

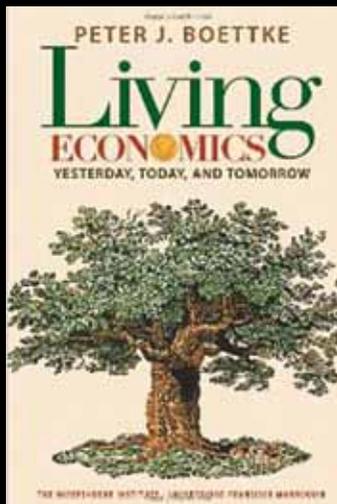
Living Economics: YESTERDAY, TODAY and TOMORROW

Peter Boettke Independent Institute, Published 2012

The title and cover art for Peter Boettke's latest book *Living Economics: Yesterday, Today and Tomorrow* are no doubt symbolic of economic theory as a field of study, and also the history of economic thought as an intellectual tradition. Like the tree on the cover, economic theory is itself like a living entity or tree. It is complex and frequently changing, always adapting to address the unique episodes of social history. But economics is also firmly rooted in a stable foundation of core theoretical substance: subjectivism, the rational choice framework and spontaneous order theory.

The contents of the book enliven this symbolism. Boettke presents a unique and insightful perspective on the history of economic thought. The Classical School sowed the roots of economic theory. Writers such as Adam Smith asked plainly, "how can society function harmoniously without a central designer?" Given all the world's complex diversity, where does social order stem from and how does it operate? In result, like the tree trunk, property rights, prices and profits and losses, all serve as a strong and solid foundation for the branches of social order to grow therefrom.

In the aftermath of the Classical Period, the tree of economic theory grew stronger in some areas but it was also pruned, redirected and, dare one even say, abused in others. Amidst the twentieth century, many theories most fashionable in the mainstream economics profession emphasised supposed weaknesses within



the rooted systems of market economics. Trees may grow from roots to branches, but they must also be guided and directed by marginal regulation, complete central planning, or some form of intermediate interventions. So say many mainstream economics perspectives.

Here Boettke's symbolic metaphor rings true again. Just as it is hubris for individuals or groups of men to expect full control over a mighty oak tree, so it is hubris for teams of "experts" to submit the economy to their will.

Boettke argues that greater attention should be given to the mainline roots and trunk of economic science. Market economies comprised of strongly enforced private property rights, stable monetary regimes and freely adjusting market prices tend to coordinate scarce human and physical resources across time and space in proportionate

quantities and qualities unmatched by any alternative institutional arrangement known to human kind.

I disagree with Boettke on two key characteristics of his book. Firstly, that his text is purely useful to the motivated undergraduate considering entering graduate school and a career in the field. Any professional economist would benefit from reading the book. And his writing is clear enough that his essays are approachable to the "econo-novice".

Secondly, I think Boettke's symbolism linking the study of economics to a living tree should be expanded. Reading the biographical sections dedicated to key thinkers (Hans Senholz, Murray Rothbard, Gordon Tullock, Israel Kirzner, Elinor Ostrom, James Buchanan and others) and knowing Boettke's own legacy of guiding original research, one can recognise that the economic way of thinking is not only a tool to be used, put away and redeployed at leisure. The ideas of *Living Economics* can, and arguably should, be taken as more than mere symbolism. To truly know economics is itself a lifestyle.

In the near and distant future the prominence of mainline economic reasoning will be the result of the efforts of those eager and interested to investigate its history, research its operations and promote its insights. I imagine that this group of supporters will be "Living Economists".

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Our
recommended
read goes back
to the roots of
economic
theory...

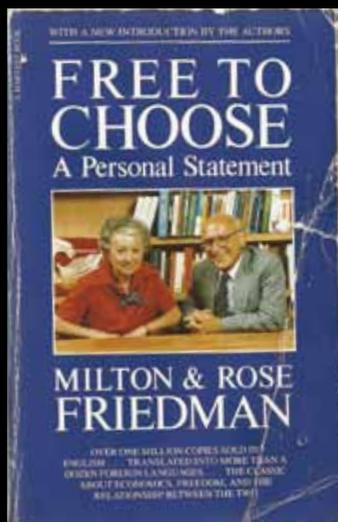
A
fresh look
at a classic work
that influenced a
generation of
economists...

Free to Choose: A PERSONAL STATEMENT

Milton and Rose Friedman Pelican Books, Published 1980

In times when the rolling tide of public opinion describes the current economic situation as a "Great Recession" – the worst since the Great Depression of the 1930s – and blames the free market and "deregulation" for unleashing Wall Street's "greed", Milton and Rose Friedman's *Free to Choose* is a breath of fresh air. Published in 1980 during times of high inflation and unemployment (much like today) the book challenges common perceptions that, in times of crisis, government intervention is necessary and vital for economic recovery.

The authors' inquiry into the relationship between freedom and economics begins with demonstrating the power of the market. They re-tell Leonard Read's *I, Pencil*, a story about how millions of people engage in daily interactions that produce pencils without even knowing what the final result of their work would be. This seemingly chaotic system facilitates peaceful social cooperation between individuals pursuing their own interests and is the foundation of the market as voluntary exchange. Prices arise as the driving mechanism and are essential in three ways. They act as a coordination device; they serve as an incentive to adopt efficient methods of production; and, finally, prices determine the income distribution. No one needs to supervise. People trade, lives improve and prosperity settles. The market system is a product of human action that is the opposite to the human design of a central planning system. To Milton and Rose Friedman the main problem is not to question the planning stage,



A well thumbed classic...

but rather to determine who is in "charge" of planning: is planning made by the many or the few? To an economist understanding the market as a process of voluntary exchange and a system of social co-operation the failure of central planning is unavoidable. Government authorities may attempt to control market forces, but people will always find ways to enter into voluntary exchange. Stories of moonlighters offering their services on the black market were very common in the Soviet bloc.

The chapter "The Tyranny of Controls" moves the case for voluntary exchange onto a higher scale. Government protectionism in the form of tariffs and subsidies intended to achieve "balance of trade" are inconsistent with free societies. The authors destroy the myth that a country cannot afford

to open for trade without receiving reciprocity from other countries. Their arguments for the efficiency of free trade – both economic and political – build on the earlier argument that voluntary exchange is not only beneficial to all engaged parties, but that it also fosters harmonious relations between countries.

Milton and Rose Friedman's compelling argument in support of market forces takes quite an unusual turn when they look at ways to solve the problem of inflation. They acknowledge that inflation is "a monetary phenomenon arising from a more rapid increase in the quantity of money than in output", and despite their firm belief that prosperity is a result of free people acting in self-interest, they look at ways to establish controlled inflation, instead of looking for ways to eliminate the cause of inflation.

Free to Choose is a timeless classic in the classical liberal tradition of explaining economics. In the 33 years since publication the book continues to have a profound influence on generations in the way they perceive economics. Milton and Rose Friedman show that economics is not a static science, but rather a living organism of studying human action in the market place.

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Researched and selected
by **ANTHONY EVANS**