Hardin Strikes out on the Economics of Information

Abstract
Hardin (2009) is a valiant attempt to analyze from an economic perspective issues of information and knowledge. Although he does shed some light on this subject, his neo-classical analysis is not free of flaws. In this review essay, I criticize this author as a nihilist, and an improper supporter of labor unions. I maintain that he commits errors with regard to normative and positive economics, Soviet style collective farming, liberty, and interpersonal comparisons of cardinal utility.

Keywords: economic nihilism, organized labor, Soviet agriculture, normative and positive economics, interpersonal comparisons of utility

I. Introduction
How do you know things? How do you find them out? How reliable is your information? Do you rely on others for your educational input, or do you find things out for yourself? Are you doing something untoward if you rely on authority figures to inform yourself about important issues?

These are the sorts of questions addressed by Hardin (2009). He has a theory¹ that provides a pretty good first approximation of an answer to all of them (2): “… a theory that focuses on the costs and benefits of having and coming to have knowledge, or to correct what knowledge one has. It most fundamentally (is) … a theory of trade-offs between gaining any kind of knowledge and doing other things, such as living well.”

But it is not an entirely satisfactory response, as costs and benefits are necessarily subjective (Barnett, 1989; Block, 1988; Buchanan and Thirlby, 1981; Buchanan, 1969, 1979; Butos and Koppl, 1997; Cordato, 1989; DiLorenzo, 1990; Garrison, 1985; Gunning, 1990; Kirzner, 1986; Mises, 1998; Rizzo, 1979, 1980; Rothbard, 1979, 1997B), and thus not capable of the full elaboration and understanding that Hardin attempts to make of them. States Hayek (1979, 52): “And it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.” Our author (5) tries to distinguish his perspective from that of Stigler’s: “… it is not merely about the costs of information, as it is in some economics accounts of, for example, George Stigler (1961).” This is a bit unfair to Stigler (1961), as the latter is careful to include not only costs of information in his analysis, but benefits as well.³

In section II we discuss Hardin’s nihilism. Section III is given over to organized labor. The burden of section IV is to analyze normative and positive economics. Sovietized agriculture is the topic of section V. Section VI addresses liberty, and VII Hayek’s role in it. We visit interpersonal comparisons of cardinal utility in section VIII, and section IX is our conclusion.

II. Nihilism
Hardin (3), quite correctly in my view, notes that “… we are all ordinary people in most realms.” Thus, we must, perforce, rely on the opinions of experts in the fields that are not our own specialty, most everything, for most people. But Hardin’s (61) critique of Kinsley (1995, 5), goes way too far. Extremist that he is, Hardin draws a quasi nihilist conclusion from eminently sensible premises. First, the quote from Kinsley (1995):

“IT’s not just that Americans are scandalously ignorant. It’s that they seem to believe they have a

¹ Full disclosure. This review is not the first time I have crossed intellectual swords with this author. There is also Block (1999).
² All page references to Hardin in this review are to this one book, unless otherwise specified.
³ For a far more successful criticism of Stigler (1961), see Kirzner (1973).
democratic right to their ignorance. All over the country – at dinner tables, in focus groups, on call-in radio shows, and, no doubt, occasionally on the floor of Congress – citizens are expressing outrage about how much we spend on foreign aid, without having the slightest idea what that amount is…. People are forming passionate views about foreign aid on the basis of no information at all."

Now, Hardin’s (61, emphasis added) “refutation” of Kinsley:

“Kinsley finds these citizens somehow culpably ignorant. Yet they may be no more culpable that you would be if you did not know how to deal with someone who has collapsed before you with a possible heart attack or stroke. There are limits to what you can master intellectually, and you may be wise to invest your learning on ways to keep your family happy and healthy, or to invest your time in manifold pursuits … rather than in politics or mastering CPR (cardiopulmonary resuscitation).

“Note that none of these conclusions is an indictment of citizens for their ignorance. They are likely to be ignorant because it is rational or sensible for them to be ignorant.3 Indeed, unless you have a professional or career interest in knowing much about politics, or you find it especially entertaining, you will sensibly invest in other activities instead. You might therefore be ignorant of foreign aid policy and rightly so. The only claim we might make against you in that regard is that you should not prate your opinion about foreign aid policy.”

