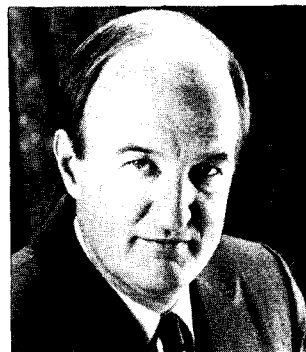


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Today's Most Influential Economist?

“But half a century later, it is Keynes who has been toppled and [_____], the fierce advocate of free markets, who is preeminent.”

—DANIEL YERGIN and JOSEPH STANISLAW,
*The Commanding Heights*¹

Fill in the blank. Who is the mysterious economist named above? Most of my colleagues named Milton Friedman, but in Daniel Yergin and Joseph Stanislaw's best-seller, the Chicago economist runs a close second to . . .

F.A. Hayek, the Austrian economist!

Why Hayek? Because, according to Yergin and Stanislaw, Hayek has done more than any other economist to debunk socialism in its many forms—Marxism, communism, and industrial planning—and to promote free markets as an alternative system. Hayek's influence perfectly illustrates John Maynard Keynes's remark that politicians, “madmen in authority,” are the “slaves of some defunct economist.”²

Indeed, Hayek's influence has been ubiquitous. As Yergin and Stanislaw point out, *The Road to Serfdom* greatly affected Margaret Thatcher in reforming Great Britain and raised doubts about industrial planning.

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Hayek's criticisms of Keynesianism (*A Tiger by the Tail*) called into question deficit spending and the ability of the state to fine-tune the economy. His theory of decentralized knowledge and competition as a discovery process has had an impact on microeconomic theory and experimental economics. His work on the trade cycle and the denationalization of currencies has influenced monetary policy. His co-founding of the Mont Pelerin Society spread the gospel of free markets, property rights, and libertarian thought throughout the globe.³

A Surprising Victory

Yergin and Stanislaw's revelation in *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the World* is a monumental victory for Austrian economics. It is all the more remarkable given Yergin's background as an establishment journalist and author of *The Prize*, a Pulitzer Prize-winning book about big oil.

At the beginning of this decade, I argued in *Economics on Trial* that the “next economics” would be the Austrian model, with its focus on entrepreneurship, microeconomics, dereg-

ulation, savings, free enterprise, and sound money.⁴ But even I am surprised how rapidly Hayek and the Austrian school have achieved recognition.

The next step is to see how quickly the economics profession absorbs Austrian economics in its theories and textbooks. A quick review of the current top-ten textbooks reveals only two with significant entries on Hayek and the Austrians: Roy Ruffin and Paul Gregory's sixth edition of *Principles of Economics*, and James Gwartney and Richard Stroup's eighth edition of *Economics: Private and Public Choice*. Ruffin and Gregory give credit to Hayek (and Mises) for the fall of socialism, one of Ruffin and Gregory's "defining moments in economics." Curious note: Ruffin and Gregory's fifth edition had no references to Hayek or Mises; clearly Ruffin and Gregory are quick to recognize a paradigm shift.

Other textbook writers are not so prescient. Samuelson's 16th (50th anniversary) edition highlights only Joseph A. Schumpeter. Textbooks by David Collander, John Taylor, and Joseph Stiglitz cite Hayek only once, while top sellers by Roger LeRoy Miller; Michael Parkin; William Baumol and Alan Blinder; Campbell McConnell and Stanley Brue; and Paul Heyne make no references to Hayek and the Austrians.

A Tale of Two Cities

Yergin and Stanislaw rightly point to two schools of free-market economics responsible for the shift from government to private enterprise as the solution to world economic problems. "And the eventual victory of this viewpoint was really a tale of two cities—Vienna and Chicago," declare the authors.⁵

In the judgment of many economists, Milton Friedman and the Chicago school have had even a greater influence than Hayek and the Austrians. Yergin acknowledges Friedman as "the world's best-known economist," noting that "the Chicago School loomed very large" in its sway on monetarism at the Feder-

al Reserve and economic policy (under Ronald Reagan). And, of course, all top-ten textbooks in economics have significant sections on Friedman and his theories (monetarism, natural rate of unemployment, welfare reform, privatization). Friedman and the Chicago school have mounted an effective counter-revolution to Keynesianism.

The Great U-Turn

But Keynes's principal rival in the 1930s was Hayek. Teaching at the London School of Economics, Hayek defended the classical model of thrift, balanced budgets, the gold standard, and free markets, while Keynes (Cambridge University) promoted the "new economics" of consumption, deficit spending, easy money, and big government. Keynes won the first battle for the hearts of economists, and his brand of "mixed economy" swept the profession. Hayek fell out of favor and went on to write about law and political science. The task of dethroning Keynes fell to Friedman; he has accomplished it masterfully.

