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Report on a Treatise*

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George Reisman's massive *Capitalism, A Treatise on Economics* deserves a careful, fair, and sympathetic hearing among Austrian economists. Into this work Professor George Reisman has literally poured a life's work; and the book amply reflects the simply stupendous pains and effort, which this gifted economist has taken to explicate his understanding of and appreciation for the Austrian component in his economics, and of its implications for the evaluation of the capitalist system. (In this latter respect, the work undoubtedly constitutes the most exhaustively argued case for capitalism that has ever appeared in print.) The paradoxical circumstances that Reisman identifies his views not as "Austrian" *simpliciter*, but rather as "Austro-classical" (p. 11, ftn. 2) should make his work of even greater and more intriguing interest to Austrians (who have been trained to understand their tradition as being, among the various post-1870 schools of economic thought, the most radically opposed to the classical system.) Much (if not most) of what follows in this review essay will be highly critical of Reisman's book. Nothing in these forthcoming criticisms should obscure this writer's appreciation for its quality as a sustained work of profound thought and scholarship, dedicated to the relentless pursuit of economic truth as its author sees it.

It must be immediately pointed out that this work offers a number of tough barriers and formidable obstacles to a prospective scholarly reader, whether Austrian or not. I cannot claim that each Austrian reader who invests the time and energy needed to pierce these barriers and overcome these obstacles will, in retrospect, judge that investment to have been worthwhile and profitable. What I do claim is that the intellectual contribution represented by this work (once those barriers and obstacles have been scaled) offers a challenge to Austrians which cannot and should not be ignored. This work is *extremely* impressive.

On the other hand, a review essay must certainly and frankly acknowledge the formidable barriers and obstacles we have referred to. Two such hurdles loom particularly noticeably. The most obvious obstacle is the sheer physical bulk of the volume. It consists of close to eleven hundred double-columned pages of medium-sized type, on good paper. The weight and size of the book make comfortable reading and study of it, a virtual impossibility (especially since the notes are located at the end of each chapter—with a number of chapters being long ones). This writer was able to read the book carefully only by adopting drastic

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measures, after weeks of attempting to avoid them. With *many* misgivings and guilt feelings, this writer literally vandalized the book, physically separating it into its dozens of 32-page sewn sections. For a book-lover to vandalize a book which he wishes to read and to retain for many years, was not easy; but there was simply no alternative. It is true that a number of modern principles textbooks are awkwardly bulky; this work "outbulks" them all.

A different kind of barrier is constituted by the tone and language of the book. Quite simply and candidly, the tone and language are often such as to make a serious scholar tend to dismiss the work summarily as a crude, angry, ideology-driven screed masquerading as a treatise on economics. There are possible explanations (and even, perhaps, some excuses) for this tone and language, and we shall later devote some space to the place of ideology in this volume. At this point we merely identify all this as an obstacle likely to deter the reader from reaching to that which is valuable, or possibly valuable, in the work.

Quite apart from (but certainly not unrelated to) the "ideological" aspect of the work (which, as stated, we will briefly take up later), is a certain disturbing ambiguity in the book's scope. Its subtitle is "A Treatise on Economics" [one recalls that this is also the subtitle of Mises's magnum opus, *Human Action*]. But the *title* of the work is *Capitalism*; and the framework and thrust of the volume (as well as its Preface and Introduction) undoubtedly stamp the work as primarily offering an economic (but, to some extent, also a philosophical) case for capitalism. Reisman makes it clear that to offer a treatise on economics *is,* in his view, to offer unqualified praise for capitalism. But most readers will see these as separate (if over-lapping) undertakings. A case for capitalism must, surely, be both broader and narrower than a treatise on economics; and the consequent ambiguity and awkwardness of Reisman's treatment shows itself in many ways. As a treatise on economics, it deals only with areas of the science with directly or indirectly impact on the case for capitalism. The book (p. 15) defines economics as studying "the production of wealth under a system of division of labor," and then rapidly (p. 19) proceeds to assert that division of labor can exist *only* under capitalism—so that economics immediately becomes the study of "the production of wealth under *capitalism*." While this definitional sleight-of-hand provides, no doubt, a rationale for the ambiguity expressed in the work's title and subtitle, the confusing quality of this ambiguity as it pervades the entire volume cannot be escaped. One further very important element in the volume calls for our notice in these introductory, general observations. This element is the influence upon it of the philosophical and economic thought of Ayn Rand. This influence is proudly announced in the book's preface, and certainly pervades the entire volume. "I cannot help but take the greatest possible pride and satisfaction in the fact that along the way, in having been the student of *both* Ludwig von Mises *and* Ayn Rand, I was able to acquire what by my own standards at least is the highest possible 'intellectual pedigree' that is possible for any thinker to have acquired in my lifetime, or indeed, in any other lifetime." It is, one is led to suspect, the "objectivist" influence of Ayn Rand which set Reisman on his path as a dedicated disciple of the classical economists (particularly of James Mill). Reisman's remarkable vision of creating a synthesis of Rand's philosophy and Mises's Austrian economics (the volume's dedications include the phrase "To Ludwig von Mises my teacher...") has inspired the perspective from which this entire volume proceeds, and has given it its unique character.

