Winner: Hutchison, non-Austrian.

50. Keynes (1, the early years):


Winner: Keynes, non-Austrian.\(^{35}\)

51. **Keynes (2, the later years)**


Winner: Austrians.\(^{36}\)

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\(^{35}\) But see Hayek, F. A. 1939. «Mr. Keynes and War Costs», *The Spectator*. Nov 24. However, as this is not an academic review, it does not count for our purposes.

\(^{36}\) Krugman, 2006 (see http://delong.typepad.com/sdj/2006/03/krugmans_intro_.html) is later than any Austrian critique of Keynes. Why, then, do we declare the Austrians the winner? Because modern Keynesians such as Krugman do not reply to the Austrians, while the latter criticize the Keynesians. In terms of our model of A, B, A', B', etc., when an Austrian attacks a Keynesian, and the latter does not reply, we have only the A of the Austrian.
52. Knight (1. capital and interest)


Winner: Knight, non-Austrian. 37

53. Knight (2. period of production)


54. Laidler (business cycle)


55. Lange (Socialism)


Winner: Murphy, Austrian.

56. Lawson (efficiency)


Winner: Block, Austrian.

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37 Emmett (1997) and Cohen (1998) seem to disagree with that idea. See also: http://www.augustana.ab.ca/~emmett/Capital/Theme3.html
57. MacVane, White, Bilgram, and Hawley (capital)


Winner: Bohm-Bawerk, Austrian.

58. MacVane and Green (utility)


Winner: MacVane, non-Austrian.

59. McCloskey (1, rhetoric)


60. McCloskey (2, persuasion)


Winner, McCloskey non-Austrian.

61. McCready and Maloney (wealth taxation)


Winner: Block, Austrian.

62. Modigliani (price control)


Winner: Block, Austrian.
63. Mundell (currency areas)


Winner: Glavan, Block, Austrian.

64. Murphey (allocation)


http://www.acton.org/publicat/m_and_m/1999_fall/murphey2.html; http://141.164.133.3/faculty/Block/Blockarticles/controversy306.htm

Winner: Block, Austrian.

65. Musgrave (tax justification)


Winner: Block, Austrian.

66. North (institutionalism)


Winner: Stromberg, Austrian.

67. Nove (communism)


Winner: Nove, non Austrian.

68. **Nozick (methodology)**

Winner: Block and Hoppe, Austrians.38

69. **Posner (law and economics)**

Winner: Stringham, Austrian.

70. **Prendergast (managerial economics)**


71. **Radin (1, markets)**

Winner: Block, Austrian.

72. **Radin (2, rent control)**

Winner: Block, Austrian.

73. **Rasmusen (monopoly)**

Winner: Block, Austrian.

74. **Rees**


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38 Nozick always «loses» since he never replies to critics.
Winner: Block, Austrian.

75. Rolph (discounting)


Winner: Block, Austrian.

76. Romer (productivity)


Winner: Murphy, Austrian.

77. Rosen (legitimacy of Austrian economics)


Winner: Anderson, Austrian.

78. Schmoller\footnote{Methodenstreit: Carl Menger vs. German Historical School.}


79. Schuller


Winner: Rothbard, Austrian.

80. Schumpeter


Winner: Caplan\(^{41}\) and Stringham, Austrians.

81. Simons


Winner: Block, Austrian.

82. Shleifer and Levy (the USSR failed due to public choice considerations, not Austrian incalculability)


Winners: Shleifer and Vishny and Levy, non Austrians.

83. Simpson and Kjar (circular flow)


Winner: Simpson and Kjar, Austrian.

84. Adam Smith (Smith's ideology)


Winner: Austrians.

85. Snippe (coordination)

Winner: Garrison.

86. Sraffa

Hayek, F.A. 1931. Prices and Production. London: George Routledge and Sons
Winner: Sraffa, non-Austrian.

87. Stigler (efficient government)

Winner: DiLorenzo, Austrian.

88. Stiglitz (development)

Winner: Beaulier, Austrian.

89. Timberlake (monetarism)


42 Barnett and Timberlake (1989) both appeared in the same year, so we need a tie breaker; the later volume would win, but, again, they tie in this regard too, both
90. Tullock (1, business cycle)


Winner: Tullock, non-Austrian.

91. Tullock (2, property)


Winner: Block, Austrian.

92. Wagner (business cycle)


Winner: Block, Austrian.

93. Walker (interest rate)


Winner: Böhm-Bawerk.

94. Yeager (1)\textsuperscript{44} (vs. Block and Barnett on subjectivism)


\textsuperscript{44} Here, Yeager is the anti Austrian. In the Rosen debate, he was the Austrian. Strange economic bedfellows and all that.


Winner: Yeager, non Austrian.

95. Yeager (2, vs. Rizzo and O’Driscoll on subjectivism)

Rizzo, and O’Driscoll on subjectivism tba.

Winner: Yeager.

96. Yeager (3, vs. Salerno on calculation)


Winner: Yeager, non Austrian.
III. ANNOTATED DEBATES

In this section we present a selected number of debates for annotation.

1. Becker – Kirzner

The debate that took place between Gary Becker and Israel Kirzner in the Journal of Political Economy originated following an article that Becker published in 1962 entitled «Irrational Behavior and Economic Theory.» In this article, Becker argues that assumptions about the rationality of market participants are not required to be able to establish the «important theorems of modern economics.» According to Becker (1962, p. 12), this is because even «irrational units would often be “forced” by a change in opportunities to respond rationally.» In other words, arguing about the rationality of market participants is not important because, in the long run, market forces will compel individuals to behave as if they were rational.

In the fourth issue of the same volume of the Journal of Political Economy, Kirzner offers a critical discussion of Becker’s own analysis. In his note, Kirzner does not so much attempt to rebut Becker’s model but rather contests its significance (Lagueux, 1993, p. 38). As Kirzner (1962, p. 380) explains, «even in the kind of case considered by Becker [that is, in a case where the market is made up of irrational households and firms], the important theorems of economics (understanding by this the theorems explaining market prices) cannot be extracted without first introducing some assumptions of rationality in an essential way.» The problem in Becker’s model, says Kirzner (1962, pp. 381-82), is that markets will reach equilibrium (prices) only if market participants revise their original plans «as a consequence of the disappointments of earlier plans,» that is to say, only if those market participants are rational. If as Becker assumes, those participants are «afflicted with chronic inertia» or are making «bids in a purely random manner», there is no reason to think that markets will ever clear. Therefore, Kirzner states, «as a general attempt to demonstrate the dispensability of the rationality assumption, therefore, Becker’s cannot be judged a success.»

