

This working paper is the third in a three part series, which consists of the following:

1. Barnett, William II and Walter Block. 2006. "On Gallaway and Vedder on Stabilization Policy" *Quarterly Journal of Austrian Economics*. Vol. 9, No. 1, spring, pp. 57-81; [http://www.mises.org/journals/qjae/pdf/qjae9\\_1\\_5.pdf](http://www.mises.org/journals/qjae/pdf/qjae9_1_5.pdf);
2. Gallaway, Lowell, and Vedder, Richard. 2006. "How Big Is the Austrian Tent? A Reply to Barnett and Block." *The Quarterly Journal of Austrian Economics*. Vol. 9, No. 3, fall, 67-69
3. the present paper: The Austrian Tent? A Rejoinder to Gallaway and Vedder

The Austrian Tent? A Rejoinder to Gallaway and Vedder

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## The Austrian Tent? A Rejoinder to Gallaway and Vedder

How do neoclassical economists reply to Austrian critiques of their work? Typically, although to be sure there are exceptions, they ignore them.<sup>1</sup> That is, the former move mountains in an effort to avoid the arguments of the latter. Sometimes this occurs even when neoclassicals explicitly reply to Austrian critiques.

A case in point is Gallaway and Vedder (2006). Ostensibly written as a critique of Barnett and Block (2006), this “Reply” manages to ignore every substantive criticism leveled at them by their critics. Instead, it focuses on a point irrelevant to the substantive issues, but an interesting one for all that.

What are the specifics? Barnett and Block (2006) took to task Gallaway and Vedder<sup>2</sup> (1987, 1997 and 2000). Here are the criticisms launched by the former at the latter (B&B, 2006, 58):

“... what sets Austrians apart from mainstream economists is methodology and consequent analyses. It is thus with the methods and analysis of G&V that we take issue. To that end we pursue in part I six strands: 1) excessive aggregation, the meaning of ‘the *wage rate*,’ and the ‘adjusted real wage;’ 2) average v. marginal productivity and reality v. perfect competition; 3) consequences for unemployment of disequilibrium real-wage rates in the labor market and implications of perfectly inelastic labor supply; 4) the lack of clear documentation of data sources; 5) statistics, and ‘normal’ or ‘natural’ values; and, 6) exogenous shocks: inherent in the data or artifacts of the calculations. In part II we address some further questions concerning the classification status of G&V (2000) and claim that despite its ‘tipping of the hat’ in the direction of Austrian economics, it cannot be properly categorized as compatible with that school of thought.”

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<sup>1</sup> Block, Westley and Padilla (unpublished) lists some 100 instances where the two schools of thought have tangled.

<sup>2</sup> Hence, B&B and G&V

In other words, our *main* focus in B&B (2006) was in our part I (pp. 58-72), where we challenged them on substantive issues. Since they claimed to be Austrians we considered that claim in our part II (pp. 72-79). But even here in this second section of our paper we (B&B, 2006, 72) charged G&V with being “substantively erroneous.”

And what is the response of G&V (2006)? It is to completely ignore our substantive criticisms, every last one of them, and to focus, instead, on our characterization of them as mainstream economists, not Austrians.<sup>3</sup> So be it. If they implicitly accept our substantive criticisms by not replying to them in their “Reply,”<sup>4</sup> we are happy to acknowledge this concession. Let us, then, consider the points they do make.

They (G&V, 2006, 67) are concerned about the “economic taxonomy” in which we have categorized them. One defense of their Austrian “bona fides” is that they have “proceeded in good faith (G&V, 2006, 68).” But good faith is neither a sufficient nor necessary condition for being properly classified as an Austrian.

Another defense is the letter written to them (G&V, 2006, 68) by Murray N. Rothbard, dated 11/21/83, accepting a paper of theirs for publication in the *Review of Austrian Economics* (G&V, 1987). We repeat it here:

“One criticism, for example is that Mises’ insight that unemployment is caused by excessively high wage rates is not uniquely Austrian, and it not essential to Austrian business cycle theory. Since it is part of Austrian theory, however, and since Mises was one of the few people hammering away at this, your reference to Mises is perfectly justified (also, business cycle theory is not all there is to Austrian economics.)”

