“What is so Austrian about Austrian Economics?”

By

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Abstract:
Modern mainstream economics is a plurocracy in which there is no orthodoxy of ideas, only an orthodoxy of method. Given the training it provides its students, mainstream economic’s natural domain is science. With the mainstream’s acceptance of complexity views of the economy, Austrian economist’s views can now get a hearing within the mainstream. Thus, within the science of economics, there is no need for a separate Austrian economics. However, there is a need for Austrian economics in political economy, that branch of economics that takes the insights of science and relates them to policy. The paper urges Austrian economics to embrace political economy as its domain, and to position its work as within political economy.
The Domain of Austrian Economics

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When Roger asked me for a title, my natural thought was The Death of Austrian Economics—after all since I killed off neoclassical economics, (Colander, 2000) was life still worth living for Austrian economics? But Austrian economic has died so many times, and has always risen again, we decided that a better title was “The Domain of Austrian” economics. To have a domain, you can’t be dead, so by choosing that title I am implicitly taking the position that Austrian economics should continue to exist and not be integrated into the “new mainstream plurodoxy” that I believe describes the methodological position of mainstream economics in the first decade of the 21 century, as I have argued should happen to almost all other organized heterodox groups. (See Colander, forthcoming-a) By plurodoxy, I mean a mainstream that has no orthodoxy, neoclassical or other. It is a mainstream composed of many different competing beliefs and research programs, including an “inside-the-mainstream” heterodoxy. Roger Koppl has nicely captured the many views with his BRICE paper. (Koppl, 2006)

I am not arguing that mainstream economics is open and that anything goes—far from it. All research programs are sociologically closed as insiders develop methods to protect their rents, but once inside, there is no orthodoxy of ideas that one has to follow. Modern mainstream economics protects its rents through an orthodoxy of method. Modern economics considers itself a science and has its version of a scientific method—you model, you quantify, and you stay in a fairly narrow set of methodological approaches. Because, in truth, modern economics often falls far short of scientific standards, it often tries to make up for that failing by focusing on work that is technically difficult, even when that technical difficulty is not especially helpful. But all economists face the same requirement, so it is not closed to any ideas on ideological grounds.1 So my argument is that modern economics is a plurodoxy limited by method, not by ideas or views, which means that Austrian ideas can get a hearing within the mainstream.

The Problem with Heterodoxy Characterization

To argue that Austrian economics has a domain, and should continue as a distinct group is a concession for me, since in my other work (Colander, 1998, 2003), I’ve argued against the use of classifications of subgroups of heterodox economists except as temporary crutches for incoming students and lay people who need oversimplified characterizations of views as an entrée into the debates. Thus, I’ve argued that all such characterizations of subgroups of economists—Austrian, Keynesian, Classical, Post Keynesian, feminist, Institutionalist, behavioral-- should be fleeting. I’ve further argued that the characterization should change over time because the debates change. Often, as soon as one specifies what is Austrian, Post Keynesian, or Institutionalist, about Austrian, Post Keynesian, or Institutionalist, that specification is likely to change. The reason for this fleeting nature of classification is that the views held by economists are fleeting, and

1 See Colander, (2005) for a further discussion of this issue.
have to be understood in juxtaposition to other views being expressed at the time; their views have little meaning out of context of the debates that lead to the terms in the first place. As we argued in Colander, Holt and Rosser (2004) the economics profession is best thought of as a complex emerging system that cannot usefully be characterized by static names and concepts. You can use classifiers, but as soon as people start thinking that the classifier defines them, it become counterproductive.

The problem with any self-characterization of a view or group is that self characterizations tends to become institutionalized—it leads to separate organizations and journals that define and confine the conversation of this subgroup of economists. The group members communicate among themselves, and not with other heterodox groups or with mainstream economist. The self characterization pulls them out of the mainstream plurodoxy. Put another way, self-classification leads people to become heterodox.

The creation of such subgroups defined by self-characterization is often highly satisfying for the creators of these subgroups; it creates a small pond where one can be a big fish. This happens especially when the group establishes educational institutional beachheads and begins training their own students. As X students come in and study and dissect the works of X economists, often in excruciating detail, the first movers in X have the wonderful pleasure of having someone read and care about what they said—a result that tends to be important in an academic’s utility functions. Thus, the creation of groups leads to protected domains where ideas aren’t subjected to the competitive pressures that they would in the mainstream plurodoxy.