Becker (1963, pp. 82-83) replies to Kirzner in the following volume and offers to show that «Kirzner’s principal argument is that a single market would not be stable if price-setters were irrational» is invalid. Becker assumes that suppliers in a market «use irrational decision rules in setting prices, and that the demand curves for the outputs of any groups of suppliers are either negatively inclined or infinitely elastic» (Becker, here, argues that he already had demonstrated why market demand curves tend to be sloping downward even when demanders are irrational.) Becker then shows that, when the market price is above the equilibrium price, the group of firms that cannot sell anything at the higher prices will be forced to sell at lower prices «even if irrational decision rules were used.» Also Becker (p. 83) reiterates that he does not «pretend to have demonstrated that the equilibrium price must be stable in markets dominated by irrational participants.» His «aim is simply to indicate that not only that Kirzner offered no proof that irrational markets are unstable but also that there are powerful stabilizing forces even in such markets.» The last sentence in Becker’s reply to Kirzner seems to express some irritation when he concludes: «Praxeologists and others concerned with determining the extent of individual rationality might well devote more time in the future to formulating and conducting relevant tests.»

In his rejoinder, Kirzner gets the last word. Kirzner (1963, p. 85) repeats his previous criticism: «When, on the other hand, one follows Becker into a world of impulsive or habit-following price-setters, a world in which knowledge and ignorance do not affect decisions, one searches in vain for any reason why today’s decisions need be systematically different from those

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45 It is interesting to note that it is this debate the only debate that Becker ever got involved in. According to Becker, the opportunity cost in terms of productive research of debating is too high for him. Therefore, it is his policy not to debate anybody. Becker is not the only one to advance such argument to avoid debating. This applies to Nozick as well (see comments under «derrailment» supra).
of yesterday.» According to Kirzner (1963, p. 85), it is because «in his ‘Reply’ Becker has unwittingly permitted a small dose of wholesome rationality to enter his example.»
Winner: Kirzner.

2. Burczak vs. Butos/Koppl

The debate between Butos and Koppl, on the one hand, and Burczak, on the other, is a continuation of that which took place between Paul Davidson and the Austrians following Davidson’s very critical review of O’Driscoll and Rizzo’s The Economics of Time and Ignorance (1985). In the more general dispute that opposes Austrians to Post-Keynesians on the question of whether an unregulated market economy will generally coordinate economic activity through time, Burczak (2001, p. 59) argues that the key issue is «the degree to which expectations formulated against the backdrop of an uncertain future will lead individuals to act in a manner consistent with macroeconomic coherence.» Burczak’s 2001 publication is a response to Butos and Koppl’s 1993 and 1997 papers where they study the different views that Hayek and Keynes have on the nature of expectations to explain the possibility of intertemporal coordination in a market economy.

Butos and Koppl (1997) argue that Keynes was a Cartesian rationalist in his theory of expectations and because it is impossible that the future is «unknowable,» Keynes believed that «long-term expectations do not and cannot bear any systematic relationship to underlying economic reality.» For Keynes, Butos and Koppl maintain, «expectations are a belief state and cannot be formulated by ‘rational action.’» Therefore, intertemporal coordination is unlikely. On the other hand, for Hayek, Butos (2001, p. 555) argue, «expectations are embodied in

habits, norms and traditions. Expectations, in other words, are embodied in the rules governing action. These rules are a product of social and, as in the case of sensory order, even biological evolution. In this evolutionary view there is no reason to see in the uncertainty of the future a special cause for discoordination of actions. Expectations, on the contrary, have a tendency to coherence and coordination.» More importantly, «the orderliness of market processes depends on the institutional context within which individuals function.» And, Butos and Koppl conclude, that the institutional context will shape individuals’ expectations and plans «generating various degrees of coordination.»

In his 2001 answer to Butos and Koppl, Burczak challenges the view that Keynes was a rationalist. For Burczak (2001a, pp. 68-9), the proof of his assertion is to be found in Keynes’ «my early beliefs» of 1938. Moreover, Burczak argues, «What ultimately separates a Keynesian theory of expectations from a Hayekian theory of expectations is not the supposed Cartesian rationalism of the later Keynes, as Butos & Koppl allege, but the prominence Keynes gave to the creative powers of the human mind in his theory of expectations relative to the attenuated role of creativity in Hayek’s understanding.» According to Burczak (p. 76), «the most important contribution of Keynes is that the economic environment is not ergodic or necessarily dominated by typical features. For Keynes, this fact always threatens to undermine confidence in the conventional expectation of order and stability in economic affairs, a conclusion that many Austrians seem to resist.»

Butos and Koppl (2001) challenge Burczak’s interpretation of Keynes’s 1938 essay and «introduce the concept of ‘horizon principle’ to criticize Keynes’s dichotomy between short-term and long-term expectations.» According to Burczak and Koppl (p. 82), the quote that Burczak uses to justify his position actually can be interpreted in a very different way. While Keynes seems implicitly to reject rationalism by acknowledging he tended to neglect tradition, the language used by Keynes sounds «constructivist.» Consequently, Butos and Koppl (p. 82) maintain, Keynes never really gave up rationalism, instead «he adopted a more skeptical and worldly-wise form of rationalism.» The problem with Keynes’s approach is that he does not explain

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46 As Kirzner states in a footnote, the important point that Becker seems to have missed is that «the constraints operating today on the impulsive or habit-following decision-makers are precisely the same as those which were operative yesterday.»
47 See Davidson (1989), Przymkowski, Runde, Tort, Boehm, and Farnell (1993), and Davidson (1993). Why doesn't this appear, also, in section II? Tha.
Caplan (1999) argues that the effort developed by Mises, Rothbard, and, to a lesser extent, Kirzner to develop an alternative, more realistic, approach to economics is a failure. Moreover, Caplan argues that Austrian critiques of neoclassical economics and some of its fundamental assumptions are by and large erroneous.