The following two sections of this essay take up, in turn, some of the "personal" aspects that surround the appearance of this volume, and the important ideological element in the book. Thereafter we will examine in detail and at some length certain aspects of Reisman's economics, with particular emphasis on his claim to have integrated classical economics and Austrian economics into a new synthesis. Our concluding section will discuss the volume as offering a sweeping case for capitalism.

Capitalism as Reisman's life's work

No review of this book can fail to take notice of its very *personal* significance for its author. It is typical of authors' prefaces, that they generally include some personal remarks; Reisman's preface is extremely helpful in this regard, providing us not only with an intellectual autobiography, but also with many candid personal insights throwing light on the genesis of this remarkable and massive volume. These insights are not insignificant in enabling us better to understand not only the history of this volume, but also its substantive content. In the very opening sentence of his Preface, Reisman tells us that the book is the product of a labor of love. This is amply borne out by the volume before us.

The central ideas of the volumes have their origin, we learn, in a few days of intense thought in 1959, at a time when the author was a young man deeply under the personal influence respectively, of Ayn Rand and of Ludwig von Mises. These ideas informed Reisman's doctoral dissertation, written at New York University under Ludwig von Mises, and completed in 1963. We also learn that while Mises served as the faculty member primarily responsible for the approval of the dissertation, he did not, in fact, approve of the classical framework which Reisman had adopted. (What Reisman believed himself to have done was in fact to integrate that classical perspective with the Austrian economics he had learned from Mises, and we shall later in this essay examine this belief.) Reisman's admiration for both Mises and Rand was (and is) remarkable—and moving (as witness the passage cited in the preceding section). Throughout this volume Reisman's personal loyalty to and love for Mises emerges as a shining feature of it. Clearly Reisman's commitment in these respects is responsible for the extraordinary pains he has taken to write and polish this massive work.

These extraordinary pains are apparent not only in the sheer volume of its writing (and Reisman's Preface reveals some of the challenges experienced in undertaking such a marathon task), but also in a number of incidental aspects of it. This writer has come across almost no typographical errors throughout this long work. Obviously, proofreading was taken *very* seriously indeed. The footnotes to the various chapters include a simply *enormous* number of internal cross-references. (I suspect this number to constitute a world record.) No doubt this large number of internal cross-references is partly explained by the sheer length of the volume. But this large number is also, one senses, evidence of the boundless and almost incredible efforts taken by the author to ensure that the reader has, at all times, available to him every single relevant chapter and discussion of the entire volume. The painstaking care which Reisman takes in presenting each argument in his book, is matched by the care he has taken to link each element mentioned, even incidentally, in any argument, with fuller discussion of that element elsewhere in the volume. The Index to this volume is extraordinarily detailed, covering close to fifty densely packed pages of small type. Reisman tells us in the preface that the editing, reorganization and rewriting of the work occupied five years "with the result that the work that is offered now is as well organized, well-written, and clear" as Reisman has been able to make it. This enormous effort is entirely evident in the volume before us.

In writing this volume (and we are informed that the main contents of three of its twenty chapters appeared in the author's 1979 book, *Government Against the Economy*), Reisman has thus fulfilled a life-long dream. This dream called for the detailed and comprehensive exposition of a grand system of economics—the explication and defense of the capitalist system—based indeed on a philosophical foundation expressing the thought of Ayn Rand, and the economic insights of Ludwig von Mises,—but embodying in particular Reisman's own integration of these disparate intellectual legacies into an original, overarching synthesis. The main features of this synthesis include, as already noted, a generally classical view of the economy as a whole (with its "objective" view of economic magnitudes), as well as a pervasive appreciation for the "subjective" insights of the Austrian tradition.

Besides the personal scholarly and pedagogical achievement represented by the volume (and its goal of decisively advancing the contributions of the two thinkers whose teachings have served as the illumination for Reisman's lifelong intellectual odyssey), this work has also clearly fulfilled a second objective close to its author's heart (in fact he would, as we have seen, certainly insist that this objective is identical with the first). This objective is to provide a comprehensive defense of the capitalist system from its economic detractors, and (as the necessary preamble to such a defense) a thorough refutation not only of Marxism itself, but of all the pervasive influences which, Reisman believes, Marxist thought has exercised upon twentieth century economics in almost all its varieties. The circumstance that, as we have already noticed, Reisman refuses to recognize any difference between this objective and that of offering an original perspective on and exposition of economics science, calls for brief separate attention in the following section of this essay.

