

Jesus Huerta de Soto, Book review of *The Austrian school: Market order and entrepreneurial creativity*

Daniel D'Amico

© Springer Science+Business Media, LLC 2009

I imagine that Jesus Huerta de Soto's new book *The Austrian School: Market Order and Entrepreneurial Creativity* must have been extremely difficult to write. He explains his goal for the text as: "we shall explain the fundamental principles of the dynamic, Austrian concept of the market, and we will point out the main differences between the Austrian perspective and the neoclassical paradigm" (p. ix). In short, de Soto tries to respond to the popular but pesky question, "what is so special about Austrian economics?" I say that this book must have been difficult to write not because this question is difficult to answer. On the contrary, de Soto does an excellent job surveying the many distinctive features of Austrian economics. Communicating the uniqueness of Austrianism comes easy to de Soto, for he has clearly researched widely in the tradition and mastered its positions. Instead, I imagine that this book was a great challenge to put together because there are so many different ways that the material could be structurally organized and presented.

The creative challenge of this book was not a matter of conducting original research or formalizing original theoretical insights. Instead, it was likely a process of synthesizing a broad swath of expertise (for which the reader is lucky to have an author like de Soto) into a clear and compact presentation. When answering, "what exactly is unique about Austrian economics?" one could concentrate on the uniquely aprioristic and methodological foundations of the tradition: deductive reasoning, the analytical compatibility between means and ends, meaningful distinctions through Aristotelian essentialism, and the use of hypothetical constructs and counterfactuals. Or one could emphasize the unique theoretical contributions of Austrian economics: the knowledge and calculative roles of market prices, the impossibility of socialism,

D. D'Amico (✉)
Loyola University New Orleans, New Orleans, LA, USA
e-mail: danieljdamico@gmail.com

the emergent process of spontaneous orders, imputation theory and the Austrian Business Cycle Theory. Another strategy would be to emphasize chronologically or biographically the major thinkers of the school: Menger, Bohm-Bawerk, Mises, Hayek, Kirzner, and Rothbard. But not all of these formats would be equally well suited to serve de Soto's intention nor are all of these organizational formats necessarily compatible with one another. De Soto has used a sampling of each with a great deal of success.

De Soto's challenge is one that many Austrians wrestle with on a regular basis. How does one clearly communicate the uniqueness of Austrian economics in a reasonable length? Printing and reading the work of Coase (1960) entitled "Problem of Social Cost" or the work of Stigler and Becker (1977) entitled "De Gustibus Non Est Disputandum," in relative terms, are quick and easy tasks. The reader gets a full vision of the thinkers' framework, in a single scholarly article and if interested he knows where to go for more. On the other hand, the work of von Mises (1949) entitled *Human Action* and the work of Rothbard (1962) entitled *Man, Economy and State* dauntingly make heavy thuds as their thousands of pages flop onto a desk. In true entrepreneurial spirit, de Soto has arbitrated this missing market by producing a clear and compact introductory text. He selected his intellectual capital for clarity, precision, and breadth from the variety of alternative possible outlines. *The Austrian School: Market Order and Entrepreneurial Creativity* succinctly and successfully presents Austrian economics as a rich tradition of dedicated scholars who have developed an original methodology useful in constructing unique explanations for economic phenomena.

This book was obviously not designed to present original research or new theoretical insights, but there is a bit of fresh material that the motivated reader might particularly benefit from. Personally, my favorite portions were de Soto's attention to etymological detail. His continental background gives him a unique ability to describe the linguistic origins of key words within the Austrian corpus. Such passages reaffirm the quasi-Austrian insight that language itself (and the discourse it invokes) is a useful institution with spontaneous origins. His explanations of "entrepreneurship" and "competition" reminded me of Hayek's similar proclivities at etymology when he wrote on the meanings of "taxis" and "cosmos" in *Law, Legislation and Liberty* (1972). As de Soto explains:

Indeed both the Spanish word *empresa* and the French and English word entrepreneur derive etymologically from the Latin verb *in prehendendo-endi-ensum*, which means "to discover, to see, to perceive, to realize, to capture"; and the Latin term *in prehensio* clearly implies action and means "to take, to seize". In short, *empresa* is synonymous with action. In France, the word *entrepreneur* has long conveyed this idea – since the High Middle Ages, in fact when it was designated to those in charge of performing important and generally war related deeds or to those entrusted with executing the large cathedral building projects (p. 16).

