BOOK REVIEW: *COMPETITION, COORDINATION AND DIVERSITY: FROM THE FIRM TO ECONOMIC INTEGRATION*

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Pascal Salin: *Competition, Coordination and Diversity: From the Firm to Economic Integration*. Cheltenham, UK and Northampton, MA: Edward Elgar, 2015. ISBN: 978-1784710163.

THIS BOOK IS A COLLECTION and reworking of research done by Pascal Salin since around 1990. Salin is an economist in the tradition of the Austrian school of economics who emphasizes the centrality of individual choice in an uncertain world in which individual actions interact to produce spontaneous orders. But he is no mere conduit of established ideas. He also offers his own highly original insights honed after a lifetime as an economist, one who has earned the respect in which he is now held by his peers worldwide.

The book makes delightful reading. In its seventeen chapters Salin covers a lot of ground, mostly within the topics indicated by the title of the book, though in the final two chapters he goes beyond these and into the foundations of economic science. The book is divided into five parts: (1)

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firms, markets and competition, (2) globalization and international economic problems, (3) monetary integration, (4) money, finance and economic policies, and (5) foundations of economic theory.

In the first two chapters we find a discussion of Frédéric Bastiat's treatment of the firm. Bastiat, of course, was the self-educated French scholar responsible for many important insights into the workings of the market process. Most readers of this book would probably not be very familiar with his observations on the nature of the firm, however, and Salin's account is this likely to be very informative for them. One finds in Bastiat ideas recognizable as Coasian, but approached in an entirely different way. Bastiat and Salin (at times it is not clear whose idea it is) characterize the firm as a voluntary association. Bastiat was concerned with debunking the notion that powerful employers exploit helpless workers, and he advances the counter-notion that the relationship is actually symmetrical. The workers employ the manager as much as the other way round. The argument is powerfully presented and certainly puts paid to the simple exploitation story. However, I was not convinced by the argument that, contrary to common views, there is no hierarchy in firms. In some firms the use of hierarchy (at least, that is how it is perceived by everyone involved) is an important aspect of internal governance. Overall, however, these chapters are immensely worthwhile for anyone interested in Bastiat.

The following two chapters deal with monopoly and cartels. Salin is very clear in maintaining and explaining the exclusive importance of freedom of entry as the arbiter of the legitimacy of any market structure. Contrary to the standard account, cartels and so-called monopolies are never harmful unless they are the result of legally enforced barriers to entry. Views to the contrary are mainly the result of the limited conception of competition expressed solely in terms of price, which neglects all the other vital competitive dimensions like product differentiation, helpful standardization, and so on.

Part two deals with the central theme of economic integration. Salin is primarily preoccupied with the costs and benefits of the European Union (EU) as a real world phenomenon. He brings theoretical considerations to bear on this reality in a revealing way. These chapters are very fresh in light of the recent referendum in Great Britain on whether to leave the European Union, though, of course, they were written long before. In fact, they appear quite prescient.

As Salin points out, the EU—and the common market before it—were conceived as a way of reaping the benefits of a wider free-trade zone for Europe. As trade is mutually advantageous, creating value for both trading parties, the free movement of both consumption and production goods and services and financial capital would provide manifest benefits to everyone concerned. However, as Salin explains, the actual implementation over the last few decades has departed disastrously from this original enervating project. Instead of implementing policies to establish a zone of greater freedom to trade and create value, the planners have focused on achieving a larger area of control and uniformity inimical to value-creation, which requires diversity and open-ended experimentation. They have done this because of the perceived need to homogenize regulatory regimes and monetary and fiscal policies.

Salin uses the word "harmonize" instead of "homogenize." But I think the latter is what he means. The problem is not that different regulatory regimes and policies do not need to be harmonized. They do. That is to say, if the goal is to encourage free trade and movement of productive resources, any conflicts in regulation that would prevent or inhibit this freedom need to be ironed out. The different policy regimes can remain different (different levels of taxation, currencies, labor conditions, etc.) but they need to be harmonized in the sense that they can coexist, much in the way that the different states of the Unites States do. For example, the impeding of trade or migration across borders cannot be allowed. What Salin correctly objects to are attempts to homogenize policies, meaning, to remove all differences so that the entire EU is governed by the same set of regulations and policies—a centralization of control. This is not the vision of a common market. It is rather the vision of a new multi-region state.