Philosophy, ideology, and wertfreiheit

Reisman ends his opening chapter with a brief by emphatic rejection of *wertfreiheit* (the doctrine "that science and value should be kept separate and distinct" (p. 36)). As is well-known, Mises strongly supported the importance for economic science of economists' strictly maintaining their wertfreiheit. But Reisman is uncompromising. "It is nonsense to argue that science should be divorced from values" (ibid.). The character of Reisman's book is decisively (and unfortunately) shaped by this insistence (central, of course, in Randian thought) upon the objective demonstrability of values. Regardless of the validity of this rejection of wertfreiheit (a rejection shared, as it happens, by many who would otherwise disagree with much that is in this volume), it has surely had predictably costly consequences for the book's overall character. Perhaps the *least* serious example of this is the work's advocacy of capitalism. Reisman is certainly entitled to maintain that valid economic theory must be "pro-capitalist" (although there is surely a touch of intellectual intolerance in his statement (p. 1): "Pro-capitalist economic thought and economic thought as such are essentially synonymous"). If economics can demonstrate that capitalism is indispensable for the attainment of human survival (as Mises, for example, believed), then the economist can perhaps be excused for "advocating" capitalism, even by the wertfreiheit-philosopher-of-social-science (just as, as Reisman points out (ibid.), a medical doctor is understood when he advocates health). The excuse for this apparent transgression of the wertfreiheit code would be that the economist (like the physician) is addressing audiences who presumably do share the concern for human survival (or good health). But Reisman has pursued (and quite unjustifiably assumed the universal recognition of) values (which he has adopted from Ayn Rand's philosophy) which many of his readers are likely *not* to share. And the basis for his adoption of these values has led Reisman to adopt a tone, the stridency of which, cannot fail to alienate (or even disgust) many of them. Writers who have expressed opinions (either on fundamental values or on economic policies) with which Reisman disagrees are guilty of being in an "advanced state of philosophical corruption" (p. 35), of "willful dishonesty" (p. 87), of being a "dishonest gang" (p. 205), and of possible "compartmentalized imbecility" (p. 337). Commenting on the twentieth century intellectuals responsible for the modern "liberal" economic and social programs, Reisman remarks "that never in all of human history has a greater bunch of pompous ignoramuses with pretensions to knowledge behaved more destructively and self-destructively" (p. 613). Now one does not need to deny the accuracy of those judgements to wonder how Reisman can possibly believe that such bizarre language (and the general tone which such language represents) can advance acceptance of his arguments. Certainly such language must discourage any honest critic of Reisman (who does not relish being publicly labeled either an imbecile or an intellectual dastard, or both) from grappling substantively with Reisman's economic arguments, let alone with his value premises.

Reisman's rejection of *wertfreiheit* (and also presumably the influence of Ayn Rand) has apparently been responsible for his making claims which are highly questionable. For example, he asserts (p. 33) that "[e]conomics ... [is] a ... challenge to the morality of altruism," (although it should be noted that the passage in which this statement appears seems to be so carefully worded as in fact *not* to justify the quoted statement, at least in its plain meaning (see also p. 333f)). His rejection of *wertfreiheit* has not only led to the "ideological" flavor of the book in its case for capitalism, it has also decisively shaped its economics and, indeed, the entire perspective from which the tasks of economic science are understood—and in a manner diametrically opposed to the perspective of the Austrian tradition. Thus it is not simply that Reisman defines economics in terms of [the production of] wealth (p. 16, see also p. 42) as the classical economists did; he also asserts that there is an objectively demonstrable need for wealth without limit. Reisman is altogether serious about the "objective" quality of the needs satisfied by the production of wealth. "....[A]ctivities which can be proven to be inherently destructive of innocent human life, such as, presumably, the manufacture and sale of narcotics, are not to be classified as productive...[T]he concept of productive activity ultimately rests on the promotion of life and well-being..." (p. 443). So that "wealth" is not to be defined in terms of the subjective preferences of potential consumers, but strictly in terms of some supposedly demonstrable and objective assessment of what promotes human "well-being." Economics, and its task in shaping public policy, is not seen in terms of best fulfilling the preferences of the individual members of society, but in terms of enhancing the production of "wealth"—defined in strictly objective (and aggregative) terms. Whatever the internal logical consistence of such a proposed economics, it clearly differs radically (as Reisman certainly recognizes) from the scope of economic science as it has developed in the broad neoclassical tradition following the marginalist revolution of the 1870s, and, particularly, as it has developed in the Austrian tradition culminating in the work of Mises and Hayek. We turn now, to appraise Reisman's belief that he has constructed an economics which has successfully integrated what is valuable both in the classical tradition (of Smith, Ricardo, and the two Mills) and the Austrian tradition (particularly as expressed in the mid-twentieth century work of Ludwig von Mises and of Friedrich Hayek).

