New Directions in Austrian Economics

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An Austrian Stocktaking: Unsettled Questions and Tentative Answers

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I

In a decade in which the neoclassical consensus no longer holds sway, many economists are looking for new paradigms, less exacting to our credulity and more in conformity with what common experience teaches us about the daily flow of knowledge from man to man and our inability to know the future. Here Austrian economics presents three distinct features by which it may be distinguished from other contemporary schools of economic thought.

The first, and most prominent, feature of Austrian economics is a radical subjectivism, today no longer confined to human preferences but extended to expectations. It found its perfect expression many years ago in Hayek’s statement, “It is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.”

Secondly, Austrian economics displays an acute awareness of the many facets of time that are involved in the complex network of interindivudual relations. Time, as the dimension of the interval between input and output, is important, but it is not all-important. Menger’s rejection of Böhm-Bawerk’s theory of capi-
tal was largely, if not solely, prompted by the latter's disregard of all those economically relevant aspects of time that do not fall under the headings "time preference" and "period of production." To Menger, time was, in the first place, the dimension in which the complex network of interindividual relations presents itself to us. Austrian economics has retained and cultivated this Mengerian perspective. Time is the dimension of all change. It is impossible for time to elapse without the constellation of knowledge changing. But knowledge shapes action, and action shapes the observable human world. Hence it is impossible for us to predict any future state of this world.

The third feature of Austrian economics, a corollary of subjectivism and awareness of the protean character of time, is a distrust of all those formalizations of economic experience that do not have an identifiable source in the mind of an economic actor. Such distrust naturally engenders skepticism about macroeconomic aggregates. To Austrians, all economic thought is thought within the context of means and ends implying choice. Austrian economics is certainly more than "a pure logic of choice." At some stage, we have to introduce "subsidiary assumptions." Expectations are a good example, the granting of credit is another. But Austrians will not accept formalizations of economic experience that altogether defy the category "means and ends," concepts that are nothing but formalizations of records of statistical observations in which the events recorded appear devoid of their historical character and meaning.

In what follows, the implications of these three features will be explored by applying them to a number of problems with which Austrian economists have good reason to concern themselves. But, quite apart from the three features, the Austrians, being such stout defenders of the market economy, are naturally involved in every attack on it. An argument currently in fashion among the would-be sophisticated says that the existence of so few forward markets in the real world proves that the effectiveness of the market process in coordinating economic plans and action is gravely hampered. In the climate of our time, the implication that here is a promising field of government inter-
vention into all kinds of markets is almost a foregone conclusion. The argument thus calls for an answer. In the final section we shall have to address ourselves to the general question of what, from the Austrian point of view, economic science can hope to accomplish, and what it cannot.

II

Classical economics saw in value, its central concept, a property inherent in all economic goods, derived from the technical processes of production giving rise to them, a kind of economic gene. In the subjective revolution of the 1870s, the first step in the direction of subjectivism was taken when it was realized that value, so far from being inherent in goods, constitutes a relationship between an appraising mind and the object of its appraisal. The value of a garment depends in the first place on how many people want to wear it, and the strength of such desire in each individual, and only in the second place on technical processes of production.

In this century, expectations present themselves as obvious aims for our next step in the direction of subjectivism. Their significance for economic dynamics is evident: all economic action is, in the first place, shaped by plans dependent on expectations. So much is common cause.

In the real world human expectations always diverge. This divergence of our expectations is no less a natural feature of the economic landscape than the divergence of our tastes, the subjectivism of expectations no less essential an ingredient of the subjectivist paradigm than the subjectivism of tastes. The future is unknowable, though not unimaginable. Since all economic action is concerned with the future, it is not surprising that individual differences of the human imagination find their expression in plans of action. A good deal follows from this simple observation.

First of all, expectations are more important in asset markets than in the markets for products. In some of the latter, to be sure
(e.g., in the markets for agricultural products and for fashion goods), expectations play a prominent part. But it is of some significance that whatever scope there is for the expression of expectations in such markets is in general commensurate with what scope there is for the holding and variability of commodity stocks. In a pure flow market, in which no stocks can be held, expectations can find little expression, except in consumers’ decisions to defer purchases. In product markets in general, in which both flows and stocks are traded, the influence of expectations is proportionate to the share of stock transactions in total transactions.