Note the nihilism here. From perfectly reasonable premises, that we rationally economize on all scarce goods and services such as information and knowledge, he concludes that any non expert may properly say anything he wishes, not matter how outlandish, provided only that he does not “prate” about this. States Rothbard (2006) in this regard:

“It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a ‘dismal science.’ But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.”

However, Hardin (61) takes it all back about “prating” when he follows up his above-mentioned statement with this:

“But why should you know even enough to know that your opinions are ignorant and baseless? You have heard a lot of complaining about excessive foreign aid, and that me the best knowledge you have for reaching an opinion.”

So, the non expert is indeed justified, or reasonable6 in stating even the most abject nonsense. Take me, for example. I know nothing about CPR. If it is possible to have negative information about this process, then I qualify. One might think that, according to Hardin, I should not “prate” about this topic, not pontificate about it. But, there is no reason at all that I should even realize that my expertise in CPR is nonexistent. Thus, I may “prate” about this all I want, and Hardin shall not upbraid me at all, certainly not for misleading others about CPR. It this is not nihilism, it is the next best thing. Rothbard’s (2006) characterization of me mouthing off on CPR as being “irresponsible,” in contrast, hits the bull’s eye.

Here is one more example of Hardin’s (110) nihilism:

“Suppose you grew up among the Azande in central Africa before the intrusion of anthropologists, and have a collection of beliefs many which anyone who grew up in an advanced industrial state would consider incontrovertibly wrong…. Indeed, if you’d grown up in a modern state and held such beliefs, we would hold you crazy. Yet it would be odd to call Azande beliefs crazy for the Azande. Why? Essentially because of the economics of belief. For an individual Zande the costs of knowing better might be egregious. More generally, we must suppose that individuals’ intellectual histories matter for explanations of their views, knowledge and theories. In various respects, the nature of such facts also matters for philosophical discussion.”

This is precisely what von Mises (1998,5) characterized as “polylogism,” and is one of the hoariest of fallacies in all of science: “Racial polylogism assigns to each race a logic of its own….They say that it is an illusion to believe that scientific research can achieve results valid for people of all eras, races, and social classes.”

Contrary to Hardin, it is not a matter of “growing up” here or there. If the specific belief6 was of the sort that rain dances cause rain, then the one

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4 “In poll after poll, Americans overwhelmingly say they believe that foreign aid makes up a larger portion of the federal budget than defense spending, Social Security, Medicaid, Medicare, or spending on roads and other infrastructure. In a November World Public Opinion poll, the average American believed that a whopping 25 percent of the federal budget goes to foreign aid. The average respondent also thought that the appropriate level of foreign aid would be about 10 percent of the budget — 10 times the current level. Compared with our military and entitlement budgets, this is loose change. Since the 1970s, aid spending has hovered around 1 percent of the federal budget.” (Norris, 2011)

5 This is very Stiglerian (1961); hence, Hardin’s attempt to distinguish himself from Stigler is puzzling.

6 We are of course not discussing legal justification. The libertarian philosophy on this matter to which I subscribe, maintains that anyone may say anything he wants on any subject, with the one exception against uttering threats.

7 Am I being too picky in criticizing Hardin on this issue? Well, his book, after all, concerns knowledge and its proper use, the precise subject of this criticism.

8 Hardin does not mention any examples.
prevalent on the part of the Axande that they actually work, is just plain wrong, while the one in western Europe, that they never do, is correct. It is not at all the case that rain dances cause rain is true for the Axande, while false for the western Europeans. This belief is just incompatible with any and all empirical evidence, whether in Europe, or Africa, or Mars for that matter. Yes, indeed, if you were an intelligent Axande, you might well find it politic to keep your mouth shut about your reservations concerning the effects of rain dances, and, perhaps, even partake of them out of fear of negative repercussions if you did not join in, but that is entirely a different matter.

