Learning from the Past: The Continuing Relevance of Hayek, Böhm-Bawerk, and Bastiat

In the original mission statement of the *Review of Austrian Economics*, the predecessor of the *Quarterly Journal of Austrian Economics*, the founding editor, Murray Rothbard, wrote that one of its prime objectives was "to promote the development and extension of Austrian economics." Rothbard indicated that one important means of achieving this objective was to publish articles that "explore its traditions and its practitioners." Rothbard's belief that one of the avenues of development of contemporary Austrian economics involved learning from neglected contributions from past writers stemmed from his deeply held and oft-expressed conviction that no science—and certainly not a social science like economics whose practitioners invariably come to the science with ideological predispositions—develops smoothly and progressively. This "Whig" view, rejected by Rothbard but upheld by a broad consensus of mainstream economists, maintains that economic science progresses without interruption or detour in its task of incrementally building up an ever more complete and valid structure of knowledge about the economy and economic relationships. It thereby implies that all the worthwhile contributions of the past have already been incorporated into the latest journal articles, monographs, and textbooks and that it is a waste of time to study works more than five or 10 years old. Indeed this is precisely the reason why all the top graduate economics programs have done away with courses in the history of economic thought and why syllabi for theory courses comprise only the latest journal articles.

However, if one accepts Rothbard's view that economics has evolved through a series of upheavals and revolutions, some of which have represented a setback for the science, then it is probable that much economic truth discovered or expressed with greater clarity in the past has been lost and awaits rediscovery. Moreover, the careful study of contributions to past economic controversies involving Austrians, such as the socialist calculation debate of the 1930s, often yields insights and implications that have not been fully appreciated or developed by the participants themselves. These can spur

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a substantial revision or extension of the contemporary Austrian theoretical edifice. For these reasons, it has been the policy of the editors of the *Quarterly Journal of Austrian Economics* to publish occasional articles by the past masters and forerunners of Austrian economics that either have never been published, have appeared only in foreign language publications, or have been published previously in English in rare and obscure volumes now long out of print. Thus, recent issues of the journal have featured a 1944 manuscript on monopoly prices from Mises's unpublished papers as well as an English translation of an article by Mises on mathematical economics and socialist calculation that first appeared in 1938 in a French journal. We also published a long memo written in 1952, from Murray Rothbard's unpublished papers, criticizing the famous article by Blum and Kalven on "The Uneasy Case for Progressive Taxation."

We have decided to devote the bulk of this issue of the journal to articles by F.A. Hayek, Eugen von Böhm-Bawerk, and Frédéric Bastiat. The articles by Hayek and Böhm-Bawerk were very recently translated from German by Marcellus Snow and George Reisman, respectively, and feature introductions by their translators. The article by Bastiat originally appeared in English in 1877 in a long-forgotten volume of Bastiat's essays and was rediscovered, fittingly enough, by our own book review editor, Mark Thornton, who also penned an introductory article for the piece. While the introductions to each article provide the contextual details and evaluate the importance of these articles, a few words by way of general introduction to each article by the journal's editors does not seem inappropriate.