And later,

The word "competition" derives etymologically from the Latin term *cum petitio* (the concurrence of multiple requests for the same thing, which must be

allotted to an owner), which comprises two parts: *cum* (with) and *petere* (to request, attach, seek) (p. 25).

This is fascinating stuff, but admittedly a digression from the main purpose of the text. For an advanced scholar in Austrian economics, reading *The Austrian School* to get access to these facts may seem like a long walk for a short drink.

Again, the main challenge of the book was that it had to cover a large body of material (to be possibly organized in a variety of different ways) in a very small amount of space—topics must change quickly and often. The number and frequency of topic headings in the text may turn some readers off, but in the end, de Soto has produced a book that is both useful and convenient—a sort of toolkit in the form of a checklist. Much like any tool or analytical device, such a book, when in the right hands, can be extremely effective at guiding new applied research projects from an Austrian perspective.

Who is likely to benefit most from reading this text? The fact that the text is predominantly a survey and review of existing insights, it might likely crowd out the more advanced Austrian scholar. So, I am left to presume that younger researchers who might be interested in applying Austrian insights in new directions are the target audience. It is useful to think of this population as divided between three groups. The first group is probably the largest and is relatively ignorant of Austrian ideas. The remaining groups, who do possess a working knowledge of Austrianism, can be divided into two subsets: those sympathetic and appreciative of Austrian ideas and those who are critical and or reject its claims.

Let us start with the hardest case: to those who are both knowledgeable and critical of Austrianism, this book will probably have little to no effect. To play devil's advocate, I imagine, Bryan Caplan (1999, 2003a, b, 2004; a well-known Austrian critic) would deny that the text has successfully responded to the supposed flaws in the Austrian framework. Scholars like Caplan and most young talented neoclassical economists will likely argue that the majority of the useful components offered by the Austrian school are no longer unique. They have been successfully incorporated into the neoclassical paradigm through Bayesian modeling techniques (Caplan 2001) and the rational expectations revolution (Muth 1961). My own take on such issues is that neoclassicals have only weakly addressed Austrian concerns. The conversions of risk and uncertainty into Bayesian probability ignore more realistic definitions of genuine ignorance and uncertainty. Individuals do not know the full scope of things that they do not know (Boetke et al. 2005). Asking individuals to assign probability estimates onto the likelihood that an event will take place, when in reality most conditions of uncertainty are precisely when one has no idea that such an event could take place at all, seems like an inaccurate model of human decision making.

While I agree with de Soto that Austrian economics holds superior explanatory power over neoclassical theorizing, I fear that some readers may finish the book thinking that de Soto's case is made easier in part because he does not pit Austrian economics against the strongest version of neoclassicism. Again, this is in part a consequence of the book's constraints—the text must remain neither too long nor too advanced. Thus, de Soto's survey of both neoclassicism and Austrianism may appear to some readers a bit outdated—completing its survey with Kirzner's work nearly

30 years ago. de Soto's book does well to force its readers to recognize and think about this issue seriously: if Austrian economics is now and is to remain to be in the future, a unique, and value added intellectual exercise, it must be so against the strongest of alternative frameworks. The school must also remain continuously engaged—constantly attempting to address the most pressing of social problems as they exist in the world around us.

The proliferation of applied Austrian works in the past 30 years—though not surveyed in this text—stands as a sort of empirical evidence that Austrians have something important to say and in turn support de Soto's thesis regarding its uniqueness. Take the work of Coyne (2008) entitled *After War* as an example, Coyne exposes knowledge and incentive problems throughout the decision making processes of reconstruction. With Austrian analytical devices (and several others) in hand, the book of Coyne offers his readers a convincing framework to make sense out of both why modern warfare has occurred the ways that it has, and also an optimistic vision for reform, where trade policies help fulfill real term reconstruction and economic redevelopment.

In an ideal world, I would imagine de Soto's text to be the first in a two volume set. Volume II would pick up de Soto's challenge where he leaves off and perhaps be capable of filling in for some of the text's inevitable shortcomings. I would imagine it being titled something akin to "Modern Applications of Austrian Economics." One could use *Analytic Narratives* (1998), a compilation of essays by Bates, Greif, Levi, Rosenthal, and Weingast, or *Game Theory for Applied Economists* by Robert Gibbons as models.