The nature and significance of Austro-classical economics: A critique

As mentioned earlier, Reisman recognizes that his economics is not squarely within the Austrian tradition. "[I]t would be more appropriate to describe my views as 'Austro-classical' rather than as 'Austrian'" (p. 11, ftn. 2). But he has taken the "Austro" prefix seriously. In particular he has taken great pains to incorporate into his own system as much of what he learned from Mises as he has been able. "It is to von Mises, more than to any other single source, that this book is indebted" (p. 5). And at a number of junctures in his argumentation, he pauses to take note of the extent to which his views are consistent (or are not consistent) with traditionally "Austrian" positions. His "Introduction" makes the following claim (italics in the original):

> "A fundamental accomplishment of this book...is *the integration and harmonization of the ideas of the classical and Austrian economists*. This has made it possible for me to modernize and reintroduce into economic analysis several of the major doctrines of the classical economists which were abandoned unnecessarily, and thereby add greatly increased strength to the central ideas of von Mises and the Austrian school." (p. 3)

This bold claim must strike more conventional Austrians as a strange one; we have been taught to understand that while the Austrian tradition certainly retains a great deal of respect for the founding contributions to our science of the classical economists, it itself represents essentially a radical and revolutionary *rejection* of classical perspectives. In this section I shall critically examine Reisman's claim, and conclude that it is indeed based on a fallaciously narrow understanding by him of the essential vision of Carl Menger and of the tradition spawned by that vision. As a consequence, it turns out, the major contents of Reisman's economics and, more importantly, the overall understanding of the capitalist system which those contents express, must be pronounced to be sharply at variance with Austrian economics and, in particular, with the Misesian system. There can be no doubt that Reisman learnt a great deal from Mises (whom, as we have seen, he treats with deepest respect even where he feels compelled to disagree with him (see e.q. p. 61, ftn. 12)). And much of what he learnt from Mises is indeed incorporated in this book. Yet the truth is that the central ideas of Reisman's book simply cannot be reconciled with a Misesian understanding of the overall workings of the market economy. Let us start with Reisman's rejections (p. 42) of (a) Lionel Robbins' characterization of economic science as concerned essentially with those human choices (and the interactions between those choices) in which individuals seek to allocate "scarce means among competing ends," and (b) Mises's further development of the science-of-choice definition of economics into his vision of a wider science of *human action* (praxeology).

Now there is no doubt Mises saw these latter "Austrian" definitions of economics as extremely important reflections of the Austrian abandonment of the earlier (classical) preoccupation with *wealth* as providing the unifying focus for economic understanding. Reisman's brief dismissal of these definitions suggests his failure to appreciate this importance. Indeed the brief argumentation he offers in making his dismissal of them, turns out to be based simply and entirely on his *prior* conviction of the (almost axiomatic) validity of wealth-centered definitions of the nature and tasks of economics. Most writers seeking to formulate a useful definition of economics recognize that the sought-for definition must encapsulate an analytical perspective capable of revealing and inspiring a valid understanding of the substantive content of the science. Given this recognition, it seems clear that, from the very foundations of his economics, Reisman has set out on a lonely path along which he cannot expect to meet Austrian economists.

Reisman's summary rejection of the centrality of individual decisions in defining the nature of economic science seems responsible for a deeply disturbing omission that cries out from this massive book. For most economists, certainly for the Austrians, a central (if not *the* central) analytical challenge with which economic theory grapples is the following: How is it that a multitude of independently-made decisions, informed (or confused!) by a multitude of independently-generated sets of expectations (in regard to a future fraught with Knightian uncertainty), tend, in the free market setting, to become substantially *mutually coordinated* without central direction? What is it that somehow shapes individual expectations concerning the attitudes (and expectations!) and prospective decisions of other individuals in a way which inspires individual human actions which (a) successfully anticipate and exploit the decisions being made by others, and (b) tend to reveal and to eliminate as-yet unexploited opportunities for mutually gainful exchange? One searches throughout this lengthy volume in vain for direct recognition of the centrality (or even the very existence) of this puzzle. (It is certainly true that the many discussions in which Reisman brilliantly deploys basic price-theoretical insights to demonstrate the benefits of free markets, *indirectly* offer valuable clues towards the solution of this puzzle. But the puzzle itself is never identified in the above terms of the harmonization of expectations and of individual decisions; see especially the discussion on p. 173ff.) Neither "expectations" nor "decisions" have won entries in Reisman's voluminous (and thoroughly detailed and helpful) Index.

This hiatus expresses itself in yet another disturbing (and certainly "un-Austrian") feature of this book. This work extensively deploys supply-and-demand theory to understand market prices, their generation and their implications for the pattern of production. But nowhere does the book engage the problem of *how* equilibrium prices (which are marked out by the intersection of "contemporary economics"'s supply and demand curves (see p. 152ff)) in fact tend to be attained. In Austrian fashion Reisman criticizes (p. 9) mathematical economics for its preoccupation with states of equilibrium rather than with a search for understanding the equilibrating *processes* which characterize markets. But the price theory he offers does *not* deal with the processes of *mutual learning and discovery*; which must in fact constitute these market processes of equilibration. Although Reisman discusses the way in which market prices change in response to changes in supply and demand conditions, his discussions boil down to what used to be called “comparative statics.” Now comparative statics are certainly a most useful application of simple price theory (and Reisman deploys the set of analytical insights of comparative statics both skillfully and fruitfully). But comparative statics cannot substitute for the subtle understanding which the Austrian economics of Mises and Hayek has provided concerning the nature of the market process—in particular, the role played in that process by entrepreneurship and learning.

