General Introduction

Does economic theory satisfactorily treat the problem of coordination?

It may seem odd to see this question here, as it has been asked so much in the history of economic thought, first emerging out of late 18th century political and moral philosophy. It comes to us through, among others: the classical tradition; Marx; the beginnings of marginalism and Keynes. Many authors would answer 'yes', if asked in the context of the 'efficient markets' or 'rational expectations' theories. According to the efficient markets analyses, actors form expectations using information from current prices; for the rational expectations theorists, individuals form their predictions out of their knowledge of the theoretical model and relevant past and present economic variables. The cognitive hypotheses supporting these two theories seem, however, to be too unfounded to justify the general conclusion, which is: in the absence of technological shocks,[1] the markets' equilibrium is automatically guaranteed by price flexibility.

This observation on the limits of the best known theories suggests that any reflection on the problem of coordination should be based on the fact of economic actors' ignorance. The theme of the institutions could be seen as one solution to the problem. Viewing the discipline from these twin points of view, we consider an all too often neglected current, the Austrian economic tradition.

Few economics students know of this tradition, founded by Carl Menger (1840-1921) although it has never quite disappeared off the historians' radar. It has always hovered on the edges of the discipline. However, this 'Austrian School' has inspired many a first rate vocation and, often without users being aware of it, is the source of numerous widely used concepts in contemporary theory.

Carl Menger's two main disciples, Friedrich von Wieser and Eugen Böhm-Bawerk have in turn familiarised generations of students with their mentor's theses. Thus in Austria between the wars, the school developed mainly through the work of Ludwig von Mises and Friedrich Hayek, the only Nobel Prize winning Austrian economist. Many authors, variously leaving their mark on history, were formed by the school at this period: Ludwig Lachmann, Paul Rosenstein-Rodan, Oskar Morgenstern, Richard Strigl, Fritz Machlup, Gottfried Haberler and more.

These authors' often forced emigration during the 1930s did not extinguish the tradition, far from it. Hayek's and Mises' arrival in the USA gave birth after World War 2 to a whole new generation of economists inspired by the Austrian analysis, Murray Rothbard and Israel Kirzner in particular contributing to the tradition. Their influence explains that most of the major representatives of the Austrian tradition are today American: Garrison, Rizzo, Boettke, Salerno, Selgin, Koppl, White, Caldwell and more. They today use Austrian tools to contribute in many important fields of study such as money, expectations, evolutionism and cycles. In Europe, some often isolated individuals have also made important contributions to the advancement and renewal of the tradition, such as Foss and Witt.

So although the Austrian school is today intellectually lively, many students are still as unaware of its existence as much as the public, in spite of a growing body of literature over the last 25 years.[2] Out of the many reasons for this renewal of interest; two outstanding points can probably be agreed on.

Firstly, that this new interest in this long ignored current has had an unexpected effect on its image: the theoretical unity of the tradition is now being questioned. Thus, in contrast to Shand's analysis (*Subjectivist Economics, The New Austrian School*, 1981) and especially O'Driscoll and Rizzo (*The Economics of Time and Ignorance*, 1985), the thesis of the school's heterogeneity has gained in strength to the point of dominating the horizon. Commentators habitually remark on various analytical and doctrinal divergences between its various members. They note the fact that the Austrians share the same fundamental principles of methodological individualism, subjectivism and the market as process. They do not, however, attribute to them the same characteristics or even the same meaning. This seems to have become a habit, which has given the Austrian tradition the image of a scattered jigsaw puzzle with some of its pieces missing. The confusion caused by this has led some authors to wonder where this school's analytical boundaries lie. Thus, many works have spread the image of a tradition which has steadily become absorbed into the mainstream of economic thought.

The second point is that along with this 'renewal' of the Austrian tradition has most regrettably come its abuse for partisan purposes. Certain Austrian authors' militant support for the free market added to an otherwise fortunate democratization of Hayek's and Mises' ideas has unhappily led to the crystallization of anti free market critiques and the condemnation of the school by commentators hostile to any form of illumination of free market economy mechanisms, leading to the institutional sidelining of the Austrian school. This rich, complex tradition is a valuable tool to shed light on one's own convictions, as long as its integrity is respected by responsible attitudes to its use. If this is not the case, then economic analysis is impoverished.