It is thus by no means surprising that in asset markets, such as the Stock Exchange, being pure “stock markets,” expectations are paramount. Without divergent expectations, without “bulls” and “bears,” such markets evidently could not exist. It is important to understand that the notorious volatility of Stock Exchange prices is, in the first place, due to the ease with which in a pure stock market it is possible to move from one side of the market to the other, to be a buyer in the morning and a seller in the afternoon, or vice versa if one holds stock. In the potato market, by contrast, most participants are firmly wedded to one side, being either producers or consumers, while only the merchants, holding stocks, are able to change sides.

In the second place, short-run stability of the potato market has to be sustained by “a given taste for potatoes” on the one hand and stability of agricultural technology, area of acreage, and wage rates on the other, while the markets for securities are sustained by no such forces since there is no cost of production or consumer demand for them. Here stability is not inconceivable. But it is impossible for expectations about a certain event at a future date to remain constant while this date is moving nearer. The daily flow of the news will affect some of the divergent expectations. Some bulls will turn bears or vice versa. This, as Professor Shackle has shown with such vigour, is the major reason for the well-known volatility of asset markets.

Austrian economists, face to face with these facts, have to ask what they imply. Their first implication, in our view, is that we
should abandon all concern with a "dynamic equilibrium" in the sense of a state of affairs in which all expectations are consistent. Such a state of affairs is not merely an unrealistic assumption to make, it is (literally) "humanly impossible." A market economy without asset markets cannot exist, and all asset markets have the attributes we described. Even the assertion of a "tendency" towards such a state of affairs has to be qualified by adding that it is one among others.

The second implication of these facts is that, though they destroy such notions as the "steady state equilibrium" of neoclassical growth theory, they permit us to see what use might be made of the notion of market-day equilibrium in asset markets. This is a matter that should be of great interest to Austrian economists as devoted exponents of the market process.

The market, of course, cannot make divergent expectations converge any more than it can forecast the unknowable future. What it does accomplish, however, is remarkable enough: it imparts to an aggregate of subjective, divergent, expectations what we might call a measure of "social objectivity" by striking a balance of them. It divides bulls and bears into two equal halves, thus producing a "balance." The price reflecting this balance is the market-day equilibrium price. The shareholder, actual or potential, who finds this price in the list learns something that must be of interest to him: how the market as a whole "changed its mind" between yesterday and today, whether bulls turned bear or vice versa. This need not move him to change his own expectation, of course, but it enables him to pit his own view against "the market view." An asset market equilibrium resting on divergent expectations thus has its uses. Of course, owing to the volatility of expectations, it cannot last. Tomorrow will see a new balance of expectations and a new equilibrium price. This is how the market process operates in the asset markets, which are such essential organs of the market economy.

A final implication of the volatility of asset markets, though obvious to any observer of the scene and well known even to novelists, has been strangely neglected by economists. The daily fluctuations of asset prices, an everyday feature of life in a
market economy, mean capital gains and losses to asset holders and cause a daily redistribution of wealth. In fact, it is hardly an exaggeration to say that the mode of distribution of wealth in a market economy is largely, though not solely, the cumulative effect of the capital gains made and losses suffered in the past. This should be a sobering thought to all those who contemplate other forms of the redistribution of wealth, e.g., by taxation, and in particular to those who are ready "to accept the market economy but only after a redistribution of the existing wealth." As long as asset markets are open, the process of redistribution of wealth must continue. If the government redistributes wealth at the end of September, the mode of its distribution in October will not last. By November, the market will have modified it, by December even more so. This process is a prominent feature of the market economy, an inevitable concomitant of the market process, and ultimately a consequence of the divergence of expectations.

III

To acting man time is no continuum. The future is uncertain, the past alone known, or at least knowable. "We cannot have experience of actuality at two distinct 'moments'. The moment of actuality, the moment in being, 'the present', is solitary. Extended time, beyond the moment, appears in this light, as a figment, a product of thought." As time is continuously flowing across the threshold of the present, it is undergoing a change of quality. With regard to our knowledge, then, time is heterogeneous, comprising the unknowable and the knowable. Hence Austrian economists, compelled by their commitment to subjectivism to view all problems in the perspective of the actor, cannot but look askance at all theories employing the mathematical notion of time as a continuum and will cast a suspicious eye on expressions such as \( dY/dt \). To acting man, time means something different.

All our knowledge belongs to the past. It is therefore, in principle, possible to classify all items of knowledge by a time
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index of their acquisition, and this, of course, is what historians of science are doing. But the relationships among various items of knowledge may assume various forms, and mere dating may tell us little about what we want to know.