Reisman’s (implicit) refusal to recognize the centrality of the entrepreneurial role in the Misesian system (the term “entrepreneur” is used only very rarely in the book, and is not assigned an entry in the Index), is apparently a result of his “classical” (and also, to an extent, his Randian) perspective. Nowhere is the idea of pure entrepreneurial profit identified, let alone explored. Nor is its existence noticed anywhere in almost a full page of detailed Index entries under the heading “Profit.” The insight that productive opportunities are identified only by superior entrepreneurial vision is obscured, at the very least, by the manner in which Reisman emphasizes (p. 338f) the multiplicity of opportunities facing all members of society at all times. The incentive role of what Austrian (and all other “contemporary”) economists call “pure profit” in inspiring the discovery of new and better ways of serving the consumers, is, to put it mildly, not made explicit in this book. For Reisman the term “profit” refers exclusively to the classical category (largely overlapping what Austrians and other modern economists know as “interest” (see p. 186f)). One gains the impression that this refusal to find a place for the role of pure entrepreneurial profit is not unrelated to the general tendency we have noticed for this book to assume, *in effect*, that the market economy successfully expresses full relevant equilibrium at all times. In general equilibrium there *is* neither (entrepreneurial) profit nor loss. Although this may seem indeed inconsistent with the above-mentioned critique by Reisman of the equilibrium-preoccupation displayed by mathematical economics, the truth is that Reisman’s own economics shows many signs of utter disinterest in what Austrian economics recognizes as the crucially important entrepreneurial process. (This is vividly confirmed by the manner in which Reisman seeks to explicate the competitive process. Although he properly criticizes the dominance of the perfectly competitive model (while bizarrely ascribing such dominance to “a collectivist-tribal”(!) view of property and price), he does not appreciate that the central limitation of that model is its implicit assumption of already-attained equilibrium. So that he fails completely to convey understanding of the competitive process, as driven by that entrepreneurship which is so central to the Misesian system.)

Reisman believes that the central Austrian advances over the classics in marginal utility theory and price theory can be accepted without fundamentally compromising the usefulness and validity of the general classical framework. Economics is concerned, in Reisman’s classical view, exclusively with the production of a carefully and, it is believed, an objectively defined *wealth*; (*services* are, in classical fashion, excluded from the scope of production, and thus from the scope of economics (p. 41f)). Marginal utility considerations are presented by Reisman with sufficient subtlety, insight, and lawyerlike linguistic skill, as to be able to appear, at least, to retain the classical claim that costs of production are the direct determinants of value. These marginal utility considerations permit Reisman to recognize (p. 174f) the power of consumers to determine the relative size of industries, and to refer (p. 696) to “the well-known dependence of business on the consumers, which the

Austrian school has done so much to demonstrate." But Reisman proceeds to insist that this dependence of business on consumers holds only "at the level of the individual firm and industry." At the "level of the economic system as a whole," Reisman asserts, "the competition of the individual firms and industries is mutually offsetting, and there the consumers are dependent on business" (ibid.). To generalize from the microeconomic dependence of the individual business and industry on the consumers to a macroeconomic dependence of business as a whole on consumers, is to commit the fallacy of composition.

> "When the entire business system is viewed at once, the consumers have no alternative but to spend... Thus at the level of the economy as a whole, the dependency is not that of business on the consumer, but ... of the consumers on business (ibid.)."

This perspective permits Reisman to treat the *overall* system of capitalist production as essentially independent of the consumers. The economic problem facing society is to increase aggregate wealth production—as if wealth was an object of importance in and of itself, with consumers assigned only the relatively minor function of determining the *composition* of the wealth that is to be produced. We shall see that this perspective has decisively determined the character of Reisman's own macroeconomics.

But surely this entire classical perspective *was*, in revolutionary fashion, utterly rejected by Menger! Menger was responsible for an entirely different view of the economic system as a whole, one in which the economic *meaning* attached to each and every element in the system of production, is derived strictly and exclusively from its role in serving, directly or indirectly, the specific prospective needs of the consumers. From this Mengerian perspective, the very notion of a level at which production can be considered "as a whole" is highly problematic. For Austrians steeped in this Mengerian perspective, the very idea of "wealth" as something of economic significance on its own, something that "we" as economists are somehow concerned to increase, is almost incoherent. For Austrians (as Reisman certainly knows, but chooses in effect to deny) the process of production consists not in the fabrication of *things* but in the taking of the steps necessary in order to bring consumers closer to their utility goals. The sharp distinction (so important for Reisman and for the classical economists) between an *economic* area of activity (in which wealth is produced) and that other area (in which produced wealth is unproductively consumed)—has no place in the Mengerian vision. In that vision we have only actions and decisions—all of them inspired, directly or indirectly, by that which confers economic significance upon them, viz. by the degree to which such actions and decisions can further the fulfillment of ultimate consumer goals.

