

Reviewed by GERALD P. DWYER, JR.

Cost and Choice Reexamined

Cost and Choice: An Inquiry in Economic Theory, by James M. Buchanan. (Chicago: Markham Publishing Co., 1969). Pp. xv + 103. \$7.95.

THE question of trade-off or "cost" is, of course, central to economics. Despite its obvious significance, what "cost" actually is remains fuzzy and confused to most people, including professional economists. Professor Buchanan clarifies the concept of opportunity cost in this slim but important volume and at the same time, elucidates the differences and common grounds of "subjectivist" or general choice theory economics and the more standard economics.

In making a choice, the best alternative opportunity perceived by the chooser is the cost of the decision; after the choice is made, there is a cost in the sense of possible regret; and there is also the possible alternative product of the action. The important thing to note is that cost has been used to refer to three very different things. Cost before choice is subjective and influences action; cost after choice is also subjective but cannot influence the choice; and the possible alternative product is not subjective and can be evaluated by others. This last type of cost is depicted by the cost curves of standard economics text-books.

Subjectivist economics, as elaborated at the London School of Economics by F. A. Hayek, Ronald Coase, and others, as well as

Gerald P. Dwyer is an economist at the Federal Reserve Bank of St. Louis. Until recently he was a National Science Foundation Trainee at the University of Tennessee.

by Ludwig von Mises and other "Austrians," underlies the conception of opportunity cost in the theory of choice. Most present-day economic thought utilizes only the objective alternative product in analyses involving opportunity cost. Implicitly we have linked up the subjective theory of choice and standard Marshallian economics through opportunity cost. Professor Buchanan successfully argues that the objective theory is a specialization of the more general choice theory; the objective theory is predictive and useful when that is desired but the theory of choice is in some analyses more useful for description and understanding. But when one shifts from the predictive to the subjective theory, objective measurability is lost. As Professor Buchanan shows, inconsistencies have resulted from failing to consider the important differences between the theory of choice and predictive economics in the theories of public finance, welfare economics and cost without markets. These applications of the clarified cost theory illustrate the importance of the synthesis of the cost theories and are also interesting for their own sake.

One of the applications discussed is the "once heated and long smouldering debate" on the possibility of a rational allocation of resources in a socialist economy. It has been argued that if a government board sets prices and allows managers with properly-adjusted incentive pay to maximize profits and hence their pay, the resulting allocation of resources will be equal or superior to the results of a competitive economy. The reply has generally been that while it is theoretically possible, for better or worse it is impractical. However, as Buchanan shows, it would not be possible to manipulate the manager's pay so that the results would be the same as if he were an entrepreneur re-

sponsible for his own property. The essential thing is that the choice setting is totally different in the two situations. It follows that a rational allocation of resources is not only practically impossible in a socialist economy but also theoretically impossible, since the motivation for action is different than in a private economy.

Although this book is sub-titled "An Inquiry in Economic Theory" it is not thereby

stamped "For economists only." The interested student with some economic background will be able to comprehend the first three chapters on the historical and theoretical development of the theory; he can then proceed to read the applications that are interesting or on familiar topics. Professor Buchanan's clearness of thought, it will be found, contributes much to the book's readability.



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