This Rothbard letter is mentioned (G&V, 2006, 68) to rebut our claim (B&B, 2006, 76, 80) that G&V (2006) “mangled” a Mises quote, and “condescended” to Austrians. But this letter simply cannot bear the weight G&V place upon it. Yes, to be sure, the “insight that unemployment is caused by excessively high wage rates is not uniquely Austrian” is true. It is also true that “Mises was one of the few people hammering away at this,” which makes it an Austrian concern, albeit not uniquely so. On this matter, all Austrians and many if not most neo-classicals overlap.<sup>5</sup> But so what? B&B (2006) didn’t even come close to criticizing any of the publications of G&V on *this* particular ground. Merely because we did indeed take G&V to task for “mangling” and

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<sup>3</sup> Despite rejecting this claim, we do take kindly to it. After all, if neoclassicals are falsely claiming adherence to praxeological principles, this is surely a sign of success for Austrian economics.

<sup>4</sup> G&V (2006, 67) state: “We do not want to destroy a lot a (sic) trees in a detailed line-by-line defense of our position...” However, contrary to GV, it would not take too many trees to reply substantively; QJ isn’t a mass circulation journal. If they were so worried about trees, or, more to the point, precious and severely limited pages of one of the few refereed journal open to Austrian ideas, why waste so many of them on avoiding our substantive criticisms?

<sup>5</sup> Card and Krueger (1994) would certainly be an exception at least with respect to low-wage jobs.

“condescending” does not mean we take issue with these authors on *everything* they ever said, let alone regarding this particular point.

The *core* of Austrian business cycle theory (ABCT), it cannot be denied, does indeed concern things like “monetary creation, interest rates and capital theory” (G&V, 2006, 68). Of course, unions, and minimum wage laws create unemployment, as do subsidies such as unemployment “insurance,” and, yes, some of these phenomena played a role in the events of the 1930s. But this still does not render them *central* to ABCT, or, indeed, even related to it. The Smoot-Hawley tariff also was instrumental in playing havoc with our economy during this epoch. But, surely, no one would go so far as to claim that protectionism is the essence of ABCT; or, even, that tariffs are part of the ABCT story.<sup>6</sup> Thus, G&V (2006, 68, emphasis added) are wrong in their contention that “*any* action ... that lead (sic) prices of factors of production to deviate from their ‘natural’ level determined by human action, sets the stage ultimately for a boom and bust condition that we call ‘business cycles.’” Perhaps that is a neoclassical view, but it is certainly not an Austrian one. Certainly, governmental intervention that mandates the blending of ethanol with gasoline, thereby distorting various relative prices; e.g., increasing those of ethanol and corn, cause misallocations of resources, but no Austrian would expect such regulations to give rise to a business cycle.

According to G&V (2006, 68-69), “In their analysis, Barnett and Block imply that at one point in time, say 1995 and earlier, Austrians were a relatively small tenuously established group that perhaps had to take a ‘big tent’ approach to defining Austrian economics for strategic reasons, but at the present time, the school is large and growing, and such expediencies are no longer needed.” In other words, we Austrians tolerated the likes of G&V in the early days, but, now that we no longer need them, it is time for the old “heave ho.” This is an interesting hypothesis, and perhaps one that G&V would care to test empirically, but none of it can be reconciled with what we actually said in B&B, 2006. Instead, we called it no less than an “intellectual fraud” (B&B, 2006, 80) to do any such thing, and this offense is a timeless one.

State G&V (2006, 69): “Being somewhat libertarian inclined, we have always been uncomfortable with being identified by group characteristics.” Not only do these authors not understand Austrianism, this applies to their comprehension of libertarianism as well. Group characteristics that apply to G&V include white, male, economists, professors, of a certain age, etc.<sup>7</sup> How and why libertarianism would mitigate against anyone, including themselves, ascribing such characteristics to them must surely be a mystery.

We, too, “have no desire to engage in a prolonged debate on” (G&V, 2006, 69) whether and to what extent these authors are Austrians. That much, at least, is clear.

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<sup>6</sup> It is true, of course, that barriers to trade, and increases therein, can slow down the adjustment process during the post-crisis bust. Barnett and Block (unpub.) considers, inter alia, these and other factors affecting the reallocation of resources during the bust.

<sup>7</sup> Come to think of it, if we may be so bold, these characteristics also apply to the present authors.

“Fellow travelers” will do quite nicely in describing them. However, we had indeed hoped for a reaction to our *substantive* economic points. In this, alas, we remain disappointed.

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