Reisman's macroeconomics, even more (if possible) than his microeconomics, operates in a world, not of decisions, but of magnitudes. These magnitudes are aggregate quantities of expenditures, of receipts, and of wealth-production. This macroeconomics is built out of (a) definitions, and (b) accounting consistencies rigorously applied. The definitions are carefully, ever so carefully, formulated, not on the basis of common language-usage, but on the basis (and sometimes, it appears, on a clearly and unapologetically ideologically-inspired or value-laden basis) of achieving coherent results from the accounting procedures and manipulations subsequently to be applied to the defined magnitudes. Hundreds of pages in this book consist of exercises in which carefully defined aggregate magnitudes are paraded through complicated accounting tests and procedures. With infinite patience, admirable lucidity, and with ample numerical examples and tables, Reisman takes one through his aggregative economics. (It must be observed, however, that admirable lucidity is not a guarantee against overpowering tedium!) Nowhere, in this macroeconomics, is there recognition of possible problems arising out of failures of individual decisions, or of groups of decisions, to dovetail with those of other individuals (or groups of individuals), or to generate mutually sustainable sets of expectations. Nowhere is there awareness of any doubts as to the economic meaningfulness of these aggregate magnitudes (as seen from the subjective, Austrian, vantage point of ultimate consumer satisfaction). *What this macroeconomics consists of is, not explications of economic processes, but marathon exercises in definitions, in arithmetic, and in accounting.* The results achieved by these accounting exercises are arresting primarily in definitional terms. What is "proved" (as seen from the Austrian perspective) is not so much that the macrosystem works smoothly and coordinatively, but that (if we define magnitudes carefully and imaginatively enough, and if, in effect, we *assume away* possible absences of macrocoordination) nothing has gotten lost, and nothing has emerged out of thin air; nothing has been exploited from anyone; everything "fits," as in any set of correctly worked out system of accounts. One may grant the validity (subject, of course, to the adoption of the stipulated definitions and of the assumptions implicitly made) of these macroeconomic exercises. But they proceed from a perspective not only different from, but also substantially inconsistent with, that subjectivist, Mengerian perspective which has illuminated the Austrian tradition.

What is surprising is not so much the fact of this inconsistency among perspectives, as the circumstance that Reisman appears unaware of this inconsistency. An example of the unawareness may be instructive in this regard. Reisman offers his own theory of "aggregate profit" in a lengthy chapter (chapter 16) in his book. As he makes clear at the outset of that chapter, this theory (which he originated in 1959) is important for Reisman not only in its own right, but also because it undergirds a very significant portion of the entire book (both before and after chapter 16). At the conclusion of the chapter (p. 787ff) Reisman examines "alternative theories" of profit, in particular the older "productivity theory" of interest and the (Austrian) time-preferences theory of interest. Our concern here is not with the validity of Reisman's critique of this latter theory. Our concern is that Reisman seems entirely unaware that the "problem" of interest which the Austrians (beginning with Böhm-Bawerk) were seeking to address with their theory is an *entirely different one* from that for which Reisman has developed his "Net-consumption/Net-investment" theory of profit. For Reisman the "problem of aggregate profit" is an *accounting* problem:

> "[P]roductive expenditure can be understood as generating both an amount of sales revenues equal to itself *and* an amount of costs equal to itself, which would appear to imply that as far as productive expenditure by itself is concerned, the existence of an aggregate profit would be impossible, at least in the long-run, as a permanent phenomenon" (p. 723).

And it is by *accounting* reasoning, based on rigorously working through the implications of carefully formulated definitions, that Reisman finds a place, in his societal accounts, for aggregate profit. But for Austrians the "problem of interest" is a *price-theoretic* problem: Given our understanding of the equilibrating forces governing the relation between costs and prices, there would (in the absence of time-preference considerations) appear no reason why any gap between prices and costs should not tend at all times to be squeezed out by entrepreneurial competition, leaving no possibility for a permanent phenomenon of interest. Why, in the absence of time preference, would not pure interest tend continually to be squeezed out of existence, in exactly the same way as theory teaches that pure entrepreneurial profit tends continually to be squeezed out? (And the time preference theory of interest indeed explains why and how this price-theoretic "squeezing-force" *does not* squeeze out pure interest.) The difference between the "accounting" perspective which animates this volume, and the "price-theoretic" perspective which informs Austrian economics, could hardly be more dramatically illustrated, than by this misidentification of "problems." (Another striking example of this difference is provided by Reisman's "productivity theory of wages" (chapter 14), and its relation to more conventional marginal productivity theories of wages.)

