Note

1 The distinction between Real and Monetary Analysis is due to Schumpeter (1954).

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Osvaldo Schenone and Adrián Ravier*

This fascinating book starts out by telling us that Friedrich A. von Hayek, alarmed by the rapid advance of socialism and the horrors of the war, summoned the main liberal thinkers of the world to a meeting that was carried out in the small town of Mont Pelerin, Switzerland, in 1947. This encounter extended for ten days at the beginning of April of that year, with the attendance of 38 intellectuals. These individuals were predominantly economists, historians and philosophers. Prominent members of both the Chicago and the Austrian Schools attended the meeting to establish a society that would have the goals of preserving a free civilisation and opposing all forms of totalitarianism. Some of the most prominent intellectuals of the twentieth century subsequently became presidents of this society, including Hayek, Wilhelm Ropke, Bruno Leoni, Milton Friedman, George Stigler, James Buchanan, Gary Becker and Pascal Salin.

Of course, not everyone at the first meeting at Mont Pelerin had identical ideas with respect to every detail that was discussed. However, there was a consensus that they were, essentially, pursuing a common objective. Mark Skousen's book is a successful attempt to review this intellectual friendship between both schools of thought, pointing out the main issues that unite or divide them.

Chapters 2 and 3 describe the intellectual environment in which each school was born and raised. Skousen points out that both were born out of crisis: the Austrian School emerged as a response to the intellectual crisis of late nineteenth century that was resolved with the marginalist revolution that rescued classical economics from an incipient but increasing socialist/Marxist influence, while the Chicago School emerged as an opponent to the Keynesian proposal to resolve the Great Depression of 1930. As Israel Kirzner explains:

> It is important not to exaggerate the differences between the two streams … there is an almost surprising coincidence between their views on most important policy questions … both have basically the same sound understanding of how a market operates, and this is responsible for the healthy respect which both approaches share in common for its achievement. (Kirzner 1967, p. 102)

Skousen devotes chapters 4 to 7 of the book to explore the four main disagreements: 1) methodology; 2) limitations to the role of government; 3) the monetary system; and 4) macroeconomics and the business cycle.

Skousen offers his opinion as to which school has the most convincing argument for each of the disagreements, concluding each of these chapters with either 'Advantage: Vienna' or 'Advantage: Chicago'.

The agreements, disagreements and Skousen's verdicts are summarised in the table below.

Summary Table: Agreements and Disagreements

<table>
<tr><th colspan="2">Agreements. The members of the Austrian and Chicago Schools are philosophical cousins rather than foes.</th><th colspan="2">Disagreements</th></tr>
<tr><td>1</td><td>Both champion the sanctity of private property as the basis of exchange, justice and progress in society.</td><td rowspan="3">1</td><td rowspan="3">Methodology.
The Austrians favour a deductive, subjective, qualitative, and market-process approach to economic analysis. Economics should be built upon self-evident axioms, and history cannot prove or disprove any theory. The Chicagoans prefer historical, quantitative, and equilibrium analysis. Theories should be empirically tested and, if the results contradict the theory, the theory is rejected or reformed.
Advantage: Chicago</td></tr>
<tr><td>2</td><td>Both defend laissez-faire capitalism and believe in Adam Smith's invisible hand doctrine, namely, that self-motivated actions of private individuals maximise happiness and society's well-being, and that liberty and order are ultimately harmonious.</td></tr>
<tr><td>3</td><td>Both are critics of Marx and the Marxian doctrines of alienation, exploitation and other anti-capitalist notions.</td></tr>
<tr><td>4</td><td>Both support free trade, a liberalised immigration policy and globalisation.</td><td rowspan="3">2</td><td rowspan="3">Proper role of government.
Both are 'anti-statist' but the Austrians are more so than the Chicagoans. The latter are more willing to accept government action in cases of alleged 'market failure' such as, for instance, externalities or public goods.
Advantage: Vienna</td></tr>
<tr><td>5</td><td>Both generally favour open borders for capital and consumer goods, labour and money.</td></tr>
<tr><td>6</td><td>Both oppose controls on exchange, prices, rents and wages, including minimum wage legislation.</td></tr>
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7	Both believe in limiting government in defence of the nation, individual property, and selective public works.	3	*Sound money.* Most Austrians prefer a gold standard or, more generally, a commodity standard created by the marketplace. Some demand a 'free banking' system, whereby private banks compete among themselves by issuing their own currency. The Chicago School rejects the gold standard in favour of an irredeemable money system, where the money supply increases at a steady rate and is not subject to the discretionary power of the government. Both ideally desire 100% reserves on demand deposits (reserves constituted by gold for the Austrians, or by fiat money for the Chicagoans). **Advantage: Chicago**
8	Both favour privatisation, deregulation and denationalisation.		
9	Both oppose corporate welfarism and special privileges.		
10	Both reject socialistic central planning and totalitarianism.		
11	Both believe that poverty is debilitating but that natural inequality is inevitable, and they defend the right of all individuals, rich or poor, to keep, use and exchange justly acquired property.		
12	Both refute the Keynesian and Marxist interventionists who believe that market capitalism is inherently unstable and requires big government to stabilise the economy.		
13	Both are generally opposed to deficit spending, progressive taxation and the welfare state, and favour free-market alternatives to Social Security and Medicare.	4	*Business cycles, capital theory, and macroeconomics.* For the Austrians the cycle arises from expanding the fiat money supply and artificially lowering interest rates (below Wicksell's natural rate), which creates an unsustainable boom that must eventually collapse. The collapse is explained by the 'time structure of production' concept. The Chicagoans argue that a steady increase in the money supply equal to the average economic growth rate will provide a sustainable non-inflationary economic environment. The debate basically comes down to a question of whether the transmission of inflation causes structural imbalances in the economy, particularly in the 'higher order' capital markets and industries. If it does, the Austrians are right. If it doesn't, then the Chicagoans are right. **Advantage: Vienna**
14	Both favour market and property-rights solutions to pollution and other environmental problems.		