To simple minds, all knowledge presently acquired is additive to prior knowledge. Mankind is piling up an ever-growing store of knowledge, a veritable treasure house of the mind from which not a single item is ever removed. Austrian economists, put on their guard by their experience in the theory of capital, know that it may not be so: some old knowledge is rendered obsolete by new knowledge. The intertemporal relationship between items of knowledge may be substitutive, not additive. Or it may be complementary, where the new knowledge enhances the compass of the old and opens new fields for the combined application of both.

In our “kaleidic” society, the obsolescence of old knowledge is a fact of fundamental importance. Its consequences are ubiquitous. Even where technical progress is slow, our knowledge of the market, i.e., other actors, is soon out of date. Time cannot elapse without changes in the constellation of knowledge accompanied by capital gains and losses.

Austrian economists, laying stress on the coordinating function of the market, face a problem here: If the market coordinates existing knowledge, what happens when knowledge changes while the process is taking place, when people acquire knowledge of which it is possible that tomorrow it may have become obsolete? Leaving this question open, we must now turn to looking at the problem of time and knowledge in a different perspective.

Similarly, as is the case with Böhm-Bawerk’s structure of production, we may look at the relationship between various items of knowledge either diachronically or synchronically. The first we have already done, and concluded that the intertemporal relation between items of knowledge may be additive, substitutive, or complementary. But the same, of course, applies synchronically.

In a market economy, the plans of competing firms may be
inconsistent. The same applies to the innovations introduced to serve the implementation of the plans. Where these are additive, however, firms will soon learn them from each other. Where they are complementary, profitable arrangements for their joint exploitation will be made in the usual way. But where they are substitutive, the plans of competing firms derive additional doses of inconsistency from this very fact. The market as the final arbiter will determine which of these innovations survive and become part of the social body of technical knowledge.

From the Austrian point of view, the time aspect as well as the relevance of consumers' wants to the economic significance of new knowledge need emphasis. Not all technical change is technical progress. At the moment at which new knowledge becomes available, nobody can tell ex ante which of the items of which it is composed will ex post make for economic success. Only years of experience in the workshops and in the market can tell that. We must not treat as social fact what, at the moment at which the relevant decisions have to be taken, cannot be more than subjective opinion.

The relevance of all this to current discussions on the "social rate of return to investment in information," alleged to be in excess of the "private rate," is obvious enough. We might add that our argument will also cast new light on "product differentiation," so often described as a monopolistic device practised by wily producers on an unsuspecting public. Can anybody imagine how the airplanes, gramophones, or fountain pens of 60 years ago could have evolved into their present-day shapes without continuous product differentiation? Time has more aspects of economic relevance than are dreamt of in neoclassical theory.

IV

The last 30 years saw the ascent of macroeconomics and a temporary eclipse of Austrian thought. What attitude should Austrian economists adopt today towards macroeconomic aggregates? We spoke above of skepticism engendered by a
distrust of all formalizations of economic experience which do not have an identifiable source in the mind of an economic actor. But a more positive attitude is called for. Austrian economists must attempt, wherever possible, to impart a measure of subjectivism to the products of macroeconomic thought.

We may note that Austrian aversion does not pertain to these aggregates as such. Austrian economists, after all, did discuss the balance of payments of the Habsburg Empire. It pertains to the construction of an economic model in which these aggregates move, undergo change, and influence each other in accordance with laws which are devoid of any visible reference to individual choice. Like the bodies of a planetary system, each aggregate is affected by changes in other aggregates, but never, it appears, by changes taking place within itself. It is this conception of the mode of relationships among aggregates, rather than the existence of the aggregates themselves, which defies subjectivism.

At first sight it seems futile to attempt to change this state of affairs by splitting large aggregates into smaller aggregates. But where it is possible to show that movements of the smaller aggregates are responsive to changes which constitute effects of individual choices, while the movements of the larger aggregate are not, such an attempt might be promising.

In *Prices and Production*, Professor Hayek rejects the Fisherian notion of the price level and substitutes the price levels of capital goods and consumption goods for it. One might think that one is as macroeconomic as the other. But the whole point of the operation consists in the fact that the two price levels are tied to the saving-consumption decisions of income earners, while the Fisherian price level is not.

