



Economics for Real People: An Introduction to the Austrian School

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The second edition of the fun and fascinating guide to the main ideas of the Austrian School of economics, written in sparkling prose especially for the non-economist. Gene Callahan shows that good economics isn't about government planning or statistical models. It's about human beings and the choices they make in the real world.

This may be the most important book of its kind since Hazlitt's *Economics in One Lesson*. Though written for the beginner, it has been justly praised by scholars too, including Israel Kirzner, Walter Block, and Peter Boettke.

Economics for Real People: An Introduction to the Austrian School Details

Date : Published January 1st 2004 by Ludwig Von Mises Institute (first published January 1st 2002)

ISBN : 9780945466413

Author : Gene Callahan

Format : Paperback 351 pages

Genre : Economics, Nonfiction, History



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Vance says

If you want an easy to read, in-depth book about Austrian School Economics, then this is the book for you. It has numerous examples to explain key concepts and comparisons with other schools of economics.

Sean Rosenthal says

Interesting Quote:

"The communist countries copied the market countries' methods of production, their products, and their technologies. Soviet planners even copied commodity prices out of the Wall Street Journal so that they would be able to perform economic calculation. Lew Rockwell once told a wonderful story about Mikhail Gorbachev's press secretary. Asked what his dream for mankind was, he replied that he wished to see all of the world embrace socialism, except New Zealand. 'Why not New Zealand?' he was asked. 'Well,' he responded, 'we need someone to get the prices from.'"

-Gene Callahan, Economics for Real People

Douglass Gaking says

The Austrian School approach to the study economics is practical, logical, and accessible. Understanding it gives one an excellent perspective on history, philosophy, politics, business, current events, and daily life. However, there are so many thinkers one needs to explore, starting with Frédéric Bastiat, Carl Menger, Ludwig von Mises, Murray Rothbard, and Friederich A. Hayek. While incredibly enlightening, their works can be overwhelming in their size, depth, and dryness. They can each take quite a while to get through, and there are so many of them.

Gene Callahan shrinks the central concepts from the works of Bastiat, Menger, Mises, Rothbard, and Hayek into one reasonably sized volume that is succinct and more colorfully written. He replaces dated examples with more modern ones to illustrate concepts, but defines almost everything with direct quotes from the economists. While so much of the content is taken from other economists, Callahan incorporates plenty of original points, writing many quotable lines about various concepts and their applications to business and society.

I highly recommend that anyone with an inkling of interest in the Austrian School or economics in general check out this book. If, like me, you have already read some of the great Austrian economic treatises, this is still a very fine refresher that connects everything together neatly, gives the reader more ideas to think about, and directs the reader toward some less popular works they may not have explored yet. The title is fitting. If you are a real person, this economics book is for you.

Aneesh says

This was my first introduction to the core of the Austrian school. I had before this read a few books explaining basic economics for the layman, but this was the one which brought everything together into a complete synthesis. Gripping enough that I read through the whole thing in one or two sittings, staying up late into the night. It would be presumptuous to say that this book 'made an economist of me', but it did teach me well the basic structure and principles of economic thinking. I now feel qualified to tackle the two great primary books (Human Action and Man, Economy, and State) of the Austrian school.

What I found most striking was that after reading the book, I could, with a little observation, watch the principles play out in my daily life, in the small events that make up the meat of living. Working as it does with a logical-introspective approach, it showed me how to clearly understand and analyse things starting from individual choices forward. The lesson that **all** of economic analysis flows from individual choice took a little longer for me to grasp; this book provided a solid foundation for seeing that for myself.

As for the cons, I didn't understand the explanation of the ABCT on the first reading - though this probably reflects my state at the time, and not a shortcoming of the book.

I highly recommend this as a first (and, if you're looking for a single one, only) book from which to get a foundation in economics.

Bill Peacock says

You can't beat this book for full yet easy to understand presentation of free market economics, Austrian-style. If you only read one book in your life on economics, this should be the one.

Ash Moran says

I read this book as one of a list of 5, and I wrote a blog post to summarise it. This review is taken from my blog post An Economics Reading List by Ron Paul, so go there for more. The full list of books is: The Law, Economics in One Lesson, What Has Government Done to Our Money?, The Road to Serfdom and Economics for Real People.