III. Unions
We must also take issue with Hardin’s (62-63) treatment of unions:
“… if enough others take action and join a strike against their employer, they can expect to force a raise by getting the company unionized for collective bargaining on wages and other employee concerns.”

Yes, yes, there is no doubt that organized labor, through the threat of violence, can indeed raise wages and improve working conditions – in the short run. But, in the long run, remuneration is determined not through physical coercion, but is rather based on marginal revenue productivity. So, does unionism enhance productivity? To ask this is to answer it, and the rust belts of heavily unionized areas the world over are ample testimony concerning this bit of knowledge. Between organized labor fomented-strikes, jurisdictional disputes, exploiting “scabs,” promoting lawsuits, there can be little doubt that this type of organization constitutes a tapeworm, or a parasite, on legitimate businesses. But, perhaps, at least on his own grounds, Hardin can be forgiven for “prating” about an issue, since he is evidently ignorant of this field (Baird, 1990, 2000; Block, 1984, 1991, 1996A, 1996B, 2008, 2010; Evans and Block, 2002; Heldman, 1977; Heldman, Bennett and Johnson, 1981; Hutt, 1973, 1989; Petro, 1957; Reynolds, 1984, 1987, 2009; Schmidt, 1973; Shea, 2010; Rothbard, 1993, n.d.).

IV. Normative and positive economics
Our author, it would appear, is also woefully ignorant concerning the normative-positive distinction, as exemplified by his treatment of Austrian economics. In his view (85):
“The earliest understanding of liberalism is that individuals should be allowed to go their own way on many social issues. I will claim that the vision is equivalent to a social version of Austrian economics.

“Again, much of the argument for Austrian economics is predictive and explanatory, although it is motivated by a central normative concern, which is productivity… While virtually all might acknowledge the value of greater productivity, many might not grant the value of letting others lead their lives in certain ways. In many societies, however, it seems that the common view of politics is that it is to serve the welfare of citizens, so that its normative vision is the same as the normative vision of Austrian economics.

“In a remarkable book, Seeing Like a State, James Scott … defends a thesis that is akin to the central vision of Hayek and the Austrian school of economics. The knowledge needed to run a society is widely distributed, and very much of it cannot become available to a central government. Hence a central government should not attempt to manage society in detail, and it should not attempt massive redesign of society.”

There is a grave error here: a confusion regarding normative and positive economics. The former is value laden, and answers questions of the type, “What is the good?” “What economic acts are justified?” “How should society be run?” The latter is value free, and responds to very different challenges, such as “What will be the effect of such and such a policy?” “How do we explain the business cycle?” “How can we account for unemployment?”

Raico (2010) states: “Writers have sometimes freely referred to ‘the Austrian ethical position’ … and the ‘moral and ethical stance’ of the Austrian economists …, denoting a position with strong (liberal) implications for politics. At first glance, this is surprising, since Austrian economists have been at pains to affirm the Wertfreiheit (value-neutrality) of their theory, and thus its conformity to Weberian strictures on the character of scientific theories…. Ludwig von Mises, for instance …, stated that, ‘economics is apolitical or nonpolitical… it is perfectly neutral with regard to judgments of value, as it refers always to means and never to the choice of ultimate ends (see also Block, 1975; Mises, 1949; Rothbard, 1957, 1976A)”

It would be utterly impossible for an Austrian economist to say anything remotely resembling: “Hence a central government should not attempt to manage society in detail, and it should not attempt massive redesign of society (85).” These normative conclusions simply do not follow from any positive economic analysis. Nor could any Austrian economist worthy of his salt ever (91) “deplore Sovietization of the economy and of agriculture.”

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9 Other normative positive howlers of Hardin’s are “the chief policy implication of the Austrian vision,” “Austrian laissez faire” (96), “… both the form of liberties and the strategy for defending them fit the Austrian theory” (96), “this Austrian vision of social order” (97), “Austrian-Madisonian views” (99). Perhaps some of this could apply to the country, Austria, and, indeed, much of it is an accurate description of the ethical values adopted by many (but not all) contributors to Austrian economics. However, to maintain that any of these phrases can possibly apply to Austrian economics itself, is to commit the normative positive fallacy. There is no “policy
In the view of Rothbard (1976A): “Economics is a \textit{wertfrei} science. Praxeology, as deduction from self-evident axioms, makes no value judgments. These must be supplied by the economist when he advises on public policy: in doing so, he is not neutral.”

