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Abstract

This paper is based on the Presidential Address given at the 2019 Society for the Development of Austrian Economics Annual Meeting. In these remarks, I explore what makes a modern Austrian Economist. I propose that many theoretical foundations that are historically Austrian are now absorbed in mainstream economics. To understand contemporary Austrian economics, we should observe what Austrians currently do. Upon examination, it is clear that modern Austrians research across all topics and utilize all methodologies. Thus, I argue that it is our deep intellectual training, commitment to stressing economic logic, and consistent application of this logic to real world phenomenon that make us uniquely Austrian.

Keywords Austrian economics · Methodology · Development economics

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1 Introduction

In trying to discover my own Austrianess, over the past 10 plus years, I've questioned: What makes any of us Austrian Economists? By what standard should we judge ourselves? Are any of us researching what Mises or Hayek would be writing today? Is that even the appropriate benchmark? Or, is everyone now an Austrian? My claim is the latter. Here's why: if an economist does good economics, then she or he is an Austrian Economist.

This proposition is not new by any stretch, but it is worth repeating. Many of the Austrian uniqueness has been absorbed in the mainstream. And, that's precisely because we *won*. *We won* the intellectual debate. Early theoretical insights from the Austrian School that are now commonplace in economics include methodological individualism (social phenomena are a result of motivations and actions of individuals),

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subjective theory of value, the application of marginal analysis to price theory, and the formulation of the economic calculation problem.

Examining Boettke's (2012) propositions to define Austrian Economics further illuminates how Austrian theoretical foundations are absorbed into mainstream economics: 1) only individuals choose, 2) utility and costs are subjective, 3) prices convey information, 4) role of private property as foundation to economic system, and 5) money is non neutral. We see many applications of these core principles in modern, mainstream economics, including comparative economics, new institutional, corporate finance, international development, entrepreneurship, monetary, law and economics, and labor, to name a few.

If our theoretical insights are absorbed in the mainstream, how do our colleagues, editors, and reviewers, view our work? Let's take inventory. In addition to publishing in the *Review of Austrian Economics*, *Advances in Austrian Economics*, the *Cato Journal*, *Independent Review*, *Journal of Private Enterprise* (the other JPE), we also publish in the *Southern Economic Journal*, *Journal of Institutional Economics*, *Kyklos*, *Public Choice*, *Economic Inquiry*, *Economics Letters*, *Journal of Banking and Finance*, *Journal of Corporate Finance*, *Journal of Comparative Economics*, *Journal of Law and Economics*, *Journal of Law, Economics, and Organization*, *Journal of Legal Studies*, *Journal of Economic Behavior and Organization*, *Journal of Money, Credit, and Banking*, *World Development*, the *Economic Journal*, *American Journal of Political Science*, *American Political Science Review*, *Journal of Economic Perspectives*, and the *Journal of Political Economy*.

Combined, this suggests that our main theoretical contributions are absorbed and current Austrian research publishes in a wide range of respectable outlets.

2 What do Austrian economists do?

Instead of asking what should Austrian Economists do, I propose that we ask what do Austrian Economists actually do. Echoing Coase (1995), it is more useful to examine what economists themselves do instead of prescribing how they should choose their theories and evidence (Friedman 1953). Most of us in this room are not *Austrian Economists*, examining philosophical and methodological foundations; instead, we do *Austrian Economics*, stressing economic logic (theory) and applying it to the real world (history) (Boettke 2012).

What do those who self-identify as Austrian Economists do? Regarding methodology, we do theory, some do formal math, and most formulate conceptual economic arguments. Almost all of us do applied research, including historical narratives, experiments, econometrics with data, simulations, and some machine learning.¹

We study micro and macro, market and non-market decision making. We study economic growth, monetary economics, entrepreneurship (economic, social and political), industrial organization, urban planning and policy, economics of the family, transition economics, comparative institutions, public finance, tax theory, public choice, voting

¹ For more on understanding the Austrian critique of econometrics, see Hayek (1974). Aggregations lose the purposes and plans of individuals, which is the purpose of doing economics. Statistics can and often are misused in the social sciences, appearing scientific but leading to faulty conclusions.

models, rent seeking, immigration, economic freedom, importance of property rights, gender equality, constitutions (historical and current), prisons, prison gangs, political economy of war, postwar reconstruction, opioid crisis, war on drugs, corporate finance, insider trading, regulation studies, firm governance, pirates, gypsies, ordeals, child brides, wife sales, human sacrifices, witches, vermin trials, private governance, and anarchy.

Most of my work is applied research, utilizing economic reasoning applied to real world development questions. My approach usually involves cross-country data with econometric modeling.

My first paper idea that turned into a journal publication came in my first semester second year of the PhD program at West Virginia University (Williamson 2008). I read an Economist article that was hammering George W. Bush for cutting foreign aid to health programs that funded family planning, including condoms. The concern was that by cutting health aid programs citizens in poor countries would no longer have access to condoms to prevent STDs and unwanted pregnancies, thus spiraling further into a poverty trap. This seemed like such an odd concern to me. For one thing, I assumed that most people knew how to prevent unwanted pregnancies or STDs, and I thought that many already have access to such prevention methods. They might be poor, but they are not dumb. Why all the panic? This led me to examine the impact of health aid on health outcomes.