Economics for Real People is the densest and most detailed of the economics books here. But like What Has Government Done to Our Money? it's written with such clarity that it's accessible to anyone with the patience to read it.

Rather than derive economics from a Robinson Crusoe environment, Callahan uses a more contemporary metaphor:

In our alternative universe, Rich is still the winner [of the first series of Survivor], but as the film crew packs up, they decide that they are fed up with his antics. Instead of transporting him

home, they quietly slip off while Rich is getting in a last session of nude sunbathing.

Rich arises to find that he is alone. He is now facing the most elementary human problem, how to survive, in the most basic of settings. What can economics say about his situation?

Callahan takes his definition of economics from Ludwig von Mises: “Economics … is the theory of human action. Human action is purposeful behaviour. Or we may say: Action is will put into operation and transformed into an agency, is aiming at ends and goals”. Where the Austrian school’s definition of economics differs from the popular conception is that it has no basis in money (money is explained as emerging at a later point). If you have a sense of dissatisfaction, say you are “disturbed by a buzzing sound”, and you can determine a cause in your control, say “you look around … and see a mosquito”. You now “have to make a choice. Being rid of the mosquito would be grand, sure - but you’ll have to get up. And that’s a bummer. The benefit you expect to receive from being rid of the mosquito comes at the *cost* of getting up”. Human preference is subjective. “We take the thoughts and plans of humans as an ultimate given, and begin our investigation there.”

An astonishing number of concepts are introduced before even a second person appears on the island: economisation of means, preference, utility, marginal units (one extra bucket of water), the law of diminishing marginal utility, error and regret, consumer goods, capital goods, capital stock, complementary goods, time preference. All of which might sound overwhelming, but is actually told effortlessly in the story of Rich choosing to invest his time in making barrels (to collect water) and traps (to trap rats, which is the primary local food supply), all while deciding at which point he’d like to go back and sit in his hammock.

An economic community forms when Callahan introduces a second person to the island: Helena Bonham-Carter.

What does Rich decide to do? One possibility is that Rich might react like a bear does, [and] try to drive the intruder away. Now, he might refrain from doing so due to moral constraints or benevolent feelings. But there is another reason for him not to drive Helena off - as long as there are sufficient unused resources on the island, it will materially benefit both of them to co-operate rather than fight. They can initiate the vastly enriching process of the division of labour and voluntary exchange.

In Callahan’s version of this post-Survivor scenario, “Rich, the more dexterous of the two, will make traps, while Helena, the more cunning, will do the hunting”. From here we are taught the way direct exchange plays out, in terms of each of their subjective preferences for rats and traps. As more people join the island, we see goats and corn introduced, and a market start to form. But, notably, there is still no money on the island.

As the economy in “Richland” grows more complex we see the difficulty in economic calculation, and finally money emerge, but as the most marketable medium of exchange. No special status is granted to money, it’s merely an economic good that meets certain criteria, and is subject to the same supply and demand rules as any other.

It’s in this careful, step-by-step way that Gene Callahan works through a broad range of other economic

topics, including: fluctuations in money supply, socialism, government interference, business cycles, externalities (for example pollution, which is connected to tragedy-of-the-commons situations), and a brief summary of political economics. With a couple of minor exceptions, everything is as clear and grounded as the foundations in chapter 1.

This was by far the most enlightening book in the list to me, although it took correspondingly the most investment in time.

Clif says

Have you ever read an economics textbook? Most are full of graphs and equations, the simplest being the one showing supply and demand. Well, as we all know now, those who apply math to economics can get lost in their own world only to be interrupted by actual events.

The Austrian School of economics looks at the ability of the consumer to choose as its the most important factor and, while admitting that some formulae may have their place, it is a fantasy to believe that we can chart our way to success in understanding how the economy works or predicting how it will behave.

Gene Callahan uses an Austrian School technique of an example at the most basic level to aid in understanding how economics works. He shows trade between two people, beginning with barter and moving to the use of money. Then, once the purpose of money is explained he moves on to show how the larger economy works while at the same time making the case that it is virtually impossible for government (by edict or through central banks) to intervene without throwing a wrench into the works.

