

Reply to Comment by William Barnett II

Leland B. Yeager

My lampshade example adequately described the supposed situation. Whether the choice “actually” (to quote Professor Barnett) lay between alternative lampshades or alternative restaurants is a purely verbal question to which either answer would be as empty and uninteresting as the question itself. In pressing that question, Professor Barnett shows he did not grasp the purpose of my example, which was to heap deserved ridicule on certain sorts of brooding over the concept of cost.

Ever since being exposed (probably back in college) to the notion of cost as the forgone next-best alternative, I had been vaguely uneasy about it. Only when working on my article in *Review of Austrian Economics*, volume 1, and on my reply to Walter Block in volume 2 did I begin to articulate for myself just what about that notion made me uneasy.

To focus on the decisionmaker agonizing over his choices trivializes the analysis of cost. *Of course* no mere observer can fully enter into the decisionmaker’s mind and soul and share his feelings about the merits of the course of action that he finally identifies as next best and accordingly rejects. All this is familiar material and need not be erected into a fundamental insight of economics.

To ramble on about the ineffabilities of choice obscures what is not so obvious and what can be understood only through technical economic analysis. This is the social significance of money cost and the way money cost conveys abbreviated information to the decisionmaker about circumstances in parts of the economic system outside his immediate ken, including even information about subjective circumstances, such as the abilities and preferences of myriad persons whom the individual decisionmaker could not possibly know. The prospective money costs (as well as prospective money revenues) of alternative lines and scales of production—and, more generally, the money numbers associated with alternative courses of action—do not exhaust what a decisionmaker needs to know, but they are an important part. Economic analysis has the task of explaining what those numbers signify in the economywide context, including their role in conveying information and incentives. (Students of F.A. Hayek’s

writings will know what I am alluding to. What I am saying here is compressed, by the way, and should be read along with the qualifications mentioned in my original article.)

The way Professor Barnett latches onto one short paragraph in my article again illustrates a curious trait found in some strands of otherwise admirable writings. This is a tendency to be diverted from substantive economics into pointless profundities of methodology and into brooding over merely verbal issues.