Of course, to demonstrate the crucial difference in perspective between Reisman's classical economics on the one hand, and Austrian economics on the other, does not by itself establish any inherent invalidity in the former's perspective. An intriguing question is, in fact, suggested by our discussion: Is it possible that for some areas of economic investigation, understanding can be best promoted by the Austrian, subjectivist, "microeconomic" perspective, while for other aspects of economic inquiry, illumination can be attained most easily by following the implications of an aggregate, objectivist, classical perspective? (One suspects that Reisman's dream of integrating classical insights with Austrian insights, may have had its origin precisely through considering this question.) For this writer, although he is prepared to attempt to keep an open mind on this intriguing possibility itself, two considerations suggest skepticism at least in regard to the judgement that this volume points to a convincingly positive possible answer to the question. First, Austrian economics engenders profound suspiciousness concerning the coherency and meaningfulness of the aggregates with which Reisman operates. Simply adding up flows of expenditures does not assure a meaningful economic (as distinct from financial) quantity. One cannot sweep away these doubts by temporarily "shifting perspective." Understanding the very real way in which individual purposes, and only individual purposes, invest things or numbers with economic significance, makes these doubts almost impossible to erase. Second, as noted earlier, Reisman's aggregative accounting makes no attempt to address precisely those microfoundational questions concerning microcoordination (questions which certainly have "macro" implications) which the honest (albeit as yet economically ignorant) inquirer about the feasibility of a successful capitalism, is entitled to ask (and for which Austrian economics provides price-theoretic answers). So that even if a writer were to refrain (as this volume does *not* refrain) from suppressing the overall Austrian perspective on the economic system of capitalism, one must remain deeply skeptical concerning this author's ability usefully to deploy an aggregative, wealth-centered perspective to throw light on significant economic questions (not already illuminated by consistently pursuing the Austrian perspective).

Capitalism and "contemporary economics"

A somewhat curious feature of this volume is its treatment of what it calls "contemporary economics." In innumerable references to contemporary economics (its Index entry includes dozens of sub-headings) Reisman makes it clear to the reader of his book (who may, of course, be reading his first economics book) that there exists a body of deeply flawed economic thought that has come to dominate the economics profession. This body of thought, one quickly gathers, is flawed both in its philosophical foundations and in its positive analysis, let alone its policy conclusions (in particular its judgement of the capitalist system). The economists responsible for this body of thought may have won the Nobel Prizes in their field, but they are nonetheless guilty of (and their work apparently contains little except) astounding fallacies, confusions, and irrationalism. Their motivation, it appears (p. 679) is primarily to support what best serves the power of the state. The most authoritative depository of this contemporary economics, one discovers, is the textbook of Samuelson (now Samuelson and Nordhaus), a book which is referred to in this volume very frequently indeed. Reisman is clearly eager to assure his readers that he is thoroughly familiar with all that contemporary economics has to offer, as presented in Samuelson and Nordhaus, but that the little that is valid in contemporary economics is presented in his own volume much more accurately and profoundly. A reader who has read through, absorbed, and accepted, the content and message of this book will not be able to pick up a "contemporary economics" textbook without a sense of wasting his time, or worse, of sipping from the cup of intellectual degeneracy.

This writer would strongly suggest that this patronizing, if not thoroughly contemptuous, attitude towards the entire economics profession of today, can only deepen the skepticism which this volume is likely to generate among unbiased new students of economics, concerning the work's value and validity (not to speak of its objectivity and impartiality). Like the unfortunately abusive rhetoric used in the book in regard to those who disagree with its views (including, certainly, "contemporary economists"), something we have already noticed more than once in this essay, this attitude towards contemporary economics is likely to convince unbiased readers that this work is written with arrogance and/or ignorance. (It is because this writer does *not* believe that arrogance or ignorance is responsible for this volume, that he draws attention to these matters.) It must be admitted that when this writer participated (as Reisman did) in Mises's seminar in the 'fifties, the prevailing attitude there towards mainstream economics was, to some extent, one of rather disdainful condescension (or rather condescending disdain). In a way, then, Reisman's tone is a continuation of the atmosphere of Mises's seminar. But what was perhaps an understandable attitude in the fifties in Mises's presence (after all Mises had been a world-renowned economist years before many of the fashionable economic doctrines of the fifties were introduced)—and this writer does *not* agree that that attitude was justified even at that time—is totally inappropriate over four decades later. This matter is important enough to warrant some further discussion.