As pleasurable as it is to be a big fish in a small pond, it is not a good strategy for spreading one’s ideas. Important ideas generally take multiple generations of scholars to develop, and unless the X group can develop institutions to compete with mainstream institutions, they stop progressing and become inbred. The group’s ideas become heirloom ideas that do well in a protective heterodox bubble, but which cannot stay alive outside the bubble. Unless X group can provide an institutional structure that creates a replicator dynamics that expands the number of jobs available for its graduates, its ideas will not spread beyond the bubble.

Too specialized training in a subdivision leads to graduates who can exist only at the edge of the mainstream, and in environments that have protective bubbles. Because their training is different, they find that their learning is of little interest to mainstream economists; they lack the ability to communicate with those mainstream economists, and hence their views do not get a hearing. This is especially difficult because the field of economics is an evolving complex system, and what made the aging heterodox economists relevant in their youth often is of far less relevance in their middle age or old age.

It is for these reasons that I argue (Colander, forthcoming-a) that heterodox organizations should be seen as incubators that give new ideas a chance to develop to the point at which they can be put out into the mainstream—to live or die. Most will die, because the competition is very strong in the mainstream, but a few may live, and those that do may well establish a foothold in the mainstream plurodoxy. What I believe must
be guarded against with any self-characterized subgroup is allowing the incubator to become the environment.

It is Time to Declare Victory and Leave

With that introduction, let me turn to my outside view of Austrian economics, and what I see as its domain. When I first was introduced to Austrian economics, which involved reading Lachmann, Hayek, Yeager, and Kirzner back in graduate school, I was impressed. I thought they had some neat ideas. They were certainly more insightful and thoughtful than much of the mainstream work that I was reading. I felt that clearly they were on to something that I wasn’t getting in my classes. Thus, I was extremely sympathetic to Austrian ideas.

As I came to know Austrian economists a bit better, it became clear to me that I was far too eclectic in both my policy and theoretical views to be an Austrian. I also learned that Austrians were far from homogeneous, and within the subgroup of Austrian economics there were more sub-sub groups than I could keep track of in my head. I found myself most comfortable with that subset of Austrians who saw it as necessary to separate out analytics from their pro-market ideology, which led other Austrians to question whether they were truly Austrian. I urged this group to reach out to other heterodox groups of all varieties and concentrate on analytic criticisms of economics that transcended ideology, because that was the only way that I felt that they would be taken seriously be the mainstream.2

But, as I said above, economics is a complex emerging system, and the problem faced by Austrian economics today is different from the problem faced by economists of the 1970s. Today, the problem facing all heterodox groups, Austrians included, is that much of what they were fighting against no longer exists, if it ever did exist. Any orthodoxy that may have existed back in the 1970s has been replaced by a mainstream plurocracy. All ideas, if expressed in an acceptable methodological form, now can get a hearing. Thus, the key analytic point that I took from Austrian economics was that any meaningful consideration of the economy must treat it for the complex system that it is.3 Today, it can be treated as such with the mainstream. That complexity war has been won, at least on the cutting edge of economics.4 While there is likely another 20 years of mopping up to do, as the stragglers are brought in, there is today an acceptance that considering the economy as a complex system is a legitimate scientific approach.

There is an irony and injustice here. Even though Austrians have won, its writings will not be given any accolades because, in the mainstream vision of the history of

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2 I’m pleased that that group has been successful, and through the efforts of economists such a Peter Boettke and Roger Koppl, Austrian economics has played an important role in maintaining a heterodox presence in the US, and has kept them from being seen as just pro-market ideologs.

3 The argument that complexity is the central Austrian insight is, of course debatable. I say that because I believe that once one accepts that the economy is a complex system, one is naturally led to the other elements of the economy that Austrians have emphasized, such as the knowledge problem, entrepreneurship, and the limits of mathematics in understanding a complex system such as the economy.