The aim of this book is to clarify the specific nature of the Austrian problematic. Reacting to the image of a school instrumentalized on the political front and analytically swamped with competing 'trends' and 'trans-currents', this book seeks to restore the unity and open-mindedness of it as a whole. Our intention is not to offer a collection of different or parallel ideas, but rather to retrace, from a pedagogical and positive viewpoint, the various stages of the building of a proper theoretical edifice.

There are, of course, fractures within the Austrian tradition, which in fact would appear to be less due to the differences between contemporaries than to the generations. There would thus seem to be a clear distinction between the first Austrian tradition, founded by Carl Menger, Wieser and Böhm-Bawerk and a 'neo'-Austrian tradition organised around the works of Mises and developed by colleagues and successors such as Hayek, Lachmann, Kirzner and Rothbard.

Most commentators seem to agree with this distinction. Hutchison (*The Politics and Philosophy of Economics: Marxists, Keynesians and Austrians*, 1981); Shand (*The Capitalist Alternative, an Introduction to Neo-Austrian Economics*, 1984) and also Ioannides (*The Market, Competition and Democracy*, 1992), explicitly support the idea of a 'neo-Austrian' school based around Mises' and/or Hayek's works. Yet such a division has not been analytically founded. The question is: can this be justified?

The idea developed in this present work is the following: the two families seem to have the same preoccupation, which is to found the idea of economic theory, yet their epistemologies and analyses are far enough apart to warrant separate studies. So our objective is to concentrate on the neo-Austrians to see what possibilities there are of transferring from a neo-Austrian tradition to a neo-Austrian economy. In other words, would it be possible to create an analytical identity from what would at first seem to be a splintered group of concepts? To answer this, we have developed a three-part argument.

Firstly, we discuss the way Mises' epistemological analyses shaped a general reflection founded on the principles of human action, which would appear to form the basis of the neo-Austrian tradition. For it was Mises who initially rearticulated the teaching of the first Austrian generation then, directly or indirectly, determined his successors' own analytical trajectories. Whether the problematic they developed has been to complete, redefine or simply extend his own thinking, they have never challenged its legitimacy (Part 1).

The second part of our reflection concerns the way Mises' ideas formed an economic problematic of ignorance. Examining the various facets of this integral part of human action allowed the neo-Austrian authors to define the consequences of ignorance in the organisation of social activities. The market economy (catallaxy), may be envisaged in this frame as a form of answer to this ignorance. We study the analytical problems in the logic of market formation to reveal its functioning principles, then we determine the implications of the neo-Austrian analysis concerning the success of individual plans (Part 2).

The third and last stage develops the various applications of Austrian ideas on economic systems and policy. The Austrian argument has often been structured during controversies and debates in that field. Much has been exchanged and developed concerning the analyses of the functioning principles of collectivism, cycle mechanisms or welfare economics. We note these controversies and the way in which they reveal the nature of the Austrian problematic of ignorance (Part 3).

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The usual disclaimer applies.

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NOTES

1. See the 'New Classical Economics' Real Business Cycle (RBC) theory.
2. In fact it was in the 1970's that a first set of works revealed the Austrian anew (Hicks and Weber (eds), *Carl Menger and the Austrian School of Economics*, 1973; Machlup, *Essays on Hayek*, 1976; Dolan (ed), *The Foundations of Modern Austrian Economics*, 1976; Moss (ed), *The Economics of Ludwig von Mises,* 1976; Loasby, *Choice, Complexity and Ignorance*, 1976; Spadero (ed), *New Directions in Austrian Economics*, 1978; Rizzo (ed), 1979; *Time, Uncertainty and Disequilibrium, Exploration of Austrian Themes*, 1979; White, *The Methodology of the Austrian School of Economics*, 1977, and so on). This literature only really started to develop in the 1980s, however. Most of the contributions appeared in post-conference collections, giving various points of view around a particular theme. Unfortunately this type of publication never offers a complete overview of the Austrian tradition, so grasping the whole tradition from them is difficult.