Readers will no doubt recognize that there already exists an English version of the article by Hayek (1978) on "Competition as a Discovery Procedure," which was first published in 1978 in a collection of Hayek's essays entitled *New Studies in Philosophy, Politics, Economics, and the History of Ideas.* In a footnote to this version, Hayek (1978, p. 179) tells us that he first presented this paper as a lecture in English to the Philadelphia Society in March of 1968 and later presented a revised version of the lecture in German at the University of Kiel in July of 1968, a version which was then published in German in the same year. The German version was then reprinted in 1969 in a collection of Hayek's essays. However, Hayek does not accurately indicate in the footnote the extent to which the German version differed from the original English version. In fact, the German version, which appears in translation here, has two additional sections—sections 2 and 7 in the new English version—that extend its length by five additional pages over the original English version. While Hayek also expressed many ideas differently in the German version, it is the added sections that are extremely important. In section 2, Hayek provides an insightful distinction between "microtheory" and "macrotheory" that derives from his critique of scientism and argues that macroeconomic generalizations "in a strict sense . . . do not have the character of scientific theories at all." He also lauds the "younger" Schumpeter for his introduction of the concept of "methodological individualism" and his critique of macro concepts in his "brilliant first publication" on general equilibrium theory. In contrast, he castigates the "elder" Schumpeter for "being responsible to so great an extent for the rise of macrotheory." Section 7 deals with the effects on the economy of the thoroughgoing suppression of the influence of competition throughout the entire Western world on "the one omnipresent factor of production, namely human labor." For Hayek such a policy-induced nullification of the competitive process in labor markets—or "the so-called rigidity of wage rates"—means that "the wage structure as well as the wage level has become increasingly independent of market conditions." In a strikingly original argument, Hayek maintains that wage flexibility and economic growth are positively correlated, not mainly because growth causes changes in relative wages, but primarily because such changes are the "necessary preconditions" for the adjustment of resource allocation required by growth. Hayek also proposes an ingenious, if controversial and constructivist, transitional plan for restoring relative wage flexibility via a collective agreement between employers and employees as a whole, wherein the former agree to maintain the "average real income" of employees in exchange for a one-sixth across-the-board wage cut supplemented by a year-end distribution of the increased profits realized by the employee's individual firm or industry. Since the flexibility of wage rates thus effected would create an increase in real growth and therefore in total profits beyond the extra profits realized from the initial wage cut, Hayek is confident that the guaranteed average real employee compensation will increase from one year to the next, and he conjectures that this result will eventually persuade workers to abandon the illusory benefits of trade unionism in favor of a regime of free and flexible labor markets.

Böhm-Bawerk's "Value, Cost, and Marginal Utility" has never appeared in English in any form. It is worthy of publication because it contains one of the clearest expositions by Böhm-Bawerk, or of any other Austrian writer, of the complex relationship between marginal utility and cost. This is a topic of overriding importance, because it is the ultimate explanation of cost of production in terms of subjective values that sets the Austrian approach to price theory apart from the other modern approaches that derive from the marginalist revolution. As Ludwig von Mises (1981, p. 165) has written:

> Within the field of modern economics the Austrian School has shown its superiority to the School of Lausanne and the schools related to the latter, which favor mathematical formulations, by clarifying the causal relationship between value and cost, while at the same time eschewing the concept of function, which in our science is misleading. The Austrian School also must be credited with not having stopped at the concept of cost, but on the contrary with carrying on its investigations to the point where it is able to trace back even this concept to subjective value judgments.

In his introduction to this article, George Reisman draws some controversial inferences from Böhm-Bawerk's argument that will be sure to inspire further investigations in this area among contemporary Austrian theorists.

Finally, the article "What Is Money?" by Bastiat was originally published in French in 1849 as "Maudit Argent"—literally translated "Accursed Money." It is an important contribution to the proto-Austrian *oeuvre* because it represents the only extended treatment of monetary theory by Bastiat, one of the most widely read economists in the Continental subjective value tradition that inspired Carl Menger's reconstruction of economic theory. While the article is entertainingly and compellingly written and displays its author's acknowledged mastery of economic rhetoric, it is by no means without theoretical substance. In particular, Bastiat deftly employs the supply-and-demand theory of the value of money to demolish long-standing popular fallacies that confuse money with wealth and misidentify the plenitude of money as a cause of economic prosperity. Bastiat also denies the contention of modern proponents of the quantity theory of money that an increase in the supply of fiat or "false" money brings about a long-run situation as if "the equilibrium of values should instantly and simultaneously take place in all things and in every part of the country." Rather, Bastiat perceptively recognizes, as Cantillon before him did, that an addition to the quantity of money causes a rise in prices that is not "instantaneous and equal for all things" and that this uneven monetary depreciation process spans "years," impoverishing some individuals and groups while benefiting others. Finally, Bastiat does not fall victim to the illusion that afflicts most modern monetary theorists of all stripes, namely, that money of "stable" purchasing power is somehow ideal. Instead, as Bastiat notes, an ideal market-supplied money such as gold naturally "undergoes the fluctuations of all other human productions."

We hope that you will enjoy and profit from reading these articles as much as we did.

JOSEPH T. SALERNO
JEFFREY M. HERBENER

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