Such an evolution towards subjectivism by means of the disaggregation of macroaggregates has actually taken place in the theory of money over the last 60 years. It cannot surprise us that the textbook industry has ignored it. It is perhaps more remarkable that economic thinkers, even some who took a prominent part in it, appear to be unaware of it. But it is surprising indeed that Austrian economists, of all people, should have taken no notice of “this further step in the consistent application of subjectivism.”
As late as in 1911, in Fisher's *Purchasing Power of Money*, the framework of monetary relations presented in the famous Quantity Equation consisted entirely of macroeconomic entities, either aggregates like $M$ and $T$ or averages of aggregates like $V$ and $P$. Within this context, the Quantity Theory proper asserted a relationship between $M$ and $P$.

The following year, Mises took the first step in the direction of subjectivism by stressing the important role of individual cash balances. In Cambridge, Pigou tried to subjectivize the rigors of the Quantity Equation by means of the "Cambridge $k$." The discovery of the variability of bank credit played its part. While commodity money "exists" in a physical form, the creation and maintenance of a volume of credit requires acts of choice. An element of subjectivism entered into the supply of money.

In 1930 Keynes, in the *Treatise*, introduced the distinction between the industrial and the financial circulation, later called active and idle money. We have here a clear case of a dissolution of a macroaggregate ($M$) into smaller aggregates amenable to choice, the choice between money to use and money to hold. And in 1934, for a fleeting moment, a few economists even became aware of what was happening, viz. that night in November 1934 when young Dr. Hicks read his paper, "A Suggestion for Simplifying the Theory of Money," with its emphasis on subjectivism, to a baffled London Economic Club most of whose members felt that something important had been said, but could not quite make out what.

Even in the ranks of the Quantity theorists, subjectivism today makes its influence felt. We find Professor Friedman, whom nobody would regard as a subjectivist, telling us that while the old Quantity Theory emphasized the supply of money, the new Quantity Theory (domicile: Chicago) prefers to put its emphasis on the demand for it. This demand, as has been noted by many, has a remarkably Keynesian flavor. In the theory of money subjectivism appears triumphant.

In the theory of capital I made an attempt to move in the direction of subjectivism in my book, *Capital and Its Structure* (London, 1956). There I tried to dissolve the capital structure
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into the capital combinations of the various firms and to show how these are amenable to, indeed the expression of, individual plans. Perhaps the attempt was premature.

How far attempts to infuse subjectivism into other fields of macroeconomics will succeed, only the future can show. It seems fairly obvious, however, that the time for some steps in this direction has come. Austrian economists should be best able to take such steps.

V

Futures markets? They can reconcile, just conceivably, our PRESENT ideas, based on our PRESENT knowledge. What of tomorrow’s new knowledge destroying the old or rendering it obsolete, what of tomorrow’s choices and decisions, tomorrow’s discoveries, tomorrow’s inventions, work of imagination? . . .

We are not omniscient, assured masters of known circumstance via reason, but the prisoners of time.

G. L. S. Shackle
Journal of Economic Literature
June 1973, p. 519.

The market economy has never been without its critics and enemies. Those who feel threatened by the market; those who, however unwisely, feel they could do better without it; economists with little imagination; those, like the devotees of Pareto optima, with only too much of it; those who find most entrepreneurs disgusting characters; those attracted by the romantic charm of a feudal order in which they never had to live; social thinkers offended by the raucous tone of modern advertising; and social thinkers who know only too well how to exploit envy and greed in the service of anticapitalistic movements—all these make a formidable array of opponents.

On the other hand, the market economy has been able to draw support from a 200-year-old tradition of economic thought. Here Austrian economists, side by side with non-Austrians, have taken a prominent part in supporting it. In this century, out-
standing thinkers like Cassel, Hayek, Mises, and Pareto have defended the market economy against many misunderstandings and fallacies.

But of late the wind appears to have turned, and the heirs of Cassel and Pareto have changed sides. Leading thinkers of the neoclassical school have launched an attack on the market economy, charging it with inadequacy in a field in which, many of us would have thought, some of its most impressive achievements are to be found: in the provision of facilities for intertemporal trading.