4 In fighting wars, I should admit that I’m from Vermont and am prone to the George Aiken “declare victory and leave” solution to wars.
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economic thought, the scientific war was won on the technical front—not on the conceptual front. The complexity war was won by bringing in the Calvary—ultra mathematicians and natural philosophers who were not in the hold of any mainstream economics orthodoxy that tended to dominant the profession in the 1970s. This mathematical cavalry brought in new analytic and computing techniques. The debate about complexity has now moved on to a highly technical battlefield, and the debate concerns whether any of these new analytic techniques shed sufficient light on economic problems to warrant the greater technical sophistication they require, or whether the best we can hope for is an algorithmic understanding of reality. (Vellupia, 2008) The jury is still out on that, but it is a debate that really has little to do with the Austrian economists that I know. Non-linear dynamics, measure theory, and ultrametrics are not Austrian economist’s natural domain. Studying Hayek, Lachman, von Mises or Rothbard is not going to prepare one for that mathematical battle.

Some Austrians may well make contributions in this area, but if they do, I suspect that it will not be because of their Austrian training. For example, say I asked a graduate student at George Mason to explain to me what Lars Ljungqvist and Thomas Sargent meant in their introductory graduate macro text (first chapter) by the “spectral density matrix and the Fourier transform of the covariogram of a covariant stationary stochastic process”? My suspicion is that I’d get a blank stare.

My point is that to take part in this mainstream scientific debate, you need to know the tools and techniques and the mainstream argument better than do the top mainstream economists. Only such people will have their complaints taken seriously. Barkley Rosser and Buz Brock can take part in that debate, but I, and most Austrians, cannot. The Austrian programs that I know don’t provide students the technical sophistication to take a meaningful part in that debate, and their students don’t have the proclivity to acquire that technical sophistication. So unless they team up with mathematicians or physicists, I see little future for as a distinct entity in Austrian economic science. It is time to leave the protective science bubble.

My conclusion then is that the Austrian heterodox scientific research programs is unsustainable, and should declare victory, and essentially merge into the mainstream. It should not distinguish itself with separate graduate programs or maintain a separate conversation, trying to teach Austrian economic science.5 Science is now the mainstream’s domain, and Austrians don’t have the mathematical firepower to fight in that domain.6

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5 The Austrian classification here could be replaced by Institutionalist, Post Keynesian, or a variety of other heterodox classifiers.
6 As I suggested above, one could argue that mathematics is not the appropriate language for science, but I believe that argument is wrong (assuming that my mathematics one means a wide range of formal logical argumentation that involves carefully specified techniques that are designed to arrive at as precise answers as one can, and not more precise) Thus, it includes work such as Vellupia (2008) or Wolfram (2002). If Austrians want to argue against the use of such a broad interpretation of mathematics as the language of science, it places them in opposition to not only economics, but the broader scientific community, which is why I consider it a loosing argument as well.
The March of Dimes Problem

My advice to most other heterodox groups has stopped there, and I have encouraged them to become an “inside the mainstream” gorilla economists—working within the mainstream while maintaining the ideas and beliefs. Being a gorilla economist inside the profession is a much harder life than is life in the protective bubble of heterodoxy, but my sense was that it would be more effective for the heterodox movement. That’s why my first inclination in this paper was to kill off Austrian economics—not to end their ideas, but to spread them throughout the mainstream profession, and get them out of their protective bubble. But I’m not arguing that because, among all heterodox groups, Austrians have been the most institutionally successful.

The success of Austrian economics leaves it with what I call the March of Dimes Problem: What do you do if you have a viable institutional organization and you win. One solution is to disband, but that is hard—organizations acquire a life of their own—they create rents, recognition, and power to those in the organization, and rational people work hard to maintain those rents. So the question is: What to do with these organizations if you are not disbanding them. The answer is that you get a new domain. By domain, I mean what topics it considers under its purview.

Since I’ve already said that the science of economics should no longer be considered under the purview of Austrian economics, some of you may be thinking that I’m being illogical. But I’m not, because there is much more to economics than science. Specifically, there is the domain of political economy, a branch of economics that relates the insights of economic theory with both the normative goals of society and the real world institutions within which policy must be applied. Whereas science avoids normative and real world institutional issues, political economy embraces them, and guides society in implementing economic ideas.