Thus, I began a deep dive into foreign aid research. Enter Bauer (1976, 2000) and Easterly (2001, 2003, 2006). I saw foreign aid research as a current direct application of the socialist calculation debate. Foreign aid is top-down, centralized development planning, but worse, it goes through at least two government channels or multilateral agencies. Talk about lack of knowledge and perverse incentives (Williamson 2010).

However, it seems plausible that health aid could avoid some of the major pitfalls of foreign aid for growth because we know how to prevent malaria or a Vitamin A deficiency, and the intended outcomes are specific instead of general. Unfortunately, just like regular foreign aid, health aid has no significant effect on health outcomes. Not because of lack of medical knowledge, but because we still do not know how to deliver the goods—no market prices to guide scarce resources to its highest valued use.

3 Catfish man of the woods theory of development

Through my research, I started to appreciate and understand core economic propositions, particularly, that value is subjective. I started thinking more and more about Catfish. Not Mississippi Catfish, but Catfish Man of the Woods. I was about 10 years old when I first met Catfish. Catfish was a unique individual, to say the least. He lived in rural Mason County, West Virginia, which meant he had access to fresh spring water. This was before the bottled water revolution and fancy filtration systems became common (at least neither had made its way to WV).

On one particularly hot summer day, I had to ride along in my Dad's old work car without air conditioning on a windy, bumpy gravel road for miles and miles. My purpose for being on the trip was to keep the many 6-gal glass carboys from slamming into each other and breaking. The windows were rolled down, my hair was whipping around, sticking to my forehead, and my legs were sticking to the vinyl seats. It felt like we were never going to get there. I was so hot and agitated. Finally, we arrived.

As the car slowed and we made our way up the holler, the air felt a little crisper, the sky a little bluer, and the grass a little greener. I could smell sassafras. And honeysuckle. I could hear the water rushing off the mountains, and into the streams in the valley. For a moment, I thought this is the place I keep hearing about in Sunday School—the land flowing with milk and honey. I never wanted to leave.

I was quickly brought back to reality. I needed to use the restroom, and asked Catfish if he would mind if I could use his. He said some words, words that even I could not understand, and he pointed off to the side of his one room shack. I was in an outhouse situation.

Catfish lived completely off grid. He had no running water, no electricity, no phone, no indoor plumbing, no central heat, no air conditioning, and no formal education. He was barely understandable, and he probably did not have all his teeth. By many development standards, including the United Nations' Sustainable Development Goals, this man was impoverished.

Nevertheless, this man was happy. Now is probably a good time to tell you that Catfish was an herb doctor, so I do not know what he was smoking, but it appeared to my 10-year-old self that he had discovered the true meaning of life. While I never forgot that experience, I was also never more excited to get home to my air conditioning and indoor plumbing.

Value is subjective. What people *believe* are the facts of the social sciences, and norms, values, customs, traditions shape these beliefs. I think this is what led me to pursue understanding culture in the development process (Williamson 2009, 2012). Culture shapes all subjective costs and benefits. It underpins all economic decisions. Studying culture forces you to appreciate that an individual's experiences, values, beliefs, and norms factor into their decision-making (Pejovich 2003). It counters the caricature of 'economic man' as a lightning fast calculator.

Although much of foundational Austrian economics has been absorbed in the mainstream, most of the applications are incomplete, incoherent or simply wrong. For example, the literature on history of statehood misses the premise that order precedes the state (Bockstette et al. 2002; Putterman and Weil 2010). Recent Nobel winning work believes we can solve poverty one randomized control trial (RCT) at a time (Banerjee and Duflo 2011, 2019). Many of their findings either demonstrate things we already know from basic economic theory, for example, that demand curves slope downward. Best case scenario, they find that a particular intervention in education or healthcare that increases school enrollment or decreases river blindness, respectively. While this approach appreciates some aspects of Austrian economics (importance of local knowledge), it misses some of the most important tenants in *economics*: value is subjective, individuals choose, and those choices are made in a context that structure the payoffs.

Austrians appreciate that economists are not social engineers. We understand that assuming rational self-interest does not imply perfect calculation by human beings (as implied in Thaler and Sunstein 2009). We understand that the individuality of individual choice makes the economy impossible to perfectly understand or predict. That's also what makes it wonderful. I might not understand why Catfish wants to live without air conditioning, but I can appreciate and respect his choice to do so.

The difference between Catfish and most of the millions living in extreme poverty is that he had the option to choose that life. For others, that decision is made for them.

Austrians view their subjects as humans who are rational and self-interested and respond to their incentives, but who also have emotions, thoughts, feelings, and preferences that structure their subjective valuations. They are not people to be tinkered with. Poverty is not a plumbing problem where economists are technical experts, the plumbers, who can fix the leaks and patch the holes (as suggested by Duflo 2017). Poverty is a freedom problem, which can't be fixed by plumbers tinkering. Instead of trying to fix a leaky system, the entire structure may need to collapse before any real progress can be possible (Leeson and Williamson 2009).