To our knowledge, Professor Koopmans first launched the attack in 1957, criticizing what he called "the overextended belief of the liberalist school of economic thought in the efficiency of competitive markets as a means of allocating resources in a world full of uncertainty." He continued, "To my knowledge no formal model of resource allocation through competitive markets has been developed, which recognizes ignorance about all decision makers' future actions, preferences, or states of technological information as the main source of uncertainty confronting each individual decision maker, and which at the same time acknowledges the fact that forward markets on which anticipations and intentions could be tested and adjusted do not exist in sufficient variety and with a sufficient span of foresight to make presently developed theory regarding the efficiency of competitive markets applicable. . . . In particular, the economics profession is not ready to speak with anything approaching scientific authority on the economic aspects of the issue of individual versus collective enterprise which divides mankind in our time." 7

In a similar vein Professor Arrow, in a recent Presidential Address to the A.E.A., told his listeners, "Even as a graduate student I was somewhat surprised at the emphasis on static allocative efficiency by market socialists, when the nonexistence of markets for future goods under capitalism seemed to me a much more obvious target." 8

In February 1973, Professor Hahn, in his well-known Inaugural Lecture in Cambridge, 9 employed the same argument to show that general equilibrium theory has its practical uses in
providing a sophisticated critique of the market economy. "The argument will here turn on the absence of futures markets and contingent futures markets and on the inadequate treatment of time and uncertainty." He continued, "Practical men and ill-trained theorists everywhere in the world do not understand what they are claiming to be the case when they claim a beneficent and coherent role for the invisible hand" (p. 14).

This critique of the market economy calls for an answer. In the first place, it is perhaps obvious that no existing state of affairs can be effectively criticised by comparing it with a purely imaginary one, such as the general equilibrium model in its most up-to-date and sophisticated form. The critics fail to tell us how a world with perfect intertemporal markets for everything is to be brought into existence. Nor are we given any hint as to how a socialist economy would or could provide a substitute for it.

Second, the critics appear to share an altogether exaggerated notion of what forward markets can achieve. They can provide "cover" against some contingencies, they coordinate expectations, "bullish" and "bearish." But they cannot make the uncertain future certain, they cannot prevent plans from being upset by events nobody could have foreseen, they cannot eliminate the difference between \textit{ex ante} and \textit{ex post}. Shackle has expressed this so well in the quotation at the top of this section that no further comment seems called for.

Third, this entire argument rests upon a confusion between \textit{actual} and \textit{potential} markets. No practical conclusions can be drawn from the mere fact that certain transactions which are possible do not actually take place. There are today no markets for ostrich feathers or top hats, but there probably would be if fashion were to turn.

Our inability to observe certain transactions does not permit us to infer that they are impossible. They may not be profitable in given circumstances. In a society full of risk-aversers, risk-capital may be so scarce that it can be provided for only a few markets. Many potential markets never become actual because transaction costs are too high, and all transaction costs are, certainly to Austrians, opportunity costs. Have our critics ever
considered what immense precautionary (and variable) money balances would have to be carried against forward commitments in the world they are envisaging?

Arrow actually goes into "the causes for the absence of markets for future goods" (p. 7). "It seems to me there are two basic causal factors. One is that contracts are not enforceable without cost and forward contracts are more costly to enforce than contemporaneous contracts; the other is that because of the many uncertainties about the future, neither buyers nor sellers are willing to make commitments which completely define their future actions" (p. 8).

It is doubtful whether either of these can provide a general reason. The cost of enforcing contracts is low in law-abiding societies, high in others. Moreover, as Arrow admits, the market may provide its own sanction by excluding defaulters from further trading. The second reason should lead to a general discussion of the limits of forward markets in the spirit of Shackle's remarks, but it does not. We are told instead, "As Hicks showed a long time ago, complementarity and substitution can occur over time as well as simultaneously. If ... uncertainty can tend to destroy markets, then we can conclude that the absence of some markets for future goods may cause others to fail" (p. 9).

As far as one can judge, this means that we are facing an "externality" here, according to modern welfare economics a source of "market failure." If so, the answer is that external economies invite joint exploitation by potential, beneficiaries. The second reason seems no better than the first.

Finally, and for us most important, this criticism of the market economy illuminates the limitations of the neoclassical mind rather than the shortcomings of the market. This mind, incapable of conceiving of "the market" otherwise than in terms of a system of markets in general equilibrium, is helpless when confronted with a real world in which not all potential markets are actually in operation. Not knowing that those whose view of the market they criticise conceive of it in terms very different from their own, our critics tacitly assume that everybody, like their well-trained disciples, identifies the market economy with their
general equilibrium model. To Austrians, by contrast, the market, as Hayek taught, is a process rather than a state of affairs, a process which comes to an end when equilibrium is reached. During the course of this process it happens all the time that some potential markets become actual and some actual markets potential, though nobody, of course, could say for how long. Some economists who are critics of the market appear to suffer from a lack of imagination.

Needless to say, the circumstances in which intertemporal markets come into existence provide an important subject for empirical study, a most significant aspect of the market process. It is to be hoped that Austrian economists will take their full share in its pursuit. It is not obvious why a model in which all obstacles to the birth of intertemporal markets are assumed away should be of much help to us in pursuing such a study.