Entrepreneurs, investors and wage earners all have their place in a productive economy. The entrepreneur, the one who takes a risk in trying something new in the hope of profit, is the one that provides the things from which consumers can choose. The choices made determine what will succeed or fail and the successes determine the direction of the economy. This process allocates resources by acting on prices, not perfectly but far more efficiently than if done by edict. One simply cannot tell in advance how this choosing will go or what will be offered up for selection.

Callahan and "the Austrians" would say that this freedom to choose and the laws of property that underlie it are a precious possessions that we should protect from those who would like to make decisions about what is best for others. Milton Friedman would agree. The old saying that the road to hell is paved with good intentions could be applied to state directed economies.

Callahan writes very clearly and at only one point where he tries to create an analogy using buses crossing a desert does he get a bit bogged down.

This book was written in 2004. With the huge intervention of the government in economic affairs since, we will have a front row seat to see how this unprecedented attempt to steer the economy will fare.

AJ Slater says

A quick overview of Austrian School principles. They're extreme laissez faire monarchists who believe the role of the state stops at stopping violence and enforcing property rights. There's not much depth to this easy reader, nor was there intended to be. A more complete text might offer more contrast with classic and keynesian schools and address faults with the Austrian school.

I don't need convincing that markets are terribly useful and that there are deep flaws with keynesian theory. The description of the Austrian Business Cycle was a useful explanation of state market distortion and its devastating effects. However their knee-jerk vilification of the state, while often warranted seems more bent on demonizing socialists. Beating up on commies and socialists is too easy and hardly strengthens any argument. But the Austrians are not strict anti-collectivists. They seem to believe that if property rights were set up correctly and enforced, then the worst aspects of the state: coercion and wealth misallocation would be minimized. As you can imagine they think poorly of fiat currency and the inflation stealth tax as well.

Overall a good breezy intro to Austrian economic theory, but leaves an impression of idealism and partisanship in the brain. It makes me want to read a more comparison and empirically oriented text on various schools of thought.

Miroslav Krajinak says

This is my review on Amazon dated April 8, 2014:

Is it the ECONOMICS itself that is complex and dismal, or are such the (mainstream) economists' explanations?

Why is there so much fuss about HEALTH CARE? What is the difference between health care AND SHELTER OR FOOD? (both shelter and food are just as vital as healthcare, but as far as I know, I pay for my rent and grocery bills myself)

What is the difference between a BANK AND a SHOE STORE?

Every economic DEBATE on central banking and money in the (mainstream) media is about the same: Is the FED's (or ECB's) current monetary policy too tight or too loose? Will the FED (or ECB) raise or lower interest rates? NO ONE QUESTIONS THE WHOLE CONCEPT OF CENTRAL BANKING. No one discusses fiat paper money vs. commodity money (such as gold standard). WHY?

Is job a right?

Aren't POLITICIANS PLAYING GOD by trying to "beat" the system of free prices - the only system that can solve the problem of alternative allocation of limited resources to meet thousands of different preferences, wants and desires?

If I reject to pay TAXES (because I do not want to support wars and bailouts of politically well-connected businesses, for instance) or SOCIAL SECURITY contributions (because I simply do not believe in the scheme and prefer to plan and save for my retirement myself, or because I do not see why I should sponsor

parasits of society) or **HEALTH CARE** contributions (because I have a private health insurance and do not use state hospitals/doctors, or because I simply choose to have only "catastrophic insurance" - that is, I choose to have a **TRUE** insurance), I will most likely end up behind bars. **WHY?**

Is **EURO** an economic project or a political one?

Do the (true) capitalists (and entrepreneurs) become rich at the expense of the poor (=there is a fixed amount of wealth and the only way for me to have more is to take from you) or because they make the "economic pie" larger?

Isn't there a lot of **CONFUSION** all around us? Isn't A confused with B?

- **CAPITALISM** with **CRONYISM** (people blame capitalism for the current mess, but they do not realize we do not have capitalism - a true, free market capitalism)
- **LIBERTY** with **LICENSE** (before visiting a doctor, you call the government to ask if she is licensed, or you ask a family member, neighbor or colleague to see what their experience with her is?)
- **EDUCATION** with **SCHOOLING** (when it comes to (macro)economics, I learned much more by self-study than at the University)
- **CHOICE** with **DISCRIMINATION** (from 2013 insurance companies can no longer use gender as a risk factor in premium calculations - EU gender directive. It would be discrimination...)
- **MODERATES** with **EXTREMISTS** (for instance, if I voted against a budget deficit on the grounds that it would increase debt, I might be called an extremist. But aren't extremists those who vote for it because what they are actually doing is voting for the extreme levels of debt?)
- etc.

