
Irina Ion

To cite this version:

HAL Id: hal-03705625
https://hal.science/hal-03705625
Submitted on 27 Jun 2022

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L’archive ouverte pluridisciplinaire HAL, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d’enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Distributed under a Creative Commons Attribution - NonCommercial - ShareAlike 4.0 International License

Irina Ion

Irina Ion

Heterodox economics has undoubtedly enriched the neoclassical paradigm of economics, as a quasi-natural step in the development of economic science. In this process, a notable role can be attributed to the Austrian school, with its consolidated and systemic corpus of knowledge and thought.

A prominent representative of the Austrian School, Professor Huerta de Soto addresses the main contributions of Austrian economics, offering a terse and genuine voyage in the Austrian philosophy. The book is valuable mostly for undergraduates in economics, but also for their mentors, due to the almost didactical approach of the author.

The Austrian journey starts by the subjective understanding of the creative entrepreneur's actions, subject to potential errors that occur in the process of entrepreneurial rivalry, marked by the impossibility of specific predictions of the future, responsible himself for these predictions. This world can be understood, according to the Austrian school economists, with the lens of methodological individualism and non-mathematical subjectivism.

One of the pillars of this market system is the peculiar significance awarded by the Austrians to the concept of “information”, which is naturally and always subjective. This explains why market inefficiency due to “imperfect information” is not a reasonable hypothesis, in the Austrian philosophy. The Austrian world’s dynamics, viewed as an entrepreneurial process of coordination, is in fact a social coordination process, in which “all social discoordination materializes as a profit opportunity which remains latent until entrepreneurs discover it” (p.8).
In their interaction, entrepreneurs establish costs on a subjective base, i.e., the prices of final consumer goods are the ones that determine the costs that an actor is willing to incur to produce goods, and not the other way around. Denying the usefulness and adequacy of the mathematical instrumentation in economics, “because this method synchronizes magnitudes which are heterogeneous from the standpoint of time and entrepreneurial creativity” (p.12), Austrian entrepreneurs are unable to predict the future and to make empirical verifications of past, present or future events. Instead, the Austrians interpret social reality based on theory and non-scientific judgement of relevance, strongly neglecting “scientism”, understood as the unjustified application of the methodology of natural science to the field of social science. Actions generate entrepreneurs’ knowledge, which is, according to de Soto, subjective and practical, rather than scientific, dispersed through the minds of all men and women, mainly tacit and created ex nihilo. The transmission of information between entrepreneurs makes economic and social coordination, adjustment and economic calculation possible, as underlined by Mises and Hayek, the two prominent Austrian school representatives. This strong belief of the Austrian school explains perhaps why “most Austrian theorists are libertarian philosophers who are deeply committed to defending an uncontrolled market economy” (p.25). This uncontrolled market economy is possible because, for the Austrians, “entrepreneurship is the force which unites society and permits its harmonious advancement, since it also tends to coordinate the maladjustments this process of advancement inevitably brings forth.” (p. 26)

As de Soto points out, the validity of Austrian thought is rooted in the scholastics of the representatives of the Spanish Catholic church and in the rest of Mediterranean Europe and Greece, in particular the Dominican and Jesuit professors of moral doctrine and theology. For example, one essential idea of the brightest disciple of Thomas Aquinas, Gilles de Lessines (dead in 1304), that would later be incorporated in the Austrian economics is “the principle of time preference”, i.e., present goods are always valued more highly than future goods, ceteris paribus. The Austrian School embodied the Spanish tradition; the first expression of this process was Carl Menger’s book “Principles of Economics” (1871). Menger’s writing is, in the first place, a reaction to the newly established classical theory of price determination of Adam Smith and his Anglo-Saxon followers. This reaction gave then rise to Menger’s most significant contribution to economic science, the law of marginal utility, and to the fundamentals of
Austrian methodology. Menger’s disciple, Böhm-Bawerk, refined the idea of time preference and based on it, he explained the nature of capital, capital goods and the interest rate, defined as “the price established in the market in which suppliers or sellers of present goods are precisely the savers (...), the demanders or buyers of present goods are all those who consume immediate goods and services.” (p.51) Major controversies with Marshall, Marx and Clark have emerged, mainly because of the Austrian concept of subjectivity of both supply and demand for capital, as opposed to the preferred Ricardian type objectivism. Later on, Mises and then Hayek were the ones that gave the Austrian school the definitive theoretical push. Mises developed the Austrian theory of economic cycles and proposed a banking system with 100 per cent reserve requirement, offering valuable analytical tools to explain the recurrent phenomena of boom and recession. In his "Socialism: An Economic and Sociological Analysis", Mises formulates the theorem of the impossibility of socialism, unable to offer a scientific and economic approach to the structural problems of planned economies. Mises built his theory based on “praxeology”, i.e., the general theory of human action, and on history. He constantly refused to consider experience as a valid methodological instrument in economics, arguing that “to expect economics to provide scientific predictions on a par with those offered by the natural sciences betrays a gross ignorance of the world in which we live and of human nature in general.” (p.73) A Nobel prize winner in 1974, Hayek continued the works of Böhm-Bawerk and Mises, concluding that recession is a stage of the economic process that cannot be avoided and that it is generated by monetary interventionism that creates widespread intertemporal discoordination between economic agents. An ardent debate with Keynes and the socialists appeared, regarding quintessential economic concepts like the importance of time, the neutrality of money and the division between micro and macro-economics. Ideologically, Hayek believed that socialism and other social engineering economies were “a fatal error of intellectual pride or scientific arrogance.” (p. 86).

Without any doubt, this valuable book is a must read for any undergraduate in economics, provided that the lecturer’s discernment is always alive. The dichotomist and comparative approach that de Soto uses in the book between Austrian and neoclassical economics has indeed the merits of explaining economic concepts in a successful manner and of consolidating the Austrian identity. But it also limits a more holistic view of economics that could probably
explain more of the surrounding reality. Meanwhile, Austrian philosophy brings a lavish infusion of sapience and openness into economics; nevertheless its principles should not be awarded the status of absolute truth. Neither could and should they replace neoclassical philosophy, but rather complement it, despite de Soto’s opinion that methodological pluralism is not advisable. Including social processes, entrepreneurship, transmission of knowledge and subjectivity in the objective of the study of economics is wise. Also, the latest contributions of the Austrian school, with the writings of Rothbard and Hoppe, to the theoretical analysis of justice and social ethics deepens social science theory. But still there are many questions left without answers. A simple one is: does the type of Austrian world and society exist? Instead of an answer, we can return to de Soto’s words, understanding that if the “validity of neoclassical conclusions cannot be guaranteed”, as he points out (p.15), the reverse is equally true, because neither can the validity of the Austrian economic thought be guaranteed.

Irina Ion teaches at the Department of International Business and Economics of the Bucharest University of Economic Studies (irina.zgreaban@rei.ase.ro)