Hülsmann (1999) and Block (1999), while acknowledging Caplan’s familiarity with Austrian literature, reply that Caplan failed to show that neoclassical economics is more realistic than Austrian economics. Hülsmann gives a point-by-point reply to Caplan. He (p. 4) shows that «Caplan fails to identify the important differences between Austrian and neoclassical economics.» Moreover, he asserts that Caplan’s misunderstandings are to found «in his failure to grasp that Austrian economics is a theory of action (praxeology) rather than some kind of applied psychology.» Hülsmann (p. 17) concludes that an analysis of neoclassical assumptions «reveals that they are either not realistic ... or not applicable in economic analyses of the real world.» Block also provides his own point-by-point reply to Caplan and divides his reply in the same four sections as those used by Caplan: an introduction, consumer theory, welfare economics, and a conclusion.

The third round comes in 2001 when Caplan replies to Hülsmann and Block in the Quarterly Journal of Austrian Economics in which he (p. 69) «spell(s) out the philosophical side of his original thesis in greater depth.» In his reply, Caplan addresses the use of probability theory in economics, the philosophical differences in their approach of the relation between common sense and science, and the other specific topics previously addressed by Hülsmann and Block: indifference, cardinality, continuity, income and substitution effects, and demonstrated preference and welfare economics. Caplan (p. 84) concludes his reply to Hülsmann and Block by stating that «there are two paths for Austrian economics to evolve along. The first is obscurantist philosophizing about preferences, probability, uncertainty, and welfare economics. The second is to reinvent itself as a species of neoclassical economics infused by the spirit of the Austrian approach.»

Block (2003) alone enters the fourth round in 2003 in a reply to Caplan (2001) on the sole topic of using probability theory in economics. Block, before beginning his «entirely critical reply,»
reiterates his praise of Caplan’s knowledge of both Austrian economics and neoclassical economics. Most of Block's reply seems largely to be developing on epistemological grounds and a discussion of the synthetic a priori.

Caplan (2003) discusses once again probability and synthetic a priori. Caplan (p. 77) first argues that «Block incorrectly classifies him as a logical positivist.» Second, Caplan (pp. 78-9) shows that if synthetic a priori claims vary in probability as can empirical claims, there is no reason to consider empirical claims unscientific. Third, Caplan argues (pp. 80-1) that Block's examples of the synthetic a priori «are poorly chosen» and, contrary to what his critics seem to believe, he «admits that synthetic a priori knowledge exists.» His main objection is on «what qualifies as synthetic a priori.» Caplan (p. 83) concludes that «contrary to Block, the synthetic a priori has little to do with the debate. His main disagreement with Austrians is not on the methodology but rather on the fact that for Austrians, the «most distinctive positions are false or overstated.» According to Caplan, Block along most Austrians is «better at criticizing neoclassical economics than at producing a sound alternative.»

After this round, Caplan was subjected to an Austrian «pile-on» from Block, (2005), Hoppe 2005, Block (2006, forthcoming), and Barnett (2006, forthcoming) who have criticized the initiator of this debate in terms of epistemology, logic, methodology and economics. Caplan has so far not replied.

Winner: Austrians.

4. Block/Egger vs. Demsetz

The debate that took place between Harold Demsetz and Walter Block (in which John Egger participated) covers a span of over 20 years and originated in Block’s response to Ronald Coase (1960) and Harold Demsetz’s (1967) works on externalities, transaction costs, and property rights. Before briefly summarizing this debate, it should be important to note that after Block’s (1995) second response48 to Coase and Demsetz, Demsetz (1997, p. 101) clearly states that he will «refuse to join in any future similar exercise in futility.» According to Demsetz, he has learned «nothing from reading his [Block] part of the debate, and apparently he [Block] learns nothing from reading my [Demsetz] part.» Demsetz (1997, p. 102) adds «Block’s rumination on morals merits no response from me.»

The central point that Block (1995, p. 71) argues against Coase and Demsetz is that «property rights determinations are relevant to resource allocation.» When we take into account psychic income, it does matter to whom property rights are allocated. Coase and Demsetz contend that whether «property rights are irrelevant» depends upon the loser being able to bribe the winner of the lawsuit; if he is unable to do so, the entire scenario does not arise (Block 1995, p. 71). Block (1977, 1995, and 2000) provides a large variety of examples to show why Coase and Demsetz are wrong in assuming that property rights are irrelevant. Demsetz (1979, 1997) in each of his responses argues that Block is incorrect and violates the «no income effect» assumption that he and Coase adopt in their analysis. In addition, while Demsetz refuses to engage in the debate on the normative aspects, he (1997, p. 103) does argue, contrary to Block (1977) that he is as opposed to the military draft as Block is. Block focuses on the question of whether property rights are irrelevant while Demsetz thinks the debate should focus on attempting to answer Pigou. Because, as Demsetz (1997, pp. 104-5) argues, Coase's disagreement with Pigou concerns Pigou's efficiency conclusions in regard to externalities. Coase's analysis is about the «efficiency of resource allocation, not the specific allocation of resources.» As Demsetz emphasizes, «[P]erhaps more important, the misallocation in resources that Pigou (and the profession) saw as a consequence of externalities has nothing to do with changes in consumption expenditures resulting from altered incomes.» For Demsetz, Block's attacks are misplaced.

Egger (1979) following Demsetz’s response to Block (1977) also entered the debate commenting on Demsetz (1979). Egger’s (1979, p. 122, 124s) main argument was that Demsetz’s proposal that we substitute «economy efficiency of the actions and resource allocation promoted by different types of property rights» to «the simplistic faith» approach to comparison of the ethics of
different property rights systems «gets us to nowhere» and is «at best unconvincing.» The problem, Egger (1979, p. 122) argues, is that «without an exogenous standard by which to judge either rights or efficiency, we find that all actions taken within any particular rights system are efficient but there is no reason or standard by which to prefer one ‘efficient action/rights structure’ combination over another.»

Block (2000) gets the last word. He answers each criticism advanced by Demsetz. More particularly, Block (2000, p. 70) rejects that Demsetz’s contention that Block’s examples ignore the «no income effect» assumption by «renaming income effects as psychic effects.» Block (2000, p. 72) concludes by putting his argument in a broader context.

Winner: Block.

5. Schuller vs. Rothbard

The debate between Rothbard and Schuller originates from Schuller’s (1950) review of Mises’s Human Action (1949). Rothbard’s comment on Schuller’s review addressed various criticisms that Schuller made of Human Action.