Skousen characterises the Chicago and Austrian Schools as the pragmatist vs the idealist: "The Chicago and Austrian schools differ markedly in their strategy and influence. They are like two fighting brothers who really have the same goals in mind, but who don't get along because of major differences in personality and approach. The typical Austrian brother is an uncompromising idealist and a recluse, and the Chicago brother a pragmatic activist and extrovert" (page 267).

The typical Austrian brother would oppose, for instance, the progressive income tax to achieve income redistribution because it is detrimental to individual freedom and property rights. The Chicago brother would quickly agree and put aside, temporarily, these considerations to move on and prove (using both theoretical and empirical considerations) that the progressive income tax fails to redistribute income effectively.

Instead of arguing that the progressive income tax is bad because it serves an evil purpose, the Chicago brother would agree that it is bad for the same reason, and, moreover, does not even yield the effect for which it was intended. Thus the Austrian brother would accuse the proponents of the progressive income tax of having evil intentions, while the Chicago brother would accuse them of being stupid to pick an instrument that cannot possibly fulfil their own objective.

This dichotomy is perhaps most apparent in relation to their opposition to the policy of rent ceilings. Friedman and Stigler published 'Roofs or Ceilings?', criticising rent control on the grounds that it would ultimately generate a reduction of the number of units for rent, especially for the poor who were intended to be the beneficiaries of the rent control. Ayn Rand (not an Austrian economist, but closely associated with them) furiously criticised Friedman and Stigler, arguing that the only valid reason to oppose rent controls should be that it violates the property rights of the landlords.

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James P. Huzel. *The Popularization of Malthus in Early Nineteenth Century England: Martineau, Cobbett and the Pauper Press*. Aldershot, UK and Burlington, VT: Ashgate. 2006. Pp. xiii + 266. ISBN 0 7546 5427 3 (hb). £55.

Michael Schneider*

Robert Malthus believed the relief to the poor provided by the English Poor Law to be one of the causes of growth in population outstripping growth in the means of subsistence. In 1969 James P. Huzel published the first of several articles examining the relevant empirical evidence, concluding that on this count Malthus was mistaken; 1996 marks the publication of his more wide-ranging entry on Malthus in *British Reform Writers, 1789-1832: Dictionary of Literary Biography*. The book under review, presumably Huzel's first monograph, provides a fitting climax to his lifelong studies in this area. His historical insight, supported by encyclopaedic knowledge of the relevant facts, has enabled him to be judgemental in a judicious way. And he writes beautifully, combining clarity with occasional flashes of wit or irony.