What is **FREEDOM**?

Isn't **FULL EMPLOYMENT** a little bit of a strange goal? For one thing, legal aspect aside, it does not take into account economic actors operating on the black market. Furthermore, all it takes for the government to achieve it is to split the unemployed into two groups and have one dig out holes and the other fill them in. But doesn't the value of work/a job and, by extension, allocation of limited resources happen to matter?

If I decide to give all my cash holdings to a charity and move in the middle of the forest to spend the rest of my life doing mathematics, **AM I BEING IRRATIONAL?**

Are **ECONOMICS** and **MATHEMATICS** related? If so, how? Is the economics related more to applied mathematics or pure mathematics? In other words, is the connection between the two fields to be found in (pages of) equations or in logic being used?

Is (true) capitalism compatible with **CHRISTIANITY**?

Isn't **MINIMUM WAGE** actually hurting economy? Doesn't it substitute unemployment for low(er) wages? What are the determinants of real wages? Don't they result from processes on the production's side (capital accumulation, effective management, better education and training on the part of workers, etc.) rather than that of government (arbitrary laws)?

There are **PROTESTS** in many places in the world. If I protest, it means I am not happy with the current state of affairs; so, say, it is "clear" what those protestors are protesting against. But how about the "for part?" What are they protesting **FOR**? Yes, they want a change, but what exactly? Party B in control instead of party A? What's the difference, really? What's the difference between the left and the right? True, the left

want "egalitarian" society and for the right it is all about "growth," but they both want state interventions (and power). Shouldn't it be about (ever-growing) government vs. no (or low) government?

Who are the SOCIALISTS, anyway? The rich? The middle class? The poor?

What really is at the center of (growing) INCOME INEQUALITY? Is it state or capitalists? And is it actually income inequality that concerns the left liberals, or is it wealth inequality? Maybe it depends on which one gives a bigger contrast. And how about all those analyses and surveys conducted and used to prove it? Is everything kosher with them?

Why would the FUNDAMENTAL ECONOMIC PRINCIPLES that apply to an individual (or family) be no longer valid when applied to a group of people (or society)?

Why is it all about ECONOMIC GROWTH, as measured by GDP? What is an "economic growth" anyway? What is actually GDP? Is it really production (measured in units/quantities of goods and services, including their quality which, by the way, is subjective) - as the name of this statistical construct would suggest - or is it spending (captured in mere monetary terms)? Malinvestment, while increasing GDP, at the end of the day means wasted capital. Similarly, increasing costs of health care can contribute to the increase in GDP even if the quality of the services goes down. How perverse!

Which system is better suited for the ENVIRONMENT around us, our planet?

Doesn't DEPOSIT INSURANCE create moral hazard by encouraging banks to take more and bigger risks with deposits? Isn't it just an illusion of protection anyway? After all, it guarantees the nominal value of deposits, not its real value, right?

Why are there so many uninsured people in the U.S.? Why is the COST OF HEALTH CARE INCREASING? Is free market to be blamed, or is it different regulations that are responsible for that (such as those forcing insurance companies to accept all risks including pre-existing conditions, price controls, government-mandated coverages, barriers to entry, etc.)?

Who/what exactly is the cause of BUBBLES, such as the most recent housing bubble in the U.S. or public sector bubble in Greece?

Why is a (price) DEFLATION such a menace for economists (those close to politicians anyway)? What's wrong with falling prices? (I haven't heard anyone complaining about falling prices in electronics or special medical procedures left to free market forces such as LASIK or plastic surgery. Have you?) Isn't falling prices the VERY essence of (true) capitalism?

The list of questions is endless.

As I kept contemplating all those questions popping up in my head, I realized that my preferences or gut feelings were not sufficient to give me, let alone to the others, satisfactory answers. I needed something more. I needed tools based on LOGIC and common sense.

And that's exactly what the AUSTRIAN ECONOMICS will arm you with. The Austrians' style of writing and the CLARITY of their explanations are IMPRESSIVE.

As for 'Economics for real people' in particular, it is more of a popular read than systematic treatise, which

makes it a good place to start for those new to the Austrian tradition.