Schuller sees eight important shortcomings in Mises’s book. First, he (1950, p. 419) argues that Mises does not provide any «clear test of incorrect versus ‘correct praxeological reasoning.’» Second, he (p. 420) thinks that Mises is an «uncompromising dogmatic» lacking modesty. Third, Schuller believes that Mises «frequently neglects to distinguish his praxeological from his historical observations and often applies his dogmatism to what seems to be the latter as well as to the former.» Fourth, «Mises creates a dualism between a priori Praxeology and a posteriori history which he is unable to bridge.» Fifth, Schuller finds illustrations of «the arbitrariness of Mises’ cattallactic principles in application to historical reality.» Sixth, Schuller (p. 421) argues that removing «the apparent contradiction between economic rationality and political irrationality ... requires calculability.» Seventh, the reviewer contends that «the choice which Mises gives us is as foreign to rational human action (...) as that offered

by the extreme Marxist.» Moreover, Schuller adds «unfortunately, the choices given us in the historical world are somewhat more complex than that between perfection and impossibility.» Finally, Schuller (pp. 421-22) concludes, «the opposition which Mises finds ... between intervention and economic law is as spurious as that between airplanes and gravitation.»

Rothbard provides a point-by-point comment on Schuller’s review of Mises’ Human Action. First, Rothbard (1951, p. 181) replies that «the tests are, on the contrary, clear enough. Praxeology consists of two main elements: (1) the fundamental axioms, and (2) the propositions successively deduced from these axioms. Neither the axioms nor the deduced propositions can be ‘tested’ or verified by appeal to historical fact. However although the axioms are a priori to history, they are a posteriori to the universal observations of the logical structure of the human mind and human action.» Moreover, Rothbard (idem) adds, «the deductive propositions are tested according to the universally accepted laws of logic.» Second, Rothbard wonders why «an economist who is convinced of the truth of economics should be accused of ‘uncompromising dogmatism’.» Third, Rothbard (p. 182) does not think that there is conflict between an historical and a praxeological statement when Mises says that the gold standard is an historical fact and that this standard was responsible for increasing welfare, liberty, etc.» Fourth, he contends that Schuller’s contention that «Mises fails to ‘bridge’ the dualism between a priori praxeology and a posteriori history is a ‘false one.» Moreover, Rothbard (idem) labels Schuller’s insistence that «in order to forget this bridge, Mises would have to furnish ‘positive theorems covering all types of historical situations’ and ‘instructions for determining when the conditions of a particular situation coincide with those assumed by a particular theorem’ ... absurd» and impossible to «be fulfilled by any theorist.» Fifth, Rothbard (pp. 183-84) argues that Schuller’s provision of instances of Mises’s «arbitrary applications of cattallactic principles to historical reality» are, «in most cases, ... not applications, but the principles themselves.» Sixth, Rothbard (p. 184) maintains that Schuller’s reading of Mises as stating that all intelligent choice of means requires calculability is «absurd.» Seventh, Rothbard (idem) explains that
«when Mises presents us with the choice between the free market and socialism, he is saying that in-between systems of a hampered market are not coherent, consistent systems.» Finally, Rothbard contends that «since Mises demonstrates that every form of government intervention in the market creates consequences that lead to an economy worse than that of the free market, Schuller cannot distinguish between rational and irrational forms of government intervention, or designate market intervention as a ‘technology.’»

In his rejoinder, Schuller (1951, p. 185) attempts a point-by-point refutation of Rothbard’s comment adding that he hopes «Mr. Rothbard’s thorough analysis meets with Professor Mises’ approval, particularly in matters of interpretation.»

In «Praxeology: Reply to Mr. Schuller,» Rothbard (1951b, p. 943) begins his reply by contending that he prefers to clarify the importance of the nature of praxeology and its applicability to historical events rather than prolonging his «discussion with Mr. Schuller’s unnecessarily by engaging further in a point-by-point refutation.» After finishing his discussion, Rothbard concludes that he hopes as Mr. Schuller does that his interpretation of Human Action has the Mises’s approval, «there is no warrant for any assumption to that effect.»

Winner: Rothbard.

6. Stigler vs. Rothbard

In 1959, George Stigler wrote «The Politics of Political Economists» in which he (p. 522) demonstrated why «the professional study of economics makes one politically conservative.» He (p. 529) mentions his disagreement with Mises’s argument that «it is economic statistics, or more generally quantitative economics, which generates a radical political viewpoint.»

Rothbard (1960) answers Stigler’s «interesting discussion» arguing that «it is important to note that Stigler overlooked several fundamental considerations.» Rothbard disagrees with Stigler on the effect of statistical economics (and economic statistics) on policy views of statistics. Rothbard (p. 659) argues that «in a free market economy, the individual, the individual business firm has little or no need of statistics .... The ‘automatic’ market, then, requires virtually no gathering of statistics.» To which, Stigler (1960, p. 670) answers «this is surely a vast oversimplification: the competitive firm needs information on present and prospective market conditions» to make a large variety of corporate decisions. Actually, Stigler (p. 671) adds, it might be possible that «Rothbard is thinking of the stationary state.»

Second, Rothbard (pp. 659-60) argues that «the enormous expansion of governmental activity in the gathering and disseminating of statistics ... is surely more than coincidentally related to the similar expansion of the role of government in regulation and manipulating the economy.» Stigler (p. 671) does not fundamentally disagree with Rothbard’s position but emphasizes that Rothbard’s argument «does not involve the professional economist and does not concern [his] position.» In addition, Stigler observes: «data cut in every direction: have not the data on increasing equality of distribution of income perhaps reduced the fervor for redistributional policies? Have not the national income accounts dispelled the notion that ‘Wall Street’ allotted a medicum to the working classes?»

Third, Rothbard (p. 664) argues that economists who are the most critical of private enterprise were often opposed to theory. Stigler (p. 671) answers that it is true that «many anti-theoretical economists have been devotees of what may be termed ‘ad hoc’ (sic) in public policy.» However, Stigler concludes, «Rothbard’s tacit identification of statistical analysis, and perhaps more generally empirical analysis, with opposition to theory was never apt and is now surely wholly obsolete: the best (and most influential) statistical work is being done by excellent theorists, and only my tenacious desire to avoid controversy keeps me from seeking an inversion of the sentence.»

Stigler gets the last word as Rothbard never attempted to rejoin Stigler.