4 What makes us Austrian?

Why is it then that the current mainstream, which now incorporates many originally Austrian propositions, does not carry these arguments to their logical conclusions? Why do many mainstream top-notch economists miss the major implications of their own work? Part of this is because economists are no longer trained to understand the discipline's intellectual history. However, it is also our fault.

We can do a better job of advancing Austrian economics within the discipline. Austrians harm their own advancements by advocating two fallacies: 1) telling other scholars that their work is not Austrian, and 2) believing that ultimately their lack of career success is because they are labeled as Austrian.

To address the first issue, stop it. In 1987, Buchanan told an interviewer: "...I have no objections to being called an Austrian. Hayek and Mises might consider me an Austrian but surely some of the others would not". I would love to know who are these others. If Mises and Hayek would consider you Austrian, I think you have the stamp of approval. Current Austrians should stop telling others that they are not Austrian, and, instead, engage in a productive intellectual conversation.

To address the second concern, because I believe Austrians are in a better position to make long-lasting contributions to the discipline, I also do not believe we are systematically discriminated against in academic labor markets. This is not to dismiss any individual's experience. I have confronted both positive and negative biases in the job market. However, in the long run, I do not believe these biases is the determining factor of my success, or lack thereof. I might have placed a different school, but at each stage of my career, I believe I placed in the correct tier of schools.

We may choose to pursue our research outside the current mainstream. We may choose alternative methodologies that are out of fashion. We may ask odd questions, or frame answers differently. This is a result of our research philosophy. It is not because we are an Austrian Economist.

If you find yourself believing you are under placed or your work is not valued or being published as high as it should, I think you have two choices: blame it on being punished for your ideology, or do better. That advice is the same if there is real discrimination in the labor market. We overcome any bias by being the best. If the person who got the job you wanted has a superior curriculum vitae, be better. If your papers are not placing as high as you think they should, work harder. It is up to us to make others see our value.

There is still the possibility that colleagues might not respect you or your work, and blame it on your ideology or Austrianess. The root cause, to rely on my mother's

explanation when I am complaining to her about work, is that *they are jealous*. In particular, if you are publishing in good journals, receiving strong teaching evaluations, and outperforming your colleagues, they might complain about you. The loudest outcries are usually from those who can't compete. We know this from our own teachings: unions cry out for more labor protections and firms lobby for tariffs and stricter regulations so they do not have to compete (Tullock 1967; Stigler 1971; Peltzman 1976). The same happens in academic markets.

We have to make sure that we do not fall back on similar outcries. If you are not putting the hours in, figuring out how to be clearer in your arguments, discovering a new research insight, that is ok. But, don't blame it on Austrian economics.

We might not be the best-trained statisticians or mathematicians. However, I am confident that we are the better trained economists. We are clearer thinkers. We focus on extending logic to its fullest conclusion. We are in a better position to see what others do not. We see order when others see chaos. We see government failure when others point to market failure. We understand subjective value better than most. We are better equipped to apply theory because of our deep intellectual training, such as reading works by Menger, Mises, Hayek, Rothbard, and Kirzner. Our training does not stop there. We read Smith (Adam and Vernon), Stigler, Becker, Knight, Coase, Alchian, Allen, Demsetz, the Ostroms, Buchanan, and Tullock. We also read Marx, Keynes, Walras, Marshall, Jevons, Schumpeter, Pigou, and Sachs. That is what makes us unique.

Through this intellectual discovery process, we conclude that property leads to incentives for exchange, which leads to prices that provide necessary information for profit and loss calculation. This economic calculation supports innovation and drives prosperity. That is economics, good economic. That is Austrian economics. That is what ties us together, not method, or topic, or field, or where we publish. It is holding on to this truth, and then consistently deriving its implications with constant application.

5 Next steps

We are not handcuffed from the Austrian tradition. We are better equipped to address any and all economic questions because of our Austrian perspective. The research we can pursue is unlimited. We believe teaching and communicating basic economic principles is as important as research. Over time I realized that sometimes our role is not to discover something new and original, but it is to repeat the same economic logic over and over until those who refuse to believe it accept the harsh economic reality.

Socialism will not create a more prosperous and equal world. Foreign aid will not cause development, and it probably will not alleviate much human suffering in the meantime. These socialistic interventions will cause more harm than good. Like Easterly, I too view the foreign aid debate as over. We, as Austrians, view the socialism debate as over. We won the theoretical debate! Yet, we still have foreign aid and more and more public support for socialism.

Thus, it is up to us to educate not only our students but also the public and policymakers to what is not working and why. Most of the time it will fall on deaf ears, but what is the alternative. It takes repeated iterations to force alien concepts upon reluctant minds.

This is not an intellectual game to us. We care about improving the world we live in. To some it is a great job; to us, it is a deadly serious discipline with deadly implications.

Austrians won the theoretical debate, so we should act like it. Let's get out there. Engage with others outside our network. Find common ground. Be willing to listen and learn. Grow as an economist. By doing so, we will advance scientific progress within the economic discipline.

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