LEARN, GROW AND SHARE.

Muhammad al-Khwarizmi says

I promised myself I'd read more about Austrian economics so that I'd be more certain of the things I'm having a go at. At any rate, I suspected that I wouldn't go through a Damascene conversion by the end of this book, and I was right. Most of the things I will have to say are negative. But first, the positive:

At one point, Callahan lambastes the labor theory of value. I am essentially in agreement with him that subjective theory of value, a staple of the Austrian school, is essentially correct. I also agree that there is far too much ad hocery in LToV; basically, any excuse at all will do for its defenders. Nonetheless, I do not believe that a "free market economy" as defined by Austrians—and of course there are several competing definitions, monarchist, an-cap, etc.—is a logical consequence of the STV. More on the hypocrisy of prescribing objective ethics with the STV later.

Another good thing about this book, and about Austrian economics, is the focus on the generative nature of economic behavior. There is too much focus in neoclassical economics on equilibrium results and in at least one case, that of Nash equilibria, only existence is guaranteed. The equilibrium strategy in a given situation might even be unknowable, because some are quite simply uncomputable. Austrian economics places more focus on the generative, the evolutionary issues, how an economy gets somewhere, and not merely the end result. The downside is that it, in my estimation, does this incompetently, through an introspective, deductive approach. Armchair economics.

There are a few other things I like. For one thing, I was always uneasy about lumping all of capital into a single variable "K". The author elaborates on the "structure of capital". "Roundaboutness" is a term I like. It describes investment in the game Cookie Clicker well. Regarding Callahan in particular, he really has a knack for vivid analogies and metaphors, such that I want to believe things that are probably not true. He pokes fun at some silly tendencies of left-liberals as well. I was surprised to find out that some expect that there should be *laws* requiring that software be bug-free. I can't even wrap my head around that. At most, I can imagine laws requiring the mission-critical software to remain functional, in such instances as it can be rigorously verified and validated. Otherwise, fat chance. It's simply not possible. (Even if perfect software can be made, the von Neumann architecture in which most software is implemented is not especially robust; what good is perfect software when hardware is so fallible?) And, of course, there is the perhaps beaten-dead horse of the Soviet Union, in which everyone was equal, but some people were more equal than others. We can certainly see the same tendency among the social justice warriors of today, the sort that infest Tumblr like some nasty venereal disease, for whom intelligence has nothing to do with genetics, but for whom ideological opponents have inherited three copies of the stoopid gene, for whom equality is sacrosanct in all things, but for whom it is also perfectly acceptable to set oneself up as an intellectual and moral super-élite that knows no challenges to its legitimacy or superior wisdom.

That was the good. Now, here comes the laundry list of complaints.

The first has to do with the nature of utility. The Austrian party line is that only ordinal utility is possible. When it comes to cardinal utility, they simply ask "more of *what*?" where one utility is said to be greater than another, implying that the concept is ill-defined. The anti-quantification spirit of Austrian economics—of

that more below—and perhaps other aspects of the paradigm appear to hinge on ordinal utility. In any case, the psychological, neuroscientific and ecological evidence all points towards the computation of something like expected utility—which is inherently cardinal—among many organisms great and small, including us. So while "more of *what?*" is not always clear—endogenous opioids perhaps?—it is perfectly evident that there is indeed more of *something* in the case of higher utility. Callahan also claims that indifference between two options is logically impossible, which is also not true, because empirically validated game theory models, such as one on how closely soccer goalkeepers conform to a theoretical equilibrium for the situation of a penalty kick—they come pretty close—often require indifference between two or more pure strategies in a mixed strategy. At another point, Callahan implies that interpersonal utility comparisons are impossible in criticizing Pigou's contributions to welfare economics, presumably because of the ordinal nature of utility. At the risk of dismissing this claim with a "horse laugh", it is difficult to imagine someone without autism who is incapable of performing interpersonal utility comparisons of some sort. That utility is actually cardinal would appear to put our common sense on a theoretical basis.