Mainstream textbook economics in the fifties meant what came to be known as Samuelson's "neoclassical synthesis"—a microeconomics based on rather crude equilibrium theory (promulgated from a perfectly-competitive point of departure), and a macroeconomics based on a rather crude ("hydraulic") version of Keynesianism. When Reisman refers to "contemporary economics," he has in mind a similar melange. And in attacking Samuelson and Nordhaus, he is certainly not tilting at windmills. Nonetheless his attacks do have a distinctly anachronistic flavor. The economics profession of the nineties (or, at any rate, its more sensitive exponents) are not adequately represented by Samuelson and

Nordhaus, or by the economics that was routinely dismissed at the Mises seminars of the fifties. And this is not *only* because it is a serious mistake to judge today's extremely sophisticated economics by an elementary textbook, no matter how influential it has been over the years. The truth is that contemporary macroeconomics is no longer crude Samuelsonian-45-degree-diagram Keynesianism. While the perfectly competitive model still dominates contemporary microeconomics, its best exponents deploy the model with sensitive insight and realism. It is even the case that certain *Austrian* insights (particularly those, concerning the dispersal of knowledge, which Hayek articulated) have become widely understood in the profession (and are even represented in several mainstream textbooks).

We should not forget that in 1932 Mises was of the opinion that the major then-dominant schools of economic theory (including the Austrians) were basically teaching the same core (i.e., "micro") understanding of the market economy; (see his *Epistemological Problems of Economics* (1933), Princeton: Van Nostrand, 1960, p. 214). The gap between mainstream micro (both today and in the fifties) and Austrian economics certainly does exist—but, especially today at the end of the nineties, mainstream economists are far more hospitable towards Austrian insights than a reader can possibly gather from Reisman's volume (and Reisman's own method of deriving supply-and-demand price theoretic understanding (pp. 151–171) is extremely cumbersome, and not at all necessarily superior to a number of mainstream textbook treatments). (Where Reisman's economics does differ fundamentally and categorically from contemporary mainstream economics, is in Reisman's uncompromisingly classical approach to economics generally and to macroeconomics in particular. But here, as noticed in the preceding section, an Austrian economist finds it impossible to side with Reisman. Without embracing the Keynesianism which Reisman (somewhat too freely) attributes to contemporary economics, an Austrian finds himself tending to sympathize with the latter (at least in its more modern versions) in more than one of the confrontations which Reisman sets up between that economics and his own.)

Reisman and the case for capitalism

Reisman's book, as already noticed, was written in order to make the economic case for capitalism. How successful and effective is the case made in this book? Despite the criticisms we have leveled at Reisman's volume, it must be freely acknowledged that a number of portions of this volume (mostly those already published some two decades ago in Reisman's *Government Against the Economy*) are among the most effective and eloquent defenses of market outcomes that have ever been written. These remind us of Bastiat and of Henry Hazlitt at their best. These portions of the book are those in which Reisman deploys rather simple supply-and-demand economics with almost stunning effect, driving home the timeless lessons of economic theory by means of superbly chosen real world examples or of ingeniously structured chains of powerful debating blows. (One example of such a lesson is Reisman's discussion (p. 148ff) of socialized medicine; another example is his discussion (p. 180ff) of government farm subsidies.) Were these portions of the book to constitute the heart of Reisman's case for capitalism, one could indeed agree with those who have applauded this book as offering one of the most effective and powerful case for capitalism to be found. Unfortunately, this would be to misrepresent and misread the message of the volume.

The message of Reisman's book is, as its author proudly asserts, that the case for capitalism rests squarely on the validity of the classical, objective-wealth perspective (and on the Randian value judgements which, one suspects, led to the author's adoption of this perspective), which he has rigorously and relentlessly pursued for over its thousand pages. It is upon this foundation that Reisman rebuts the Marxist arguments with which capitalism has been attacked; it is upon this foundation that Reisman rebuts the older Keynesian arguments against untrammelled capitalism; and it is upon this foundation that he builds his case for a gold standard (with which to construct what he sees as the ideal capitalist economy). While Reisman's economics certainly embraces (as of course the economics of Ricardo and of the Mills embraced) insights based on supply-and-demand economics, Reisman would himself surely maintain that the arguments against capitalism with which he grapples have not, for the greater part, been answered *except by virtue of his aggregate-wealth argumentation*. To cite Reisman's work as constituting a definitive defense of capitalism, as a continuation of the Austrian work of Ludwig von Mises, must be to accept that aggregative-wealth argumentation (and to accept the belief that this argumentation is basically compatible with Mises's understanding and defense of capitalism). Intellectual honesty must prevent one from sharing such acceptance.

For those Austrian proponents of the free market who are *not* prepared to grasp at *any* argumentation the bottom line of which appears to favor free markets, this book, for all its merits, must not and for the sake of doctrinal integrity and self-respect, cannot be the source of one's understanding of and defense for the free market society.

Reisman's book is, given its own perspective, a monumental achievement. One attempting an appraisal starting from a different perspective, can yet (while uncompromisingly deploring key elements in the volume) perceive and understand the sheer grandeur of that achievement. And even from the vantage point of an entirely different (viz. an Austrian) perspective, it is certainly possible to identify superb sections of the book. Regrettably, this Austrian economist, viewing the capitalist economic process through Mengerian and Misesian spectacles, must report that the volume as a whole offers a panorama upon capitalism entirely different from, and decisively less satisfactory than, the rich picture revealed by those spectacles.