Winner: Stigler.
7. The Socialist Calculation Debate

The Socialist Calculation Debate is the longest one in which Austrians were engaged. It covers a period of about sixty years.49 This debate is probably the most famous in which the Austrians were involved along with the Methodenstreit (or Quarrel over Methods) which involved Carl Menger and Gustav von Schmoller. Countless articles, books, reviews, comments have been written on the debate itself. In addition, the Socialist Calculation Debate involved as many as ten economists. However, it seems fair to say that the most important protagonists of this debate were Ludwig von Mises (1920, 1922), Friedrich Hayek (1945), and socialist economist, Oskar Lange (1936, 1937).

The debate started when Mises in 1920 and 1922 showed the impossibility for a socialist economy to be rationally efficient. He demonstrated that, under a system of public ownership of the means of production, the central planners did not possess a mechanism allowing them to perform economic calculation of profits and losses. Thus, it was impossible for central planners to allocate the means of production to their most valued use. Without private ownership of means of production, no exchange would take place and, therefore, no prices could arise. Without a price system, the economy was bound to collapse.

Socialist economists attempted to answer to Mises’s criticisms of collectivist economies and socialist ‘economics.’ Among them, Oskar Lange (1936, 1937) suggested that socialist economies could attempt to mimic, through a process of trial and error, the functioning of capitalist, market economies in order to «find» equilibrium prices.

Hayek (1935A, 1945) answered Lange that it was not only from a practical viewpoint impossible for the Central Planning board to define all the products that are bought and sold even in capital goods markets but, more importantly, such prices were flat prices and did not reflect the implicit, inarticulate, specialized knowledge of particular «time and place» impossible to collect by the Central Planning Board. In other words, according to Hayek, it is impossible for the Central Planning Board to substitute for the talent of experienced entrepreneurs.

Winner: Mises & Hayek.

8. Wagner –Block

Wagner (1999) explains why Austrian Business Cycle theory (ABCT) is incoherent, a case that had been made by Yeager (1986), Cowen (1997), Tullock (1987, 1989.) Wagner argues that while ABCT had peaked in the mid-1930s, it has been in decline since then as it failed to adapt to recent intellectual and institutional developments in economic science. Therefore, the coherence that it had achieved, exhibited by the Keynes-Hayek debates (also discussed in the present paper), appears relatively incoherent by the standards of macroeconomic science in the modern day. Indeed, contemporary expositions of ABC theory are simply restatements of the Mises-Hayek positions of the 1930s. Wagner proceeds to separate from the body of Austrian theory the «wheat from the chaff» —by identifying Austrian ideas that no longer apply and are outdated by modern standards.

Some of this «chaff» includes the idea that economic actors are not able to distinguish between savings-induced and credit-induced phenomena in the economy. Wagner argues that this idea is outdated given improvements in economic knowledge of expectations and information delivery since the 1930s.

Block (2001) notes that ABC theory is not as well known among economic actors as Wagner assumes and that information is not as perfect as Wagner assumes—otherwise the business cycle and the stock market would not exhibit such great fluctuations. Besides, credit-induced growth is based on the idea that entrepreneurs can be bribed into making malinvestment, which, if true, presupposes a lack of understanding of ABC theory. This is, as Block states (p. 66) «a very crucial point [that is] completely ignored by Wagner.»

Winner: Block.
Rothbard argues that there is no contradiction in Mises' position on money because money indeed has no value beyond serving as a medium of exchange. So, it has value when used for exchange or when being held for eventual use of exchange. Rothbard restates Mises' "path breaking" (p. 181) regression theorem, noting that it solves the "Austrian circle" when one realizes the temporal dimension of the circle. When the temporality is included in the analysis, the utility of money is reduced back to an available stock of goods.

Rothbard addresses the use of price indices, saying that the typical consumer that is the focus of such indices does not exist in real life, which is a problem for the construction of any average. Also, the agreement between Mises and Fisher on the effect of changes in the money supply (and therefore real prices) applied only in the short run. Monetarists, however, believe in the neutrality of money in the long run—a belief which is essential to the justification of much monetary policies. Finally, Rothbard ends by noting that methodology matters, so that when the deductive method, preferred by Austrians, is correct when the assumptions employed are correct according to the rules of logic, the use of false assumptions in positivist methodology weakens its application. This, he points out, is exactly what Timberlake does in his appendix, when he assigns cardinal measures to subjective utility in order to prove the equilibrium value for the marginal utility of money.

Timberlake (1988) addresses Rothbard's contention that money has no value beyond a medium of exchange. Timberlake argues that while this is not a new idea—he cites Mill's Principles—it is not relevant to his actual point about money's real value, which lies in its total purchasing power. If the money supply is fixed while output in the economy increases, the corresponding fall in prices is a sort of signiorage that goes to holders of money. Even if the money supply is inflated, resulting in an increase in prices, the result is superior to what would have happened under barter.

This analysis explains the shortcomings of Rothbard's conclusion that the regression theorem is necessary for real money. In fact, if it can be used to explain the value of real money, then it should be used to do so for the value of any real good.
108  WALTER BLOCK, CHRISTOPHER WESTLEY Y ALEXANDRE PADILLA

(Timberlake provides examples of why this cannot be the case.) Indeed, the argument that nominal money—money produced beyond what the market demands as a medium of exchange—has value itself solves the Austrian circle.

Timberlake employs a similar argument to deal with Rothbard’s criticism of price indices, arguing that if price averages were misleading, then other averages, such as grade point averages, batting averages, stock market values, and weather reports, would also be misleading. To deny that standard price indices cannot provide «a determinate measure of the value of [money] is vain perfectionism» (p. 192). Finally, in response to Rothbard’s points about methodology—which Timberlake calls «holier-than-thou» and «defeatist» (p. 192)—Timberlake criticizes Rothbard for dismissing the monetarists on methodological grounds when they would otherwise be strong allies in an intellectual fight against collectivism. In an appendix, Timberlake presents a corrected version of his derivation of the equilibrium value for the marginal utility of money.

It is this derivation that provokes a response from Barnett (1989). After restating Timberlake’s mathematical argument, Barnett argues that his use of a reciprocal for composite prices in his amended appendix leads to the square of composite prices in his final formulation. Barnett argues that consistency requires that the price of money must be dimensionless. Also, he points out that Timberlake’s approach assumes that the composite good in such formulations must be infinitely divisible (so as to enable the application of differential calculus and econometric analysis). This clearly is unrealistic, but its acceptance is crucial «to make economic analysis mathematically tractable and to make economic data grist for the mill of statistical (i.e., econometric) analysis.» (p. 157).