And this brings me to a more general problem with the Austrian paradigm. It is in essence a psychological approach to economics, at least in that it is based on methodological individualism, but not in the sense of more recent research in this vein. Rather, Austrian economics is based on introspection, perhaps in the tradition of early German-speaking psychologists and philosophers of mind: if I am rational, how will I behave? Whatever concerns there are about the ecological validity of laboratory experiments in behavioral economics, and careful experimental designs raise doubts about this, you're a lot worse off trying to deduce the scheme of all economic behavior from the armchair, just as with any other psychological phenomenon. This line of inquiry mixes brings to mind the revealed preference axiom of neoclassical economist Paul Samuelson. It is untestable, vacuous. (Austrians will of course tell you that their theory is true *a priori*, all the while providing numerous examples of empirical phenomena which they believe strengthen their case; there is a sort of double standard there.) There is a total unwillingness to admit that a consumer might be affected by factors unrelated to or even inimical to his sense of self-interest. The notion of "rational addiction" is suggested by Callahan in reference to binge drinking despite the hangover that comes afterwards, but it seems difficult to reconcile this with the persistent and often severe regret that comes with the consequences of drug addiction: selling everything you own, petty thievery, peddling your ass for dope, losing all your teeth, smelling like cat piss, repeated terms of incarceration, increased risk of cancer and degenerative diseases, losing all your good friends and getting a whole bunch of bad ones, and so it goes. I am not certain whether Austrians would tend to care or not, but it is widely considered that addictive behavior owes to a time-inconsistent, ergo irrational discounting function. The results of consumer psychology point to possibly more benign influences, but still ones that appear to violate consumer sovereignty. Situational factors such as music and other ambient elements in a shop can be manipulated so as to encourage or discourage purchases unconsciously; similar effects apply to brand loyalty and positional goods (i.e. "keeping up with the Joneses"). My consumer behavior has always generally been very calculating; I often spend so long weighing my options when buying snacks in a convenience store that my ride wonders where I went. Even at an early age, I felt as though I had the special sunglasses from *They Live* and I really chafe at the kind of advertisements that attempt to manipulate me into buying a certain brand of beer because it is portrayed getting a guy chicks, and make a mental note not to buy the wares being so hawked. I suspect that many economists might be like this as well, at least up to a point, and project their contemplative tendencies onto the wider population falsely. The determinants of consumer behavior seem for the most part to be more implicit than explicit, and out of the consumer's conscious control. Callahan would have us believe that with the exception of infants and those too disturbed to make decisions, all of us are economic agents, but it seems that economic rationality is more likely a continuous trait, with the fullest examples thereof being comparatively rare in fact.

The next issue I will come to grips with is Austrian economics' hostility to quantification in economic

matters. It is true that the majority of work done in mathematical economics today is probably dead on arrival. It is sterile wank, divorced from concerns of generativity, taking equilibrium conditions for granted, assuming the continuity of all things and, in general, sacrificing sanity for tractability in terms of calculus. The Cobb-Douglas production function, for instance, would have us believe that throwing enough workers at an ailing and decrepit steam locomotive would somehow make it more productive. More likely, it would break down on the tracks. These are the sorts of absurdities that result from making everything too simple, and too continuous. Of course the economic world is far more multiplicitous and often more "lumpy" than the mainstream would have us believe. Nevertheless our psychologies, our biologies resolve to patterns with can be determined to be quantitative in nature, or at a bare minimum, amenable to symbolic mathematical treatment where numbers are not involved. Therefore the issue is not that mathematics is being used, but what sort of mathematics. This is not to say that there cannot be useful qualitative knowledge in economics, or in the social sciences in general—Jon Elster makes a very good case for such things in his title *Explaining Social Behavior: More Nuts and Bolts for the Social Sciences*. This is only to say that mathematics *can* illuminate economic affairs. There are various approaches that deviate from the neoclassical dogma but perhaps that which is best suited to Austrians' concerns of generativity and multiplicity is agent-based economics. Agent-based economics specifies, usually *in silicio*, the behaviors of agents that take place in a simulated economy / society, as well as environmental factors that enter into said behavior, and their complete dynamics over time. Typically, time and space are discretized, so that the simulation is something of an elaborate chess-like game. The famous Schelling segregation model is perhaps the earliest example of an agent-based model, and Schelling originally executed his model on a checkerboard, with pennies and nickels. However the model is specified, the simulation is then allowed to run, and peculiar behaviors are noted. The behavior that emerges from the simulation can then be compared to reality. In particular, this approach makes it possible to establish experimental controls, as in the natural sciences. This addresses most of the concerns of Austrians regarding mathematical economics, though it should be noted that in agent-based models there is usually circular influence from the micro to the macro and *vice versa*, so the methodological individualism of Austrian economics is effectively abandoned, as far as I can tell.