Together, both volumes would best attend to the needs of readers unfamiliar with Austrianism. The group who I would think has the most potential to benefit from reading de Soto's text are those young scholars specifically attempting to begin research agendas from an Austrian perspective. Within this one short book, the next generation of students has a condensed survey of Austrian insights and a brief understanding of their origins. From there, it is up to them to bring those insights into alternative areas of research and debate throughout the social sciences. I envision a young economist with a hope for beginning an applied research agenda. He probably has a topic in mind—say the current financial crisis, housing bubble, or unemployment level. He also probably has working knowledge of mainstream and neoclassical explanations for his topic. Finally, he comes across some introduction to Austrian economics and wants to work more closely with its theories—de Soto's book is just for him.

Lastly, I think there is a very subtle takeaway from de Soto's book. de Soto does not make the point explicitly, but it is there if only for no other reason than that de Soto has done a very good job at communicating basic Austrian methods, ideas, and history all in one place. With a small working knowledge of these related topics, the motivated reader cannot help but recognize a basic fact about the role of ideas and their influence in society.

The prominence of a particular school of economics to influence the shape of economic policy reach widespread acceptance and actually change the way people think about economic phenomena is in large part dependent upon that school's ability to explain the pressing social puzzles of its day. In the bigger scheme of things—the history of thought surrounding economic ideas—Austrians have had

some periods of success in offering convincing and alternative explanations for the most important happenings of the social world. At various times, Austrians have been front and center participants in the contemporary grand debates. In other words, Austrian Business Cycle Theory was honed and perfected amidst an active economics profession deeply concerned with explaining the causes and consequences of the 1930s crash. Austrian theories of calculation and knowledge were matured and refined amidst the great socialist calculation debates. And most likely, present and future Austrian theories will be successful to the degree that they engage and participate in explaining the complex social issues surrounding our current economic crises and its response.

de Soto's work sparked this thought for me especially in his continual referrals to the Spanish school of Salamanca. Here is a fascinating puzzle, and one on which I would most certainly like to hear de Soto's opinion: how is it that in isolation of one another both the Austrian school and the school of Salamanca both effectively derived a similar framework of social science analysis?

de Soto's book has three marginal drawbacks, but they are not to be blamed on de Soto. Rather, they are inevitable consequences of his particular writing challenge and the organizational structure that it must take. First, in a book like this, there is little room left for contributing original research and theory. In effect, one might wonder what gain the advanced student of Austrian economics might achieve by reading it. Secondly, because there were so many competing possible outlines for a book like this, the ratio of organizational structure, compared to the length of the book as a whole, is very high and can make the text difficult to read at times. Third, the book does not explicitly define its intended audience. Thus, there might be a bit of tension between who de Soto "imagines" will read the book usefully on the one hand, and who "actually" will read the book and find its thesis convincing on the other. To be clear, de Soto's book navigates these inevitable challenges well, and has written a book in which the net benefits clearly outweigh the costs.

References

- Boetke, P., Coyne, C., Leeson, P., & Sautet, F. (2005). The new comparative political economy. *Review of Austrian Economics*, 19(3–4):
- Caplan, B. (1999). The Austrian search for realistic foundations. *Southern Economic Journal*, 65(4), 823–838.
- Caplan, B. (2001). Rational ignorance vs. rational irrationality. *Kyklos*, 54(1), 3–26.
- Caplan, B. (2003a). Probability, common sense, and realism: a reply to Hulsmann and Block. *Quarterly Journal of Austrian Economics*, 4(2), 69–86.
- Caplan, B. (2003b). Probability and the a priori: a reply to Block. *Quarterly Journal of Austrian Economics*, 6(3), 61–67.
- Caplan, B. (2004). Is socialism really 'Impossible'? *Critical Review*, 16(1), 33–52.
- Coase, R. (1960). The problem of social cost. *Journal of Law and Economics*, 3, 1–44.
- Coyne, C. (2008). *After war: the political economy of exporting democracy*. Stanford: Stanford University Press.
- Hayek, F. A. (1972). *Law, legislation and liberty: Volume I, rules and order*. Chicago: University of Chicago Press.

- Muth, J. (1961). Rational expectations and the theory of price movements. *Econometrica*, 29, 315–335.
- Rothbard, M. (1962). *Man, economy, and state: a treatise on economic principles*. Auburn: The Ludwig von Mises Institute. [2001].
- Stigler, G., & Becker, G. (1977). De gustibus non est disputandum. *American Economic Review*, 67(2), 76–90.
- von Mises, L. (1949). *Human action: a treatise on economics*. Foundation for Economic Education: Irvington. [1998].