



## Reviews

SANDYE GLORIA-PALERMO (1999) *The Evolution of Austrian Economics: From Menger to Lachmann*. Routledge: London and New York. Routledge Studies in the History of Economics 24, 208 pp., \$90.00 cloth

The book, which emanates from the author's Ph.D. thesis, is far from a simple historical overview of Austrian thought as might be expected from a book published in the "Routledge Studies in the History of Economics". Gloria-Palermo analyzes the "Evolution of Austrian Economics" with a mainly non-historic, analytical intention. Her project denounces the research direction taken by Austrians in the last decade as being in sharp contrast to the original line of inquiry suggested by early Austrians such as Menger and Wieser. She proposes a refocusing of this line of research, demonstrating a thorough and detailed knowledge of Austrian economics and the ability to connect the details to an overall picture of the development of Austrian ideas. The book starts out with an historical and analytical interpretation of the development of Austrian thought and, in the final chapters, provides suggestions to reorient Austrian research by returning to a few key ideas developed by Carl Menger.

The book consists of four sections. In the first section, the birth of Austrian economic thought, based on Menger's work, is elaborated upon. Two chapters demonstrate Menger's analytical and methodological originality. The common view that Menger is associated with the marginalists Jevons and Walras is forcefully refuted by the analysis of correspondence between Menger and Walras.

Section two treats the neglect and decline of Menger's lines of thought. With the exception of von Wieser, Menger's originality is shown to be misunderstood by the first generation of Austrians. The discussion of Böhm-Bawerk's work in chapter three, the Austrian occupation with general equilibrium models due to positivistic influences in the fourth chapter, and Austrian business cycle theory in the fifth and last chapter of that section are used to demonstrate the deviation from Menger's ideas in the line of inquiry of his immediate successors.

The first chapter in the third section—in which the main thesis of the author is presented—deals with the slow process of resurrecting important aspects of Mengerian thought. The next two chapters, seven and eight respectively deal mainly with Mises, Rothbard and Kirzner. Gloria-Palermo criticizes the non-scientific character of Rothbard's writings as partly a result of Mises's praxeological approach. She identifies this non-scientific approach, which goes hand in hand with the arbitrary introduction of value judgements in the theory, as one of the main reasons not only for the current acceptance problems of Austrian theory, but also as an explanation for neglecting the important contributions of von Wieser due to his divergent political views. The static characteristics of the entrepreneurial figure presented by Kirzner, rightfully identified as a fall back to a pre-Schumpeterian notion of the role of the entrepreneur in the economic process, are demonstrated. Kirzner's efforts to reconcile

Austrian with General Equilibrium analysis are viewed as systematically sacrificing that which lies at the heart of Austrian economics, and are characterized as responsible for the intellectual stalemate of modern Austrian theory. According to Gloria-Palermo the faithful belief in the functioning of the market left “too many questions . . . unanswered” (p. 115)

Given this important and very detailed criticism, the first six chapters of the book can justly be interpreted as setting the stage for the main argument of the book: the necessity of a shift in research in Austrian economics forcefully advocated by the author. What follows is less on the “Evolution of Austrian Economics” but more on the proper selection criteria for its future evolution. Chapter nine deals with Lachmann, who, along with Wieser’s earlier contributions, stands for the only efforts undertaken in the direction indicated by Menger. The last section “Which way forward?”, starts with a rather negative assessment of the modern revival of Austrian economics. According to Gloria-Palermo, the only fruitful direction Austrian economics can take is to work on an elaboration of the contributions made by Lachmann since “Rothbard’s loyal path to praxeology ends up being little more than the theoretical basis for libertarian politics; the theory of entrepreneurship, in its attempt at reconciliation with the neoclassical movement, loses the Mengerian originality related to the concepts of uncertainty and speculation” (p. 131) Therefore, nothing else is left that could be considered as a basis for a true revival of Austrian thought. Having identified the shortcomings of Lachmann’s work, promising recent research undertaken by O’Driscoll, Rizzo and Langlois are discussed in chapter ten. In accordance with Menger’s original project, these authors emphasize a view of market processes as non-deterministic but nevertheless non-chaotic phenomena.

Chapter eleven deals with the scope and the limits of the Austrian research project. It proposes to look further at the institutional structure as a coordinating device allowing pattern predictions in a world of radical uncertainty caused by the subjectivity of knowledge and expectations. In this context, it might be appropriate to add that the research focus of New Institutional Economics as well as Constitutional Political Economy are influenced, if not partly inspired by Mengerian thought. The fact that Austrians are not the main proponents in these fields—even though they could well have been—further emphasizes Gloria-Palermo’s point that a substantial amount of time has been lost in the pursuit of inquiries of a non-Austrian nature. This is even more astonishing if one considers that fruitful analysis along these lines was already conducted by the Freiburg School of Ordo-liberalism in the 1940s.

Even though the suggestions made by Gloria-Palermo are in line with Menger, she is aware that her propositions are challenging for a school of thought firmly rooted in normative individualism and a belief in the infallibility of markets. However, the author is right in pointing out that overcoming these normative elements in Austrian thought is the only way to prevent a reduction of the school to a libertarian lobby. It is that aspect which makes the book a valuable contribution and an important milestone in shifting resources in the direction of an Austrian economics deserving that name.

Gloria-Palermo’s contribution consists in identifying and organizing the elements in Austrian economic thought which represent an improvement and a further development of Menger’s ideas. She convincingly demonstrates the weaknesses of theoretical deviations from Menger. A particularly strong part of her analysis of Austrian theory is the identification of the normative elements hindering theoretical progress, and her concern that Austrian

theory might degenerate to a project solely designed to provide the “foundation for new right-wing policies” (p. 103) The only real shortcoming of the book is that readers familiar with the German language will find a number of misspelled German words, particularly in the bibliography.

The undogmatic approach of the author allows a unique judgement of the merits of current and past research in Austrian theory. All in all, her message is strong: Most prominent Austrians after Menger failed to understand the task started by him. Mainly through Lachmann, a slow process of rediscovery of Mengerian thought also facilitated by Mises and Hayek was brought into motion. I hope that this book will not be neglected or cast aside due to its highly critical stance but, to the contrary, will incite a lively and productive debate on the issues raised. An open confrontation with the arguments presented in Gloria-Palermo’s book promises to be a fruitful undertaking not only for Austrian economists. One hundred and thirty years after Menger’s contributions, Austrian economics might finally return to a truly “Austrian” analysis of economic phenomena.

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