The previous two issues I raised with the Austrian research program are essentially empirical failings. The following is a philosophical failure. Austrian economics insists that value is subjective, and yet is replete with implicit and, in some cases, very explicit value judgments. The term "efficiency" is inherently value-laden, just as in neoclassical economics. In many Austrian vignettes, the value of voluntary exchange over coercion is exalted, and to a lesser degree cooperation is exalted over competition. Yet Austrians also value competition. What is incongruent with the SVT about valuing competition, abrasive and destructive competition, more than the Austrians do? What for that matter is incongruent with the SVT about the desire to coerce, and to be coerced? One can sympathize with Callahan as he decries the plight of American aborigines at the hands of the US Army defending the First Transcontinental Railroad—though I can easily imagine Austrians starting to protest loudly if more robust property rights for said aborigines were actually instituted now—and forget that the SVT excludes very little, if anything at all. If there is any doubt about whether some people appear to desire to live under Soviet-style socialism again, then how else can the nostalgia for the old order sometimes seen in eastern Europe be explained, including the socialist-style "trade union" holidays that made the world wonder at Slovakia a few years ago? Perhaps some of this is cheeky novelty-seeking, but there are certainly contingents who legitimately desire to live under socialism again.

Now, all of this brings me to the critical issue of government intervention in the economy, which is where Austrians most substantially differ from the current neoclassical mainstream and political moderates. This is partly an empirical and partly a philosophical issue. Of course, what form of government, if any, should be instituted is ultimately a question of values, but the effects of implementing or not implementing a given policy can be compared to reality. A Google search under the domain of mises.org reveals many Austrians gushing over the successes of capitalist South Korea in comparison to the poverty and backwardness of

North Korea. Little do they know that South Korea's terrific economic growth, regardless what you think of it or how it was achieved, was in fact state-directed to an exceedingly high degree, spearheaded by the mighty *chaebol*, the conglomerates that the strongman Park Chung Hee directed into existence, among which are the now-household names Samsung and Hyundai. Indeed, South Korea was a dictatorship until the late 80s. Furthermore, its economy was *heavily* protectionist throughout all the years of its development to maturity. Just as with admiration for the free market principles of Adam Smith, the Austrian picture and indeed the libertarian picture in general leaves quite a lot out in this case. South Korea is not a freak either; the other East Asian powerhouses followed similar plans and, in earlier times, Britain established its economic power in the industrial era through highly protectionist policies as well. In regards to transportation, Callahan complains that congested roads are an example of government failure but the eternally backed up freeways of Los Angeles seem to be fairly peculiar to America. In other countries, train systems and other forms of mass transit are more extensive, and appear to work pretty well. Callahan frets over whether the money allocated to government expenditures on mass transit might have been spent better elsewhere but, at least as far as transportation itself is concerned, if it ain't broke, don't fix it. I don't see the sense in speculating about how much better things could be under a "true" free market when the current system is quite alright.

There are a number of other issues I'd like to address in this review. However, my hand is beginning to hurt and I am certainly going to run out of space before I completely exhaust my criticisms. I might have addressed the apparent lack of intergenerational ethics when it comes to environmental issues in the Austrian program and my belief that truly creative professionals would do what they do with or without generous monetary recompense; those who are in it only for the money tend to be pretty crummy because they lack the intrinsic joy that drives a person towards perfection in challenging fields. Despite the assurances that Austrians value things upon which there is no dollar sign, Callahan, if he is representative of his peers, does indeed seem to be far more focused on Mammon than he seems to want to believe. There are lot of things I could focus on, but my last major (partial) criticism will concern Callahan's discussion of path dependency, and why he thinks it doesn't really matter. This one really interests me. Certainly, I am in agreement with him that Dvorak is not "infinitely" more productive than QWERTY keyboards, as one writer opined. It particularly interests me that the Quotron stock terminal that appears in *Wall Street* has a very strange layout for someone accustomed to QWERTY:

The alphabetic keys are simply arranged in lexicographic order and of course there are a number of exotic keys particular to stock trading that one would not find on another sort of keyboard. While these terminals were not used to write books, I suspect that efficiency on a given keyboard is simply a matter of acculturation and when one keyboard is replaced with another the user will adjust soon enough. And, of course, the putative advantages of Betamax over VHS are indeed largely an urban myth. However, I would certainly argue that bad has pushed out good in the realm of software. By many accounts, his account of Microsoft's triumph over Apple in the arena of desktop and laptop computers is credible; Apple definitely has some downsides. But there were other competitors than Apple. In particular, DR-DOS was at the time considered threatening enough for Microsoft to break compatibility with the early Windows package deliberately and thereby help ensure Microsoft's path-dependent rise to dominance of the market. Space is now really tight but since I don't want to pick on Microsoft exclusively, the victory of the X Window System over competing windowing systems such as NeWS and NeXTSTEP deserves mention, as does the victory of the byzantine language C++ over the Smalltalk-inspired Objective-C, and perhaps Common Lisp as well. It's a sprawling, ugly piece of shit and if you don't believe me look at the 1000+ page unofficial specification. Look at the LOOP macro! Does anyone actually understand it in its entirety? Elegant my ass!

One other thing, and I know this isn't a substantive criticism at all: his island economy is quite strange. In place of Crusoe and Friday, Richard Hatch and Helena Bonham-Carter end up stranded on an island and beget children, who then beget children of their own, presumably through incest. It's a sort of uneasy Adam and Eve story made altogether stranger by the fact that Richard Hatch is in fact gay. Callahan has certainly not dispelled the stereotype that libertarians are awkward.

And my concluding thought: I want *badly* to believe that Austrian economics and, in particular, anarcho-capitalism is descriptively accurate and prescriptively workable. I hate government and its manifold abuses, injustices and incompetencies just as much as anyone else. However, I put my head before my heart and find it difficult to believe that the world can get on without some sort of government. Bitcoin was a valuable test of anarcho-capitalist ideas, and the results have been mixed. Certainly, a diverse array of robust, self-regulating private institutions have cropped up around the digital currency and yet they are still built on infrastructure which was developed by and is still often owned and operated by various public agencies. For instance, the root name servers owned by institutions like NASA and the US Army. Bitcoin has also crashed twice, despite lacking any body like the Fed. The real test of Austrian and other libertarian ideas will be in autonomous colonies, such as seasteads. If they do succeed, so much the better, but I do not think that they will.

Benjamin says

Anyone interested in a layman's introduction to Austrian Economics must read this book.

Bryan says

This book is a good introduction to Austrian economics. It has some good examples that are simple and easy to follow, and shows what the Austrian approach would be to practical issues that arise in daily life. He references survivor and the most basic system showing that any time spent gathering firewood is time not spent on constructing a shelter, or looking for food. How people then decide what to do in their day is an economic decision at a very basic level.

Henrik says

I think this is a wonderful book, clearly written, a fun and easy read on an interesting topic.

Doug says

What do I do with my free time? Evidently I read economics textbooks. This one happens to provide a really good intro to Austrian economics, and I would recommend it as an easy way to get acquainted with this school of thought.

"To be human is to know that our days on Earth are numbered, and that we must chose how to use them ... Economics is not a theory of everything, but simply a theory of the consequences of choice. In studying

economics, we take human ends as the ultimate given. People, somehow, do choose ends and do act to pursue them. The goal of our science is to explore the implications of these facts."

Mbogo J says

This book is an attempt to build the Austrian School from first principles. Using simple examples and thought processes Callahan breaks down the main tenets of the Austrian School into understandable chunks that anyone even *noneconomists* can understand pretty much everything.

The Austrian focus on human action is an idea deserving merit, that explains why it has seen its modern reincarnation as behavioral economics. Unfortunately that is where my agreement with Austrian thought ends, I feel their exaltation of market mechanisms and minimal govt interference is just a cover for the strong to exploit the weak. Couple this with the school's tendency not to rely on data but rather on mental constructs explains why their thoughts on political economy did not go mainstream. Without empiricism it is hard to distinguish flights of fancy from actual insights.

Anyone without an exposure to neoclassical economics will buy Gene Callahan's assertions as gospel truths. They are simplistic enough to give them a homespun feel. It will do the novice reader justice to check neoclassical literature to balance out with the Austrian school.