V. Sovietized agriculture

Reading in between the lines, it is fair to assert, however, that our author “deprecate(s) Sovietization of the economy and of agriculture.” How, then, account for his cheerleading for the coercive governmental collection of statistics (87-89), which Rothbard (1997A) has correctly characterized as “… in a crucial sense, critical to all interventionist and socialist activities of government.” If Hardin really opposed government intervention, he could not rationally support giving government what they think of as their eyes and ears. But, of course, he does not. No libertarian he, Hardin (88) favors statist collectivization of data to promote “political fairness, mass education, and egalitarian policies… civil rights … fair taxation… and making policies in various areas.”

Hardin, no economist either, evidently, thinks it is coherent to posit a scenario (89) “when most of the workforce is engaged in virtually subsistence agriculture,” a hoary economic fallacy if ever there was one. Suppose that the masses of workers really were living at a subsistence level. How much would the rational entrepreneur bid for a slave? Why, zero, of course. What is the point of slave holding, if your hapless victim cannot produce more than is necessary to keep body and soul together? But, if no one would pay anything for a slave, why, then, there would be no slavery. Yet, this “curious institution” has been in effect for thousands of years, throughout all of recorded history. This means that the average person for all of those cons was \textit{not} producing at a subsistence level, but, rather, above it, sufficiently so to ensure there would be a profit fromslave capture and holding.

There are three reasons for the economic failure of the Soviet Union in general, and for that of mass collectivized farming in particular (Boetke, 1991, 1993; Dorn, 1978; Ebeling, 1993; Foss, 1995; Gordon, 1990; Hayek, 1935a, 1935b, 1940, 1948; Hoff, 1981; Hoppe, 1989, 1991, 1996; Horwitz, 1996; Keizer, 1987, 1997; Kirzner, 1988; Klein, 1996; Lavoie, 1981, 1985; Lewin, 1998; Mises, 1975, 1981; Osterfeld, 1992; Pasour, 1983; Reynolds, 1998; Richman, 1981; Rothbard, 1971, 1976B, 1990, 1991; Salemo, 1990, 1995; Steele, 1981, 1992). First, and most important, was that supplied by Mises (1933, 1969, 1998); without market generated prices, based on scarcity and desirability, it would be impossible to rationally plan. There would be no way of determining, for example, whether it was most economical to create wagons out of wood, metal or plastic; to do so with which proportion of skilled and unskilled labor; with imports or domestic inputs and in which combinations. Second, and of lesser importance was a theory supplied by Hayek (1935A, 1935B, 1940, 1948), the local conditions of time, space, abilities, could not be known to the central planners, mainly because of informational overload, but also because of specificity. Third, and of least importance was the challenge of incentives: the egalitarian philosophy of the communists would not encourage entrepreneurship, which was forbidden in any case, nor, even, hard work on the part of the rank and file.

Hardin (84) notes that “We generally think of the Austrian school of economics, which includes F. A. Hayek … Ludwig von Mises … and many others…” Yet, when it comes to his analysis of why collective agriculture fails, Hardin (91) ignores the excellent Misesian explanation entirely, erroneously rejects the good and correct rationale offered by Hayek, and seizes upon the least important one, incentives:

“… if one wishes to claim that local knowledge was the crucial problem with collective farms, one must explain why after nearly three generations the requisite local knowledge had still not arisen to run those farms collectively. What had happened, of course, was the rise of local knowledge about how to subvert the collective effort by capitalizing on standard individualistic economic incentives. The failure of collectivization was therefore a failure of incentives, not a failure to rely on local knowledge.”