Thus my advice to Austrian economists is to formally declare that your domain is political economy, not economic science, and that your do it with flare and gusto. Be “in your face” with the mainstream, giving them the science domain of economics, but fighting for every inch of the policy domain of economics. The reason I advise this is that political economy is a domain where Austrian economists have much greater skills than those in the mainstream. It is a domain where Austrian economists have a chance of winning.

Economic Science and Political Economy

Since the term, political economy, has many different meanings, I should be a bit more explicit about what I mean. Let me start by what I do not mean. I do not mean much of the work that currently goes under the name political economy—work that adds political variables to empirical models. In my view most of that work is at best game

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7 The March of Dimes was a charity devoted to fighting polio. When polio was eradicated, it had to either go out of existence or choose a new target. It chose to fight premature death, infant mortality and birth defects, three problems that are highly unlikely to ever be solved, thereby preserving its long term existence.
playing—creating arbitrarily defined concepts and relating them to other concepts in ways that provide little understanding or insight. Instead, I mean by political economy is what Lionel Robbins meant by political economy—that branch of the field of economics that is explicitly concerned with policy.

Since Robbins views have been seriously misunderstood by the profession, let me briefly explain. In his famous work on method (Robbins, 1932) in which he defined economics, Robbins was clear that he was defining economic science, not the entire field of economics. Robbins interpreted economic science, like classical economists before him, very narrowly; it had to have no value judgments; and no speculation. Before something would become part of the knowledge of economic science it had to be indisputable by a trained economist. Since all policy was not indisputable for Robbins economic science had essentially nothing to say about policy. He wrote “In the present state of knowledge, the man who can claim for economic science much exactitude is a quack.” (1938).

Robbins’ methodological prescription was that value judgments (which included interpersonal welfare comparisons, but went far beyond them) had no place in economic science. That prescription has been seriously misunderstood by the profession, which interpreted it as meaning that value judgments had no place in economics. He specifically did not say that. All Robbins said is that economists should not use value judgments in their role as scientists. He specifically said that they should use value judgments in their role as economists. He knew that to make policy prescriptions one had to make value judgments. His point was that you don’t draw policy from science—you draw it from political economy, using scientific knowledge as one input, but only one input. Thus, if you were saying anything about policy, you were not being an economic scientist; you were being a political economist. In his Ely Lecture, he is very explicit about this. He writes:

My suggestion here, as in the Introduction to my Political Economy: Past and Present, is that its (political economy) use should be revived as now covering that part of our sphere of interest which essentially involves judgments of value. Political Economy, thus conceived, is quite unashamedly concerned with the assumptions of policy and the results flowing from them. I may say that this is not (repeat not) a recent habit of mine. In the Preface to my Economic Planning and International Order, published in 1937, I describe it as “essentially an essay in what may be called Political economy as distinct from Economics in the stricter sense of the word. It depends upon the technical apparatus of analytical Economics; but it applies this apparatus to the examination of schemes for the realization of aims whose formulation lies outside Economics; and it does not abstain from appeal to the probabilities of political practice when such an appeal has seemed relevant. (Robbins, 1981, 8)

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8 A more extensive discussion can be found in Colander (forthcoming-b)
9 In Robbins’ time that meant that economic science was only concerned with deductive work since the empirical tools were very rudimentary, and didn’t allow much testing of theories, but more recently has expanded to include empirical work. Thus, I argue that Robbins would change his definition of economics, were he around today.
In Robbins’ time economists could reasonably focus on both political economy and economic science, but today that is harder. Technological developments have increased the need for specialization. Today good economic science requires a highly specialized technical training—a training that generally precludes training in the nuances of value judgments and sensibilities that are needed to be a good political economist. Either students learn such nuances and sensibilities on their own, or they don’t learn them. This leads to over simplistic discussion of policy and all types of embarrassing pedestrian discussions of policy by top scientific economists.

