

The Economics of Time and Ignorance by Gerald P. O'Driscoll Jr. and Mario J. Rizzo

(Blackwell, Oxford, 1985), pp. X + 261, 8.50, ISBN 0-631-15484-1

This is a fine book in the Austrian subjectivist tradition. In the first sixteen pages the reader is acquainted (if at present unfamiliar) with basic precepts of subjectivist economics and the common ground shared with post-Keynesians. Keynes had recognised that individual choice was the vital distinction between natural and social science: 'it [would be] as though the fall of the apple to the ground depended on the apple's motives'. Nevertheless, a reader unfamiliar with Austrian methodology might appreciate more *The Economics of Time and Ignorance* if he/she reads the first few chapters of Littlechild's Hobart Paper¹ which will answer, in simple terms, such questions as: who are the Austrians? What are the basic tenets of Austrian theory? How does Austrian economics differ in theoretical construction and policy formulation from neo-classical and Keynesian economics? True, these matters are explained as one works through the pages of *The Economics of Time and Ignorance*, but as most economics students, nearly all Australian economics students and every economist of my close acquaintance knows little or nothing of the Austrian school, a small amount of coaching would not be amiss.

In four 'framework' chapters, O'Driscoll and Rizzo explore some key concepts: static vs dynamic subjectivism, knowledge and decisions, the dynamic conception of time (real time and Newtonian time), uncertainty and equilibrium. The last section is of particular value; it not only examines the critical differences between Austrian equilibrium and that taught by more popular schools but also explains the nature of equilibrium most cogently. (On examination papers in Austrian economics the tricky questions must surely be those about equilibrium; doubtless compulsory).

If a theory is to incorporate time and ignorance as an integral part (and not as a footnote) then such a theory must be of process, not of states. The unlikelihood of perfect co-ordination when individuals make decisions in real time and under genuine uncertainty means that some people will be frustrated in achieving their goals; market activity can be understood as a **process** of **attempting** to correct errors and to co-ordinate behaviour; a process which, at times, will fail. Errors and corrections do not necessarily lead to a state of equilibrium.

From page 95 onwards the book comprises four chapters of applications and one on unresolved problems. These chapters on applications are, in my opinion, the best parts of the book: lucidly written, compellingly argued blends of theory and application. I found chapter 6, Competition and Discovery, full of fine analysis and insight in the Schumpeterian style. How many of today's economics undergraduates even know his name?

The next chapter on Competition and Monopoly is no less commanding. The discussions of anti-trust, pollution and property rights theory are particularly interesting. The application of Austrian theory to deregulation of telephones and airlines (fields where wild polemics, articles of faith or soporific description often hold sway) is particularly well executed. Unfortunately, but expectedly, no advance is made on the patents issue, a long-time nuisance for Austrians. Arnold Plant would have us abandon patents. Schumpeter saw them as a useful means of securing innovation. O'Driscoll and Rizzo want to leave them aside:

'Patents and copyrights are tough cases. Traditional arguments in their favour are well known. Though we are suspicious of some of these, we are by no means prepared to argue here forcefully and universally against either patents or copyrights' (p. 155).

Critics of Austrian theory need seek no better place to start than here. Surely, they might argue, if the theory makes no clear predictions on patents there must be a fault in assumptions, construction or logic. Or is it that Plant did correctly draw out the implications of the theory and most other 'Austrians' found these implications too radical or too extreme to cope with? In general, Austrians are not habitually so circumspect on policy issues.

Chapter 8, on capital theory, is contributed by Roger Garrison who makes the subject accessible enough, even to those, like myself, who claim no expertise in that field. Chapter 9 contains a detailed discussion of the distinctive Austrian perspective on monetary theory. 'Where a subjectivist draws the line . . . is in insisting that nothing other than micro-economic forces are at work. Among other things, this precludes analysis in terms of such hoary macroeconomic concepts as "the price level of output or output as a whole". Neither aggregate has any real existence, or has any direct impact on economic decision making' (p. 226).

The book concludes with a short, eight-page, chapter on unresolved issues. Special research attention, it is argued, should be devoted to relationships between law and economics, the analysis of money and the formulation of competition.

My major complaint is about the organisation of the book. The early chapters, the framework ones, while technically well-written, require intense concentration because of the large number of abstractions which crop up in most paragraphs, sometimes several in a sentence. The lucidity of the subsequent applications chapters comes as a relief and gives rise to the question why the framework chapters could not have been interwoven with examples to illustrate and enliven. The existing organisation will suit the philosopher kings rather than those who, when teaching economics to the reluctant, have formed the habit of setting all abstract concepts in concrete foundations. Pedestrian perhaps, but it keeps them awake for the good bits: and the good bits in *The Economics of Time and Ignorance* are exceptionally commendable indeed.

REFERENCE

1. S.C. Littlechild, *The Fallacy of the Mixed Economy*, Hobart Paper 80, Institute of Economic Affairs, London, 1978.

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Economic Appraisal of Health Technology in the European Community edited by M.F. Drummond

(Oxford University Press, New York, 1987), pp. xvi + 272, Cloth \$105.00, ISBN 0-19-261634-X.

This book contains the Proceedings of an EC (European Community) workshop on the Methodology of Economic Appraisal of Health Technology, held in the United Kingdom in September 1985. To those who attend workshops, this might be off-putting because, too often, such events are ill-structured and have too little