Since winning the Nobel Prize in economics in 1974, Hayek and the Austrians have had a rebirth. Equally, Friedman and the Chicago school have come out of obscurity into prominence. Fifty years ago the Keynesian-collectivist consensus expressed the sentiment, "The state is wise and the market is stupid." Today, the growing consensus is just the opposite: "The market is wise and the state is stupid."

Break out the champagne. It's time to celebrate. □

1. Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World* (Simon & Schuster, 1998), p. 15.

2. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 383.

3. For a good overview of Hayek's works, see *The Essence of Hayek*, ed. Chiaka Nishiyama and Kurt R. Leube (Stanford, Calif.: Hoover Institution, 1984). For a partial autobiography, see *Hayek on Hayek* (Chicago: University of Chicago Press, 1994). A full-scale intellectual biography of Hayek has been completed by Alan Ebenstein, *Hayek: Philosopher of Libertarianism* (forthcoming).

4. Mark Skousen, "The Next Economics," *Economics on Trial* (Baldwinsville, N.Y.: Irwin, 1991), pp. 274–90.

5. Yergin and Stanislaw, p. 141. See my *Freeman* column, "Vienna and Chicago: A Tale of Two Schools," February 1998.

BOOKS

Fair Play: What Your Child Can Teach You About Economics, Values, and the Meaning of Life

by Steven E. Landsburg

Free Press • 1997 • x + 230 pages • \$24.00

Reviewed by Donald J. Boudreaux

It's impossible not to relish a book whose author, early on and with only slight rephrasing, reveals the real message in the famous Bismarckian maxim from John Kennedy's inaugural address: "Ask not what I can do for you. Ask what you can do for me." Upon reading this line, I knew that the next 200 pages would be immense fun.

And fun they are! But they are also impressively educational. With *Fair Play*, Steven Landsburg, who teaches economics at the University of Rochester, cements his reputation as one of today's foremost economics teachers. The most important lesson Landsburg teaches is that the amount of insight extractable from a handful of basic economic postulates is unlimited. (I don't doubt that if F.A. Hayek and Adam Smith were alive each would glean additional economic insights from this book.)

Learning economics is no stair-step procedure in which you first master the basics and then move on to conquer more elaborate modeling techniques. While this is the way economics is taught in universities, it isn't the way we really come to *know* economics. To truly understand economics is to remain firmly planted in the basics, training yourself always to examine every facet of reality through the lenses supplied by these basics. When you do this, you realize three things. First, no matter how thoroughly you understand economics today, you understand it more deeply tomorrow. Second, anyone over the age of 15 with a modicum of common sense can grasp sound economic explanations. And third, almost any human institution

is better understood if examined with the mental tools supplied by basic economics.

Among the many slivers of reality that Landsburg illuminates with the klieg light that is his economic understanding are environmental conservation, income redistribution, the choice of a career, and the choice of a spouse. (On choosing a spouse, Landsburg abhors the idea that his daughter would marry a perfect husband: "A perfect husband is a costly extravagance. Most costly extravagances turn out to be mistakes.")

Indeed, Landsburg teaches his readers economics and ethics by relating how he and his ten-year-old daughter Cayley teach each other economics and ethics. For example, he advises Cayley that she would be wrong to steal toys from a playmate who owned more toys than she. She would be equally wrong, Dad makes clear, to join with a majority of her other playmates to forcibly take toys from the wealthier child. The lesson for adults is obvious: "if your kids aren't allowed to get away with something, neither you nor your congressman should be allowed to get away with it either."

In this light, many Americans today are the moral equivalent of schoolyard bullies.

Cayley herself is quite the economist. When her father, in an unguarded moment, inferred from her enthusiasm for shopping that she loves money, she retorted in the way that the young Frederic Bastiat might have replied to such an accusation: "*Dad! The reason I like to shop and buy things is to get rid of my money.*" Consumption is truly the end of all economic activity!

For me, the most fascinating pages of the book feature Landsburg's discussion of Jim Crow legislation. Of course, it's standard practice today among America's Concerned Elite to cite this legislation to justify today's race-based policies that give special privileges to blacks. Opponents of affirmative action typically retort that most of the whites who benefited from Jim Crow legislation are now dead.

Landsburg condemns affirmative action on grounds more economically sweeping: Jim Crow hurt not only blacks of a century ago—it also hurt most whites!