**VI**

In the recent development of economics, there is much Austrian economists cannot but disapprove of. We already mentioned macroaggregates and what might be done with them. But what positive contributions do they have to offer for the future of economic science?

Following what was said above, we have to distinguish between the unknowable future and the knowable past. In neoclassical thought this problem does not arise, since one is ostensibly engaged in finding "laws" applying as much to the one as to the other. But there are the well-known puzzles among which the problem of *ceteris paribus*, our inability to specify all the conditions under which the laws are to hold, takes prominence. Austrians simply have to face the fact that the autonomy of the mind precludes determinism: If knowledge shapes action and action shapes the human world, the future is unpredictable. "But if theory pretends only to give an account of particular, peculiar and special moments (such as may be scarcely ever attained in fact) and repudiates any hope of connecting them by any intelli-
gible, permanent mechanism allowing prognosis, then the
theory ought explicitly to be a classificatory one, putting situa-
tions in this box or that according to what can happen as a sequel
to it. Theories which tell us what will happen are claiming too
much.”

In other words, insofar as the future is concerned, economics
will have to become far more a descriptive discipline than it is at
present, giving an intelligible account of a number of future
possibilities inherent in present situations, unable to rely on the
strict necessity of determinism or even of numerical probability.
Economists will have to acquire new skills, the skills required for
description and comparison of large numbers of possible situ-
ations. Remembering how much time and effort have of late been
invested in mathematical skills, the skills of symbolic precision
reflecting necessity and determinism, we cannot but feel uneasy
about the concomitant circumstances of such a change of
paradigm.

What promise does the knowable past hold for the future of
economics? Here we encounter the problem of the relationships
between economics and history. According to a view widely held
today, it is the task of the analytical social sciences to produce
“covering laws” which the historians will then apply to concrete
cases. But the economist can offer the historian only laws valid
ceteris paribus, unlikely to be of much use to the latter without
specification.

Yet it remains true that the past is the great storehouse of facts,
offering us a vast stock of material for empirical generalizations,
interested in themselves provided we do not pretend that they
are universal laws. Here we are able to compare ex ante with ex
post since we know, or in principle are able to know, what hap-
pened to plans. We might find out how much capital was malin-
vested in a certain decade. We can ascertain economic growth
patterns of the past without having to rely on “steady state”
models. We might even trace the multiple sources from which
technical progress flowed in the past. The fact that most
generalizations we might draw from this material will be limited
in time need not, after all we said, discourage us. Nor need we be
afraid lest we trespass on the field of the historians who may welcome such help as we are able to offer. Whenever a complex of relationships persists for a period of time, it constitutes both an analytical and a historical subject. The finances of the Habsburg Empire under Böhm-Bawerk or the political structure of the Republic of Venice are obvious examples. They are historical and analytical subjects.

Above all, Austrian economists will want to trace market processes of the past. To identify economic history with the evolution of the market economy is a bold idea at the application of which Sir John Hicks tried his hand a few years ago. A good deal might be done within this framework.

As the heirs of Menger, Austrian economists will take a particular interest in how the market evolves those "organic institutions" it needs. But the degeneration of these institutions is a subject that no less deserves our attention. It might be worth our while to attempt to find out when exactly, and in what circumstances, the downward inflexibility of money wage rates became the prominent feature of the Western world it today unfortunately is. It would be even more interesting to link it to the evolution of the institutions of collective bargaining. History offers many instances of institutions which, created for one purpose, came to serve another. The parallel with malinvestment is obvious.

Statistical time series are records of the past. Impossible as it is to derive empirical laws by correlating them, such correlations may nevertheless cast some light on the events of the time of their origin. How much information these time series will disclose depends on our ability to ask meaningful questions of them. Subjectivism asserts itself here in that different social scientists will ask different questions. How large the proportion of persons in "tertiary occupations" was in a given society during a certain period may be of interest to one social scientist. Austrian economists, by contrast, might prefer to know how many of them were independent agents, active middlemen and dealers, since the operation of imperfect markets depends so largely on
agents of this type. Asking meaningful questions is a skill that has to be acquired.

It is to be hoped that economic science will in the future, as it has done in the past, though not in the recent past, offer scope for many diverse skills and talents. At the moment, this must seem a sanguine hope. Austrian economists are perhaps in a better position than anybody else to make a contribution towards this end.

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