

are no "shortages" or "surpluses." All prices reflect costs, and there is no more profit in making one commodity than any other. (In fact, there is no "pure" profit at all.) These economists admit that at any moment this condition does not exist, but they contend that there is a constant long-run *tendency* toward equilibrium, because when there is an unusual profit in turning out some one product, producers will turn out more of it, and when there is a loss in turning out some other product, producers will make less of it, or transfer to making something else.

Now the concept of equilibrium (or much better, the Mises concept of an "evenly rotating economy") can have great usefulness as a tool of thought. We are often better able to analyze the problems of change if we begin with the fictitious assumption of a state of affairs in which certain changes are hypothetically eliminated. But this is a purely imaginary construction, a useful fiction. It should never be confused with reality.

While a true "equilibrium" between the marginal cost of production and the market price of any one commodity is a condition that is seldom reached, even momentarily, a "general equilibrium" in the relative production, supply price and demand price of *all* commodities and services is a condition that is *never* reached, even for an instant of time.

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The concept itself is extremely nebulous. Neoclassical economists seem obsessed today with setting up complicated algebraic equations stipulating the conditions of equilibrium or functional relations under "perfect competition" and the like, but it is difficult to specify precisely what their x's and y's stand for. They cannot refer to physical quantities, because you cannot add apples to horses, or a ton of gold watches to a ton of sand. One might add or compare quantities times prices, but what would be the meaning of the total, or any of the parts that make it up? The price, even of one commodity, differs from hour to hour, place to place, and transaction to transaction. The value of the currency itself fluctuates and constantly changes its exchange ratio with commodities. If we simply add or compare "values," then we must recognize that values are purely subjective. They are impossible to measure or to total because they differ with each individual.

If we pass over these fundamental difficulties, where do we arrive? Even if we assume that there may be a persistent long-run *tendency* toward

general equilibrium, we must admit that there is also a persistent short-run and long-run tendency toward the persistence of *disequilibrium*.

This is not only because there is a tendency of entrepreneurs, in increasing or reducing production in response to market and profit signals, to overshoot the mark, but because individual entrepreneurs, so far from making merely automatic responses, are constantly gaining new knowledge, alert to new opportunities, changing methods and reducing production costs, improving products, innovating—turning out entirely new products or inventions. And consumers too are constantly learning, changing tastes, and demanding new products to meet new wants. So Austrian economists seldom speak of market equilibrium, but of the market *process*.

My own suspicion is that the enormous attention now being devoted to stipulating the mathematical conditions of "general equilibrium" is a pursuit of a will-o'-the-wisp, of questionable help in solving any real economic problem.

But space forbids me to go into too many detailed contrasts. Let me sum up briefly the main Austrian theses once again, this time not in my own words or in Menger's, but in those of two prominent living "Austrians."

"Beginning in the 1870's in Vienna, Austria," writes Professor Kirzner, "the school was distin-

guished by its emphasis on the *subjective* elements in economic analysis, on the significance of *time* in production processes, and on the role of *error and uncertainty* in economic phenomena." (His italics.)

The summarization by Professor Lachmann is remarkably similar: "The first, and most prominent, feature in Austrian economics is a radical subjectivism, today no longer confined to human preferences but extended to expectations. . . . Secondly, Austrian economics displays an acute awareness of the many facets of time that are involved in the complex network of interindividual relations. . . . In the subjective revolution of the 1870's the first step in the direction of subjectivism was taken when it was realized that value, so far from being inherent in goods, constitutes a relationship between an appraising mind and the object of its appraisal." (*New Directions in Austrian Economics*, pp. 1-3.)

All the rest of Austrian economics follows from these basic insights. Let me conclude with my own opinion that any economic analysis that fails to embody such insights cannot be entirely sound.

RECOMMENDED READING

Those who have no previous acquaintance with Austrian economics, and would like a short and sim-