Timberlake (1989) responds to Barnett by arguing that the difference in analysis between them is due to Timberlake’s assumption that money is a real good, while Barnett assumes it to be a nominal good. Timberlake justifies his inclusion of real money in the model (which Barnett calls improper) because this makes his analysis more realistic in contrast to the general approach of neoclassical analysis.

Winner: Timberlake.

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10. Tullock – Salerno

Tullock (1988) presents an argument against the Austrian explanation of the business cycle based on a 1969 pamphlet written by Murray Rothbard.51 He begins with three small criticisms of Rothbard’s argument (Tullock calls them «nits»). First, he argues that Rothbard ignores the fact that inflation can exist and be maintained in the long run. Second, he maintains that Rothbard does not understand that investors will eventually learn to adjust their activities to policy-induced changes in the business cycle. And third, he points out that, from a technical perspective, the business cycle follows a random walk, not a detectable cycle. But Tullock’s more serious objection to the theory is that Rothbard’s theory of the business cycle would actually result in «minor transitional unemployment» (1988, p. 74) because much malinvested capital would eventually be used with hired labor.

Salerno (1989) first points out that Tullock’s reliance on a pamphlet for his understanding of ABC theory is weak. There are, after all, more scholarly venues that address many issues that would not appear in writing meant for non-economists. He addresses Tullock’s «nits» as well. To the first and second, Salerno argues that Tullock’s position reflects his lack of familiarity with extensive scholarly literature that both recognize that inflation can exist in the long run and that credit-induced business cycles do indeed result in malinvestments. To the third, he points out that Austrians have never defined the business cycle «as a mechanistic or statistical regularity... but as a recurring qualitative sequence of abstract economic phenomena that can only be detected ... by the application of theory.» As for Tullock’s more serious objection to ABC theory, Salerno notes that Tullock appears to ignore the role of intertemporal complementarity in the structure of production, and the Austrian understanding of malinvestment.

51 The pamphlet, entitled «Economic Depressions: Causes and Cures», was published by Constitutional Alliance for non-scholarly consumption. Tullock would not know the date of publication because the pamphlet was published without a date.
Tullock (1989) replies to Salerno by stating that while they agree on the basics, they disagree on whether the extra capital generated by interest rate policy results in unemployment or a shortage of labor and higher wages. While acknowledging that there existed high levels of unemployment during the Depression (and the 1980-82 recession), the severity had causes beyond interest rate policy. Tullock also pleads ignorance of the Austrian definition of the business cycle, and suggests that the misunderstanding could be made clearer if the Austrians would advance a more precise definition of economic depression. In answering Salerno’s criticism of his understanding of malinvestment, Tullock argues that the Austrian position that a credit-induced boom biases investment in capital goods that have longer stages of production is not relevant, because such investment would not necessarily replace investment in capital goods with shorter stages of production. Quoting the phrase “[a] rising tide lifts all boats,” Tullock argues that both types of investment would take place. Finally, he accuses the Austrians of seeing a “moral tale” in the boom and bust cycle, in which the “wickedness of inflation carries a punishment” (p. 149), when depressions can have many causes.

Winner: Tullock.

11. Keynes – Hayek

This debate, which took place during the severest days of the Great Depression, is a large one, with most of the copy provided by Hayek; it would result in a fairly large text if it were not reprinted in book form.52 It began as a review by Hayek (1931, 1932) of Keynes’ Treatise on Money (1930). Hayek’s very respectful critique claimed that Keynes’ book was simply an application of Cambridge School-ideas to monetary theory while raising the question as to whether Keynes understands any of the “fundamental theorems of ‘real’ economics on which alone any monetary explanation can be successfully built…” (p. 270). Each man accuses the other of embellishment and confusion in making his case, and to an extent this is true, making this debate a difficult one to summarize.

Hayek’s “Reflections” was published in Economica in two parts, the first in August 1931. Keynes’ response to the first part was published in November 1931, and Hayek responded to Keynes in the same issue. The second part of Hayek’s Reflections was then published in February 1932.

Hayek’s argument can be described as an Austrian proto-critique of Keynesian (and much mainstream) monetary theory that would follow in future decades. He points out the problem with assuming that adjusting the money supply to levels necessary to maintain existing contracts will not affect investment and saving decisions in money markets. This is similar to present-day Austrian criticisms of the role central bankers assume to meet liquidity requirements in the economy. Keynes does not directly address this point, and criticizes Hayek for raising it, saying that doing so indicates that Hayek missed the central point to his Treatise.

Keynes proceeds to deal with Hayek’s explication of what would later be called the Austrian theory of the business cycle by arguing that new money entering the economy has a benign effect. “As I perceive it,” Keynes (p. 393) writes, “a changing price-level—due to a change in the relation between saving and investment, costs in production being unchanged—merely redistributes purchasing power between those who are buying at the changed price-level and those who are selling at it, as compared with what would have happened if there had not been a change in the relation between saving and investment.” Without addressing Hayek’s discussion of malinvestment created by new money entering the economy and resulting from saving and investment to become out of balance, Keynes spends the rest of his response criticizing Hayek’s Prices and Production (calling it “one of the most frightful muddles” he had ever read, demonstrating “how, starting with a mistake, a remorseless logician can end up in Bedlam.” (p. 394)).

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52 This debate also contrasts one characteristic of the Austrian propensity for dealing with important issues with large treatises with the British tendency for shorter, pithier approaches. In total, Hayek contributed nearly 60 pages, while Keynes contributed 11. The entire debate took place in Economica.
Hayek's response to Keynes' disagreements borders on incredulousness that instead of responding to points he raised with respect to the *Treatise on Money*, Keynes chooses to critique *Prices and Production*. He writes: «I cannot believe that Mr. Keynes wishes to give the impression that he is trying to distract the attention of the reader from the objections which have been raised against his analysis by abusing his opponent, and I can only hope that [once the second part is published] he will not only try to refute my objection somewhat more specifically, but also substantiate his counter-criticism» (p. 398). Hayek goes on to re-argue the cause of malinvestment that results when money is no longer neutral, and to criticize Keynes' apparent belief that such changes in the money supply have no effect on the interest rate.

Keynes never responded in print to Hayek in this debate, rendering Hayek the winner. However, Keynes did respond by having Pietro Sraffa review *Prices and Production* in *Economic Journal*, who provided a hostile review in the March 1932 issue.