In these chapters Salin is pointing to an implicit public choice problem. The governments of the various member-states of the EU are paranoid about losing the competition between them for the best mode of governance and regulation. So they respond by removing any choice. People may move between the member-states at will, but they cannot escape what they regard as bad policies by doing so. Insofar as economic growth and prosperity are the result of the interaction of millions of individual pursuing their own individual goals, top down direction of production and exchange conditions will inhibit it. Growth and prosperity depend instead on the implicit experimentation and selection that comes from diversity and competition.

World trade areas have in any case been expanding spontaneously through globalization. More people are integrated into the world economy than ever before, but integration does not and should not imply homogenization. To be sure, some degree of uniformity will result out of mutual self-interest, for example in the adoption of standard forms of communication, data-processing, containerization, and similar phenomena subject to network effects. But the "right mix" of uniformity and diversity is something that will emerge spontaneously from an unconstrained market process and is not something to be handed down from on-high as with the EU.

The desire for homogenization has extended to monetary policy, and this is the subject of parts three and four of the book. The choice of a single currency can be seen as a kind of forced standardization. The original impetus for this project was the desire to create an optimal currency area (OCA), following the work of Robert Mundell. An OCA is a trading area that in some sense minimizes the cost of adjustment to ongoing change, and it depends crucially on the degree of factor mobility within the trading area. But, in this modern world especially, where change is ubiquitous and rapid, it is not easy to determine what constitutes an OCA at any point in time. Nor is it necessary. By allowing consumers and producers to choose among rival currencies, OCAs will tend to spontaneously emerge. There is absolutely no reason to expect that the political boundaries of the EU determine an OCA in the economic sense.

Removing currency choice and mandating the use of the Euro has necessitated a common monetary policy for the EU via the establishment of the European Central Bank. Salin points out that its performance has been anything but encouraging as it has fallen in line behind the US Federal Reserve and the Bank of England in implementing standard Keynesian quantitative easing practices for monetary policy and bail-outs of the most fiscally irresponsible member-states for credit-policy. As a result, the EU now faces a looming debt crisis coupled with the usual moral-hazard problems of bail-outs. This is a system designed to punish the industrious by forcing them to pay for irresponsible economic losers who have no incentive to reform their ways.

But Salin does not rest after having pointed out the perils of bad policy. In part four, he presents some ideas about better alternatives, endorsing, for example, the notion of choice in currency. He considers the Austrian theoretical framework to be superior to others and provides two chapters comparing it to the Chicago school and mainstream economics generally. He points to the strength of the Austrian approach in not neglecting changes in relative prices that result from central bank interest and credit policies. As the Austrians have pointed out, easy money policies, in addition to presenting the usual threat of general price inflation, also distort price signals. Artificially low interest rates (such as we now see in abundance across the world) result in the misappraisal of productive assets, making those that have higher durations appear more profitable, thus diverting real resources to the "wrong" places, to be used in unsustainable ventures, ensuring a cycle. In addition, low interest rates strongly discourage real savings. The voices of

Chicago Monetarism are few in the EU and those of the Austrians even fewer. Yet, as Salin opines, it is the Austrians who provide the best explanation for the 2008 crisis and the lack of recovery from it. And it is the Austrians who will be proved right sooner or later. However, the book could have used some references to recent Austrian contributions on this topic.

The final chapter is a bit of an outlier. It deals with Salin's somewhat idiosyncratic claim that the income-effect does not exist. By this he means that, in accordance with the Austrian subjectivist approach to theory, as distinct from empirical observation, the income-effect is not derivable from the a priori axiom of human action. It is not a foundational concept but rather an empirical one. One has to posit special conditions for it to exist.

Here Salin appears to have (independently?) tapped into aspects of demand theory, as, for example, developed by John Hicks, Milton Friedman, and others, namely, the difference between the normal Marshallian and the Hicksian 'compensated' demand curve. The latter is the demand curve without the income-effect that seems to result with the fall in the price of the product. Salin is correct that whether this income-effect can actually occur or not depends on the circumstances. As Milton Friedman showed in a classic early article (1949), a subsidy to consumption would appear to imply a positive wealth-effect (income-effect). Yet insofar as the economy cannot as a whole be wealthier, the subsidy having to be financed by taxation, this is potentially misleading. On the other hand, a new technology that results in a real cost decrease would imply such a wealth-effect.

In any case, though interesting, it is not clear that this chapter fits with the rest of the material in the book. Perhaps we should think of it as tasty desert after a good meal. Certainly, Salin is a profound thinker whose work should be known and taken seriously, and I hope this book will help accomplish as much.

References

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