



BOOK REVIEW

Vienna & Chicago: Friends or Foes, A Tale of Two Schools of Free-Market Economics, by Mark Skousen, Washington, DC: Regnery Publishing, 2005

As the title suggests this book will be of interest to social scientists interested in the history and current thinking of free-market economics and of political economy in general. Most economic thought taught in academia uses Keynes as the point of departure so this easily read, and personal yet objective, book can give a fresh perspective to both experts and lay readers alike.

Skousen, a prolific business and economics writer, investment advisor (Forecast & Strategies) and professor (Columbia University's business school), uses a compare and contrast approach to describing the two leading schools of laissez-faire economic thought with specific chapters on theoretical and empirical approaches, monetary policy, macroeconomics and the business cycle, anti-trust policy and the role for government in the economy, and "faith and reason" in economics, with faith in this case being faith in Adam Smith's concept that the rising tide raises all boats (translation: that economic growth lifts the poor out of poverty). Skousen then uses the compare and contrast methodology to make his own judgment as to which of the two schools has the more sound approach to each of these fundamental economic topics.

The book begins with a brief history of economics as a discipline and the state of societies as economics developed, from Adam Smith to Karl Marx, and then introduces the two schools in their historical context. "Vienna" (more commonly referred to as the Austrian school) is the school of economic thought founded at the University of Vienna in the 1870s by Carl Menger in response to Marxism and to rejuvenate the then seemingly dead-end, 'dismal science,' classical approach with what is now known as the 'marginal revolution'; that economic decision-making is made at the margins, and not through all-or-nothing decision-points. "Chicago" is of course based at the University of Chicago and developed as a response to Keynes's

work in the 1930s (with the school coming into its own in the 1960s), again with an attempt to bring economics back to its classical roots. Friedrich Hayek is the most well-known economist from the Austrian school and Milton Friedman is the most well-known from Chicago—both are Nobel Laureates.

Skousen's writing is unusual, interesting and illuminating. He describes the methodological differences in the schools; the Austrians prefer theory over empirical analysis whereas Chicago is profoundly quantitatively-based. Both schools see a limited role for government in the economy though waiver over certain specific, and differing, interventions. He describes how the great economists each have their own unique take on the causes and prolongation of the Great Depression (this chapter provides the most analysis, highlighting the importance of the Great Depression in American, and world, economic history). Skousen gives insights into the character and personalities of the leading lights of these two schools through his own interaction with the economists and through others' first-hand accounts.

Also of benefit is that the author gives recommendations for further research in the area of macroeconomics, specifically in the areas of capital formulation and stages of production (the foundations for economic growth) but unfortunately this section of the book is also the weakest. Most of the book is accessible to lay readers and what analysis there is is clear and well laid-out. However, when Skousen inserts his own and other current advancements in macroeconomic theory the analysis and graphical representations are less well-explained and seem to be more of an afterthought than the comprehensive compare and contrast approach and easy-to-follow content of the majority of the book. Nonetheless this book is recommended for both scholars interested in alternative economic thought and for lay persons interested in a well-told history of economics.

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