Bosh and tosh. What is this local knowledge about which Hayek places such emphasis, and Hardin rejects on the ground that, surely, after 70 years or so, it must have percolated up to the central planning authorities? It concerns such things as whether it is better to slaughter this cow or that one: bovine A gives more milk, but is less reliable, and is a slightly worse breeder than bovine B; whether Ivan or Dmitri is more reliable in general, but what about their relative ages, states of health as a prognostication for the future; whether Maria should be assigned to the hens and Alicia to the goats, or vice versa. \textit{This} is the sort of thing that Hardin expects to come to the attention of the central planning bureau several time zones away? As for incentives, if they were so all important, how, then, explain the failure of the kibbutz movement, for which we can pretty safely assume, at least from an ideological point of view, that there would be minimal risk of people “subvert(ing) the collective effort by
VI. Liberty

Hardin (93) is of the opinion that too much liberty can be a bad thing for economic welfare, and that cooperation and liberty are substitutes for one another, not complements: “In general, the ratio of liberty to restrain is greatest for those in a frontier context, in which they need not be bound by any cooperative or coordinative arrangements. But that is not a very desirable state of affairs, because the frontier context is likely to be impoverished, and liberty with poverty does not enable one to do much or to prosper well. The anarchist’s liberty comes at a dreadfully high price.”

There are difficulties here. Freedom and liberty enhance liberty, do not diminish it. There is a wealth of empirical evidence to buttress this claim (Gwartney, Lawson and Block, 1996; Gwartney, Lawson and Holcombe, 1999; 2006; Gwartney, Lawson and Samida, 2000; Gwartney and Lawson, 2003A, 2003B; 2007; Gwartney, Lawson and Clark, 2005; Gwartney, 2009; Holmes and Kirkpatrick, 1997; Miles, Fuelner, O’Grady, Eiras and Schavey, 2005; Miller and Holmes, 2010, 2011; O’Driscoll, Holmes and O’Grady, 2002.).

Those countries that are economically freer than others have higher per capita GDP, and, also, better growth rates. Those with less economic freedom are poorer, and grow more slowly, or not at all. And, there is a theoretical reason why this should necessarily be so: all economic freedom consists of is the right to trade private property with others. But, every such exchange necessarily benefits both parties to it, at least in the ex ante sense: each participant in a commercial interaction gives up what he values less, for something upon which he places a higher importance. If all the free market consists of is these mutually beneficial exchanges, it should be no occasion for wonder that nations which allow more of this would outstrip those that permit less of it. And, as for the “frontier context” being wild and wholly, with no “cooperative or coordinative arrangements” available, Hardin would do well to consult Anderson and Hill (1979) an empirical study that paints a very different picture of this epoch and geographical area.

VII. Hayek

Hardin (99) admires Hayek not only as an Austrian economist, but also, possibly even more so since he really does not at all understand this school of economic thought, as a classical liberal, or libertarian, or, in our author’s own words, a Madisonian:

“Madison essentially proposed a government of decentralization of enterprise to individuals... The nearest equivalent to Madisonian theory in the twentieth century has been Austrian economics, as represented by Hayek and others. Theirs is ostensibly an economic theory, but in fact, as noted earlier, its most cogent insights lie essentially in board social theory.”

Insofar as politicians are concerned, James Madison was far from the worst President, in any ranking that might be made by libertarians. To say that he was a strict constructivist would be putting it far too mildly; it is no exaggeration to maintain that he was actually the father of the U.S. constitution. Of course, from a strict libertarian point of view, the Articles of Confederation was better than the Constitution (Gordon, 2007), and both of them were illegitimate (Spooner, 1870). So Hardin is on pretty firm grounds in linking him to economic freedom. But this is far less the case in choosing Hayek as the Austrian economist, who in his non-narrowly construed economic writings, most favored free enterprise. In truth Hayek was at best a fair weather friend of laissez faire capitalism (Block, 1996C, 1999B, 2006B; Rothbard, 1980, 1981-1982, 1998, ch. 28), continually acceding to all sorts of exceptions to this philosophy, and hence compromises with the free market private property rights system.