Winner: Hayek.

12. Hill – Horwitz

Seattle city planner Greg Hill (1996) opens this debate—a wide-ranging, five article Keynesian-vs.-Austrian skirmish that took place in the mid- and late-1990s—with the claim that Keynes offered a much-overlooked moral response to laissez-faire economics that Hill claimed is championed by the neoclassical and Austrian schools. However, he lumps these two schools together as sharing a Walrasian belief in market coordination and clearing, considering the Austrians as a simple variant of free-market neoclassicals. In this schema, he writes, «...market arrangements allow a perfectly efficient coordination of economic activity, ... market incomes are proportionate to the productive contributions of those who earn them, and ... each participant's economic fate is the result of the choices she (sic) made within the ideal system of social interaction» (p. 37). That each of these contentions are wrong in practice constitutes (because of the market's tendency toward failure and dis-coordination) the «moral judgment of the General Theory.» (p. 38)

To this criticism, Horwitz (1996) responds first with a clarification for Hill on some of the key differences between neoclassical and Austrian thinking, especially on equilibrium theory. Beyond that, Horwitz notes that Hill's argument itself is something of a straw man, since (i) Austrians explicitly reject the Walrasian system, and since (ii) many neoclassicals recognize its limitations.

Horwitz responds to Hill's argument that Austrians believe that one's economic fate is dependent only on one's actions in the market by pointing out that in truth, one's fate is determined by «choices other people make as to what they wish to buy and how much they are willing to pay for it» (p. 356). Since Hill's contentions apply to neoclassicals but not Austrians, his characterization of the market system is not as devastating as he thinks. Horwitz then proceeds to present an Austrian critique of Hill's Keynesian arguments, noting the role of interest rate, wage, and price flexibility in promoting a great deal of coordination, and criticizing as backwards the Keynesian belief that spending generates income. Horwitz closes by arguing that although «markets do contain institutions that produce intertemporal coordination,» in reality «capitalism is full of government interventions ... into those coordinating processes.» (p. 370).

Hill was not persuaded. His response (1996) to Horwitz restates Keynesian theories with focus on five areas. The first deals with Horwitz' discussion of saving and investment. Here, he says that one's decision to save does not have the effect of decreasing interest rates (and allowing banks to lend more loanable funds) because the decision causes someone else to benefit less from consumption. Therefore, the individual's decision to save results in less income for someone else, which means that the effect on total saving is negated. The act of saving does not correspond to an act of investment. Hill says that for Horwitz to miss this point, then «it is clear that he has missed Keynes' message altogether» (p. 375).

Horwitz is also wrong on the question of wage flexibility, according to Hill. It's not that wages don't adjust; rather, it's that there is a bias toward their adjusting downward because every business owner prefers to pay lower wages. The result is a decrease
in aggregate demand. Hill also argues that Horwitz' claim that flexible wages tend to coordinate the supply and demand for labor would only apply «in terms of the perfect market of Walras» (p. 378). In this sense, Hill argues, Austrians are actually Walrasians.

Hill also differs with the Austrian contention that money is simply a good produced in the market to allow indirect exchange. The problem is that during a recession, stock and bond prices fall, causing economic agents to increase their demand for cash. This lack of investment is a market failure that causes the recession to persist, and it occurs because money is not simply a good among many produced in the market, but a specific one that can hinder productivity when demand for it rises. Furthermore, Horwitz' belief in market coordination is further «marré by a semantic confusion» that resulted from his forgetting that saving equals expenditure (p. 385). And if Austrians like Horwitz claim that low interest rates result when savers remove funds from the loanable funds market, they ignore the fact that resources can be idle, which means that they then have no effect on interest rates, thus weakening the role played by interest rates in coordinating the actions of savers and investors.

Finally, Hill admits that Keynesians and Austrians both reject the concept of full Walrasian equilibrium. However, he says that Keynesians reject the Austrian assumption that the lack of coordination results from uncertainly and fallible human beings (a point raised by Horwitz but far from the only explanation he provided for market dis-coordination). This is because (i) the market systems' shortcomings are systemic and cannot be explained by entrepreneurs' random errors, and (ii) since some errors are not self-correcting, markets can be prone to discoordination in the long run. Thus, when Horwitz sees falling prices as a tendency toward market correction, Keynesians see a liquidity trap squelching demand.

Hill's response to Horwitz amounted to a reassertion of Keynesian ideas, and Horwitz' response admits as much in his «Further Reply to Hill» (1998), maintaining that Hill frequently mischaracterized his arguments. He first notes that he never claimed, as Hill contended, that saving and investment is always balanced by the interest rate. However, this is effectively accomplished by effective monetary institutions. Furthermore, Horwitz argues that Hill's belief that the decision to save is negated by the lost income to the person who otherwise would have benefited from consumption, is not as clear-cut as Hill suggests. One has to balance the marginal benefit from increasing the capital stock to the marginal loss suffered by the lost consumption. Over time, argues Horwitz, it is quite possible that more wealth results from the increase in the capital stock. What's more, Hill's concern about the liquidity trap that results when money held reflects not so much a failure of the capitalist system as it does shortcomings of existing financial institutions.

Horwitz adopts a similar argument to respond to Hill's assertions about wage stickiness. Horwitz argues that this is likely to be a problem in the presence of «monetary disequilibria,» such as when there are excesses or deficiencies in the money supply. The result is unemployment when prices are imperfectly flexible. This only happens, argues Horwitz, when «the economy's banking institutions [fail to] respond to changes in time preferences and the demand for money» (p. 98). Also, the decision to hoard money is not inconsistent with the time-preference theory of interest.

Indeed, much of Horwitz' response to Hill reflects the influence of Selgin (1988a) and White (1996), which suggests that present monetary institutions fail to the extent that they do not allow for free banking. Significantly, he calls Hill to task for ignoring his main points about the role of government intervention in causing discoordination. It is incumbent on Hill, he says, «to offer an example where entrepreneurs make aggregate errors that are sustained for a long enough period to cause a recession, but where the errors are not the result of distorted prices or incentives created by government intervention.» Otherwise, he has not shown that free market capitalism... shows any tendency toward system-wide revision» (pp. 103-104, italics in original).

