Review

How to Think About the Economy: A Primer by Per L. Bylund

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Professor Bylund's new book—*How to Think About the Economy: A Primer*—is a difficult one to review. Not because it is poorly written or devoid of merit, it is neither of those things. It is difficult because, as a short primer (141 small pages, all included), it is written simply and primarily for a lay audience, while the readership of this journal comprises a largely academic audience. Yet, I feel justified and perhaps even compelled to continue this review for the reason that its contents, although easy to grasp, are intensely profound for those unfamiliar with the core tenets of the Austrian school. And those already familiar with the Austrian school would find their expression in this format helpful in both refining their thinking on fundamental economic topics and in facilitating their explanation.

Although the title seems intendedly devoid of an explicit admission of its Austrian parentage, this tradition is quite obvious from the onset—even if the reader has missed or is unfamiliar with the publisher (the Mises Institute) or classical Austrian theorists Carl Menger and Ludwig von Mises, to whom the book is dedicated. But the book is designed to speak to the audience as if this tradition were *the* way to think about and understand the economy. And it is quite successful in that effort.

The value to the economist or to any other social scientist or business practitioner is in its clear and simple articulation of core and complex mechanics that describe and define economic processes. These include puzzles that confound scholars even today, solved plainly in clear and easily digested short form. It is a short and easy read, but brings a particular clarity to economic topics that often have proved challenging for many, including professional economists.

The book begins with an attempt at answering the most basic of questions—what *is* economics and how is it done? I was very pleased to read these questions and answers, as these are questions I make a point to ask my students, who can never quite articulate a compelling answer. It is strange, I've long thought, that a discipline as large and well-developed as economics struggles so mightily to define and describe what it is that they study.

Bylund's answer to these questions are simple, straightforward, and intuitive. An *economy*, he explains in Hayekian fashion, is "an unplanned order"—it is "all of us economizing" (p. 16). It is the process of making ourselves well—increasing subjective well-being, whatever that entails—with the scarce resources we have at our disposal. Economics, then, is the study of these processes and the mechanisms by which they come about. In a clear renunciation of the positivist program that predominates the discipline, he claims that "the task of the economist is not to predict the specifics of the future but to uncover the underlying processes that produce the economic outcomes that we can observe" (p. 19).

Real economics, he goes on, studies the *real* world and all its complexities. Formal economic modelling is thus discarded with disregard. This is in line with the Austrian school tradition, as well as with other classical philosophers of science, such as Dilthey, Brentano, and Weber, who discerned an unmistakable difference in the nature of the natural and social sciences. "We simply cannot rely on observation and measurement to gain understanding of social phenomena, and we also cannot rely on statistic analysis or aggregates" because "we would need to know people's actual subjective valuations, see what they see and how they understand their situation," (p. 37) which we simply cannot observe.

In Part II, Bylund turns to a concise exposition of the basic concepts and mechanics of markets. Underpinning his explanation is a foundation in *process* theory. Process theory, based in process philosophy, has recently gained growing interest in some of the social sciences as the roles of time and change are increasingly taken into account. Again, neoclassical economics shies away from process theory in favor of *variance* theorizing (explaining output heterogeneity with input heterogeneity). But there are huge conceptual and theoretical gains to grasping the market *as a process*, which Bylund expounds.

At the heart of this section is a rather profound revision to the concept of *subjective value*. Value—one of the most slippery constructs in economics—is defined plainly, but in a somewhat radical way: "Value is the removal of or fulfillment of some uneasiness (hunger or loneliness), which makes us better off" (p. 67). Note the clear departure here from marginal utility theory. Value is not utility; it is not a characteristic of a good or service at all. It is *change*, the movement from a state of unsatisfaction to a state of satisfaction. This key insight unlocks a fully dynamic way of looking at the market as a process.

Adopting Bylund's process view of the market, businesses survive and thrive by increasing the value that they engender for consumers over time. In this sense, Schumpeterian creative destruction is not an exogenous shock to the economy but rather a fundamental part and process of it. Said differently, the progressivity of the market is inherent to its nature, and not a result of exogenous shocks to it. Of course, economists have already espoused and developed an endogenous growth theory, such as in the work of Nelson and Winter. But the endogenous growth that Bylund points to is far more radical than the evolutionary perspective of Nelson and Winter. Specifically, he asserts that firms compete not only with other existing market participants but also with *future* competitors, which drives continuous innovation. Reflecting the classical notion of consumer sovereignty, Bylund flips the standard notion of competition from the supply side to the demand side— for it is *consumers* who determine who one's competitors are, for its consumers who decides which goods or services to consider for the satisfaction of their specific wants.