VIII. Interpersonal comparisons of cardinal utility

According to Hardin (109): “… marginal theory is itself the starting point for neoclassical economics, in which additive or gross utility is rejected.” It is not at all true that “gross” or cardinal utility is rejected by mainstream economists. Yes, it is only on rare occasions that they place “utils” on the vertical axis, certainly a smoking gun dead give-away (Barnett, 2003, appendix). But indifference curves are ubiquitous in neoclassical micro economic analysis, and the point of tangency between the budget line and the indifference curve yields the following equation: MUa/Pa = MUb/Pb, where MU represents marginal utility, a and b two different goods, and P, their prices. But this is cardinal, not ordinal utility. The former yields numbers such as 1, 3, 17, 31; the latter, does not. It’s numerical attributes are in the form of 1st, 3rd, 17th, 31st. But it is only permissible, mathematically, to divide or mathematically manipulate the first set of numbers, not the second. Given this mainstream equilibrium point equation, only cardinal, not ordinal utility, can be under discussion.

Why is this at all important? It is because Hardin knows full well that no valid economic theory can justify governmental intervention into the economy; yet, he yearns for just that in his heart of hearts; thus he must reject the dismal science so that he
can justify his dirigisme wishes, and offer a “rational” basis for it to boot. To set the stage for this, Hardin (124) avers:

“The virtual impossibility of having large-scale social institutions take interpersonal comparisons of welfare into account in many contexts will yield an argument in favor of taking such comparisons seriously in social policy.”

Thus, we have a “reason” for engaging in such interpersonal comparisons.

The next stage is as follows. Hardin (132) correctly notes that “Virtually no significant policy action can meet this standard,” namely, the Pareto optimum, “where our policy decisions must make no one worse off, and must make at least one person better off.” Our author continues:

“The general run of economists who claim to have inherited Pareto’s value theory, and who sometimes assert the impossibility of making interpersonal comparisons of welfare, are not Pareitian in actual practice. They regularly prescribe both institutions and policies and they are the authors of countless cost benefit analyses. The ardor with which economists have defended the impossibility of interpersonal comparisons is more than matched by the energy with which they have urged policies requiring trade-offs that could only be grounded on the assumption of such comparisons.”

In other words, our profession should once and for all embrace supposedly verboten interpersonal comparisons of utility. We have a “reason” for so doing: we cannot have “institutions for collective purposes” (132) unless we do.

But this constitutes, merely, a utilitarian argument for rejecting interpersonal comparisons of utility. There is not a single solitary word in Hardin’s entire book demonstrating that interpersonal comparisons of utility are coherent, or valid, or make any logical sense whatsoever.

What is an example of an institution that stands or falls on the basis of us embracing, or renouncing, interpersonal comparisons of utility? One of them is “eminent domain” (129). States Hardin (129) “It is hard even to imagine a workable alternative to cost-benefit analysis in many contexts, such as the siting of roads.” Maybe it takes a “hard-nosed libertarian” (131) to reject this thesis, but, it is clear that the early roads in the U.S. were private not public, and that the modern statist highways kill some 35,000 people per year (Block, 2006A, 2009). It is for this utilitarian “benefit” that we have to accept the obviously fallacious doctrine of interpersonal comparisons of utility?

**IX. Conclusion**

It is time to draw this discussion to a close.

We end by noting several more errors committed by our author.

Hardin (125) commits the fallacy composition: “As a result of its special capacities, a highly organized institution can make some kinds of decisions far better than typical individuals can.” He (126) continues: “For example, we might readily say of the general framework of government that it serves mutual advantage in comparison to having no government.”

But let us hold constant the abilities of all individuals. If it were true that groups always hold an advantage over individuals, then the individuals could voluntarily band together in just that sort of manner. The point is, there is no such thing as a group of people, apart from the individuals who comprise it. As for government being so advantageous, if this were true, why is it necessary to employ violence to get people to join? One wonders if Hardin would be willing to follow the logic of his argument to world government.

One final blunder. States Hardin (127): “In criminal law, retroactive laws are not valid. Such laws would hold someone accountable for an action that was not criminal at the time.” But this would mean that the defense of the Nazis, at the Nuremberg Trials, to the effect that they were “just following orders,” would have been justified. Surely, what was done in Germany under the Hitler period was “not criminal at the time,” at least not under the legal system of the Third Reich. That hardly makes it defensible.

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