Hill's (1998) response to Horwitz is the last paper in this debate (appearing in the same journal issue as Horwitz' second response). The title of Hill's response — «An Ultra-Keynesian Strikes Back» — is a good description of his positions on the issues under debate, as he proceeds to reiterate and defend his Keynesian doctrinal interpretations.
Hill begins by noting that raising a role of free banking institutions in promoting coordination is «a stunning proviso» because the capitalist system that Keynes critiqued was not characterized by such institutions. Nonetheless, Horwitz' claim that the decision to save does not necessarily reduce aggregate wealth amounts to circular reasoning, given Horwitz' argument that increased saving causes producer prices to rise due to the corresponding fall in interest rates. Hill argues that nonetheless, free banking would not solve this problem, because allowing banks to create their own currencies would not address money demand, but money supply. What’s more, an increase on loans at one bank, made available by a decision to save, would have to be offset by a decrease in loans at another bank, because one party was not the recipient suffered from the decision to dissave.

Hill is also not persuaded by the argument that free banks are more likely to adjust the money supply so as to coordinate market activities than is a central bank. He argues that the volume of lending is self-reinforcing, if reduced lending at one bank leads to decreased deposits at others. The end result could result in a run on the banking system.

Further, Hill accuses Horwitz of misinterpreting Keynes' claim, in the General Theory, that prolonged unemployment results from inflexible wages. Rather, says Hill, unemployment persists because unemployed workers are not able to communicate to employers the demand they would have for their output if they were employed. That unemployed workers' intentions are not communicated in market wages in the real world discredits the Austrian (and Hayekian) views about the relationship between prices and information.

Winner: Hill.

IV.
CONCLUSION

Rosen (1997) would determine the truth of the contentious issues mentioned at the outset of this paper is by pure nose counting. Consider, again, the three issues raised at the beginning of the present paper. On 1, the minimum wage law does indeed create unemployment, because most economists believe this to be true. With regard to 2, the monetarists are correct on depressions, and the Austrians incorrect, since there are more of the former than the latter, and throughout the history of the economics profession, this is the way the voting always did go, or, rather, would have gone had there been any formal polling. As to 3, the Austrians are correct nowadays, since there are more dismal scientists who now take the anti-socialist rather than the pro-socialist point of view. However, during the period 1930-1960, it was the socialists who were in the ascendancy, and the free enterprisers in the minority; therefore, the truth of the matter was the other way around during those decades.

How would the present authors determine who was right on these issues? Our opinion is that there is no substitute for economic analysis specific to each question. In our own view, correct economic analysis indicates that 1. the minimum wage law does indeed cause unemployment for low skilled workers; 2. ABCT is correct, and the monetarists are incorrect, on business cycle theory; and 3. Socialism is an abject failure. However, to more than indicate our own conclusions on these matters would necessarily take us too far off the point of the present article to pursue.

How then would «our» objective criterion of the last man standing determine the truth or falsity of these three claims? This is far easier. We again conclude that 1. the minimum wage prices low productivity workers out of the market. But now, our reasoning has nothing to do with supply and demand curves being intersected by minimum price lines above equilibrium, and the overwhelming number of studies illustrating this bit of Economics 101. Rather, it stems from the fact that the most recent article to make this claim (Card and Krueger, 1994), was overwhelmed with a plethora of publications to the contrary,53 and since CK have not since replied to any of them they are wrong.

As far as 2 is concerned, using this criterion, we are agnostic on the matter. That is because business cycle analysis is still a

contentious issue in economics. There are books and articles on this topic appearing almost every day. There is no clear «last word» on this matter. And unless and until there is, the last speaker still on his feet criterion is of no use in determining truth.

In contrast 3 is an easier matter. The only socialists still carping about the greatness of their system are hidden under rocks, somewhere, if, indeed, there are any such still remaining. Even eminent socialists such as Heilbroner (1990) have explicitly disavowed their previous indiscretions in this regard. Further, «Communism» in «Red» China has a surprisingly capitalist look. Perhaps the only places where central planning is still championed are North Korea and Cuba; these defenses can be dismissed, however, since authors in these places publish under duress. Economists emanating from the «People’s Republics» of Berkeley, Santa Monica, Amherst, Ann Arbor and the Upper West Side of Manhattan favor «Communitarianism», whatever that is (Block, forthcoming), not outright socialism, and this is true, too, for the academic departments of major universities in sociology, feminist «studies», black «studies», gay «studies», religion and literature. Ergo, socialism is wrong, according to our own misbegotten theory. Since the capitalists have had the last word in this debate, they must, perforce, be correct in their contentions.

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INTERNAL VS. EXTERNAL EXPLANATIONS: A NEW PERSPECTIVE


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INTERNAL VS. EXTERNAL EXPLANATIONS: A NEW PERSPECTIVE


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CREDIT EXPANSION, THE PRISONER’S DILEMMA AND FREE BANKING AS MECHANISM DESIGN

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Resumen: A pesar del carácter distintivo del enfoque austríaco de las microfundaciones para la macroeconomía, la literatura sobre la banca libre contiene algunos argumentos que recurren a los conceptos y modelos de la teoría de juegos tales como el conocido modelo Dilema del Prisionero. A pesar de que no puede existir una presunción a priori sobre la posible utilidad de conceptos de la teoría de juegos para las teorías austríacas, en el contexto del debate sobre la banca libre tales conceptos y modelos han sido manejados con distintos grados de perspicacia. Un ejemplo elaborado en el documento comenta la configuración de interacción entre los bancos independientes en un sistema de banca libre con reserva fraccionaria, que a veces ha sido modelado como un juego de Dilema del Prisionero One-Shot. Esta conceptualización no ofrece suficientes argumentos para la tesis de la sobrEREs&PAA assessed in-concert, ni para la tesis de que un sistema de banca libre con reserva fraccionaria tendería a la creación de un banco central. El autor abandona la asunción implícita de que existe una correspondencia de uno a uno entre la matriz de resultado y la matriz de utilidad. Al reconocerse que los bancos en un sistema de banca libre con reserva fraccionaria no deben adoptar necesariamente una perspectiva miopía y egoísta, pero pueden reconocer la armonía de intereses a largo plazo entre el sector bancario y la sociedad en general, surgen una conceptualización y representación de la matriz distintas.

Palabras clave: Diseño de mecanismo económico; Teoría del ciclo económico; Dilema del Prisionero; Banca libre.


Abstract: Despite the distinctive character of the Austrian approach to «microfoundations for macroeconomics», the literature on free banking

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