At the heart of the market process, and the driver of it, are *entrepreneurs*, who get short shrift in neoclassical textbooks. The reason they tend to get overlooked is that value, for most economists, is equated with subjective utility. But the aforementioned revision to the subjective value concept engenders a deeper and more interesting understanding of the role of entrepreneurs within the market process. That is, value (or the things we value) is a *learning process*—"very often, consumers do not themselves know how to best satisfy their wants" (p. 63) and learn to want new and better things through the entrepreneurial process. Entrepreneurs, at the risk of losing those resources they have put at stake, create new value propositions and promote them to consumers for their consideration, who ultimately dictate through their buying or abstention the winners and losers of the market.

After discussing these basic market process mechanisms, Bylund then turns to an explanation of *money* and its role in the market process. In clear and easy-to-digest prose, he explains why a common medium of exchange is necessary to any advanced economy (in that it enables trade in increments and facilitates prices and, thus, economic calculation) and takes down misconceptions of what money is and where it comes from that have led to, for example, the modern monetary theory (MMT) phenomenon. "A decree does not create a money—it creates only an obligation, which is limited by the extent of its enforcement…. The *economic function* of money cannot simply be created from the top down" (p. 71). Here he also elaborates the tragedy of *fiat* as well as the inflationary fractional reserve banking and monetary policies that it has enabled.

In the final Part III, Bylund turns his attention to the effects of interventions into the market process. Specifically, he focuses on monetary and regulatory interventions. Following Mises, he points to monetary policy, and specifically to manipulations of the interest rate, as the primary underlying cause of the familiar boom and bust cycle. The interest rate is, per Austrian theory, a *price* and one of the more important prices in the market. Price fixing in all markets inevitably leads to market distortions, and interest rates are no different. When the interest rate is pushed into an artificially low state (as has been common), entrepreneurs' "decisions and actions will be based on this faulty signal" (p. 110). Access to easy money bids up the prices of scarce goods above their market rate, especially in particularly 'hot' markets, such as housing in the early and mid-2000s. The result is an inflated 'bubble' that, once it is finally realized as such, 'pops' and deflates in a recessionary spiral. Contrary to standard Keynesian supposition, this recession is corrective and necessary, the reallocation of malinvested resources toward a more productive distribution. Attempts to stave off this recession through stimulus spending merely cover up the wound and pump it full of painkillers, rather than remove the bullet to allow it to property heal. The recession is prolonged rather than corrected, subsequent growth merely another bubble waiting to pop.

He takes issue with regulations also, which have a two-fold downside to the single upside. The upside is, of course, the prevention of the malady that it was intended to fix (the 'seen')—unfairness, exploitation, etc. But the first downside is the unintended consequences of the regulation, the distortions it causes (the 'unseen'), such as the unemployment effects of minimum wage hikes. And perhaps most perniciously, a second downside is the retarding of the market process (the 'unrealized'). That is, regulations are inherently prohibitions of entrepreneurial learning. They prohibit and prevent market transactions that would have otherwise occurred, and the learning that could be done thereby. Instead, such learning is impeded and preferences not updated because the highest preferred option was removed. In other words, regulations imply opportunities not discovered because of the regulation. Drug laws are an easy illustration of this, with many experimental drugs severely delayed or abandoned due to the high costs of FDA approval. Moreover, illicit drugs were until recently long banned from even scientific testing for potential medicinal benefits.

In all, Bylund's short book is a brilliant introduction to the Austrian school's theory of markets. It is a short and easy read, accessible to the middle-school level and up. But despite its simple clarity, it is interesting and instructive to even a tenured academic steeped in the Austrian tradition, such as myself. The book is a perfect fit for any introductory-level economics or entrepreneurship class and, at a mere \$8, will certainly be appreciated by students. I would encourage scholars of the Austrian tradition, specifically, and those who appreciate and espouse free markets, generally, to read and share this book widely. There is, as Professor Bylund puts it, too much "economic illiteracy" (p. 11) in the world today.