

# Austrian Economics

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Austrian Economics became distinct from the consensus of economic thought following the work of Carl Menger, in Vienna, toward the end of the c19th. Fellow Austrians were inspired by his teachings and developed an approach to economic thinking that would chart a pathway defined by three main tenets: methodological individualism, subjectivism and time. Methodological individualism means that *only individuals choose*, and so groups of individuals (such as nations) are not organic organizations. This proposition follows cleanly from the central purpose of Austrian economics - human action - and that individual actors must be the unit of economic analysis.

If a causal link runs from beliefs to actions, then the epistemic of an economic actor should be of interest. Subjectivism is a cognitive frame of reference, and pervades our values, our expectations and our knowledge. Since economic science is the application of value-free analysis to a means/ends framework, and means/ends are expectations within the mind of the individual - subjectivism is a crucial tenet. Furthermore, because utility and costs can only be valued subjectively (and those valuations are likely to differ between individuals), the economic system will be complex. It will also be a system of learning, as the individual actors themselves generate institutions to benefit their endeavours.

The final foundation of all Austrian methodology is the role of time within the actions of heterogeneous individuals. The future is unknowable yet not unimaginable, and utterly distinct from the past and the present. Since decisions are not realized immediately, uncertainty exists, and since products predicted to satisfy expected future desires take time to be produced, there's a time structure of production, rather than a circular flow. The interest rate is the consequence of time preference, and is therefore of crucial importance to a flexible economy. Also, the ubiquity of the temporal element means that the economy is a dynamic system. The only relevance of equilibrium - or "steady state" - is as a hypothetical construction with which to judge tendency, rather than actualization. In other words we might investigate the process toward equilibrium, without treating it as an attainable goal.

These three tenets can rapidly be derived from the basic postulate that *human beings are purposeful*. A Priorism is an Austrian construct that dismisses the relevance of empirical data on the grounds that economic knowledge can be deduced from self-relevant truths. Whilst it is true that the basic postulates of human behaviour (or "logic of choice") are universal, the

Austrian's desire to attack Positivism should not undermine their own enterprise: applied theory is required to complement high theory. Austrians are not interested in quantitative relationships between variables (i.e. macroeconomics) but instead focus on understanding the meaning behind economic actors, and this shouldn't preclude real world observation - a priorism is not an Austrian tenet.

The clashing of plans creates a spontaneous order that is of human action but not of human design - a fine example is the emergence of money. Indeed the celestial fusion of individualism, subjectivism, and time have provided numerous examples of organic growth, three of which are crucial to understand fundamental Austrian theory. Firstly, the interaction between heterogeneous individuals results in trading, and this is the basis of the catallactic view of the economy - economics is not about allocation, but about exchange, and the institutions that facilitate this. A competitive (contestable) market is a process driven by entrepreneurial discovery. Secondly the time structure of production means that capital is not liquid, and has many alternative uses. When combined with the non-neutrality of money (money is the joint between all exchange), it becomes apparent that monetary policy can have harmful and unintended affects. Thirdly, the role of prices play an important role in economizing information (and therefore permitting a dispersal of knowledge), and acting as a rationale for calculation. When private property in the means of production can be exchanged, prices will emerge to provide the basis of profit and loss, and therefore the signals required to plan.

Following on from the three main tenets of Austrian economics - individualism, subjectivism and time - we have explored the emergence of three distinctive propositions: the theory of market process, the Austrian theory of the trade cycle, and the calculation debate.