The problem occurs on both side of the political spectrum. For example we have macro scientists, V. V. Chari and Patrick Kehoe (2006) arguing that modern macroeconomic theory tells us that “discretionary (macro) policy making has only costs and no benefits, so that if government policymakers can be made to commit to a policy rule, society should make them do so.” (pp 7-8) Similarly, we have economists arguing that economic theory tells us that the existence of externalities implies that we need government intervention. Both are equally wrong, and both statements make a well-trained political economist cringe. Economic theory tells us nothing about policy.

Accepting Robbins’ distinction means that much of what currently goes under the name applied policy work combines scientific techniques with policies in unacceptable ways, either by giving too much weight to quantitative measures, without discussion, or crossing the line and seeming to provide scientific foundations for normative judgments. Trying to draw policy conclusions from scientific models reflects a lack of understanding of the limits of science, which Hayek nicely explained in The Sensory Order (Hayek, 1952). The entire welfare economics approach of modern economics, which attempts to draw policy conclusions from deductive models is, in Robbins’s framework, misplaced.

Attempts to get around Robbins’ concerns, such as the new and the new new welfare economics have made the problem worse, not better. For a true follower of Robbins welfare economics belongs totally in the domain of political economy not economic science. Seen within the domain of political economy, welfare economics is sorely lacking. In terms of developing an analysis of policy the true follower of Robbins was Coase, and what the economics profession sorely needs is an alternative Robbins-Coasian policy economics developed within the political economy domain, not within the science of economics domain. Austrian economists should be on the forefront of developing that alternative policy domain.

**Differentiating Political Economy from Economic Science**

The reason differentiating economic science training from political economy training is important is that the methodologies for both are fundamentally different. As I discussed in Colander (2008) the methodology for economic science is highly technical and requires what I call a producer’s knowledge of the latest developments in mathematics, along with a highly creative mind, and the latest developments in statistical techniques. Graduate schools now attempt to train students to be producers of scientific knowledge. That makes sense for training economic scientists. It doesn’t make sense for training political economists. Scientific training does not prepare economists to handle
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the subtleties of applying scientific knowledge to policy. That involves a quite different type of training—and it would be that different type of training that graduate schools in political economy would provide. Graduate programs in political economy would have a fundamentally different type of training than economics students currently get. They would train students to be consumers of the science of economics and in how to apply those insights to policy.

The reason it would be a different training is that a political economist does not require a producer’s understanding of the latest developments in mathematics or statistical techniques, just a consumer’s understanding. By that I mean that it would have a Charles Kindleberger, Leland Yeager, or Charles Goodhart understanding of economic theory. They may not have produced the latest theories, but I would turn to these writers, not to most producers of modern theory, when I am trying to determine whether the scientific theories are relevant to policy.

A political economist has to know how ideas developed; he or she has to know theory, but they also have to know institutions, political philosophy, and moral philosophy. A political economist would be trained in the philosophical foundations of policy—he or she would know how ethics interrelates with policy and would have a broad knowledge of both past economic literature and economic institutions.

A political economist would also be trained in a different type of argumentation. That argumentation would not be scientific (proof, lemma, theorem) but rather lawyerlike, by which I mean that the political economist would be trained to weigh the evidence, and after weighing the evidence how to develop the most persuasive case he or she could to show why a particular policy should or should not be followed. The argument would include every dimension of the problem that is important to the conclusion. In political economy one can assume nothing away because of tractability problems.

This need to include all aspects of an argument means that the arguments a political economist makes will not be air tight arguments given well specified assumptions. Instead they will be convincing arguments given the shared knowledge of people he or she is making the argument to. The output of political economy is precepts—general rules of thumb to guide policy. The outputs of economic science are empirical facts—regularities that one develops inductively—or theorems—deductive truths that follow from a well specified model.

Conclusion

Let me conclude with my take-away message. The domain of Austrian economics is political economy. That domain should be embraced, and it can only be embraced by giving up the scientific domain. Doing so means changing Austrian PhD programs to specifically embrace political economy. They should be called political economy programs and they should specifically not try to produce economic scientists. Their
training in theory should be training the producers a consumer’s knowledge, not a producer’s knowledge, of theory.\textsuperscript{10}

Taking control of the political economy domain will not be easy. Mainstream economists think that they control the entire domain of economics. The entire political economy field of economics, which was the dominant branch of classical economics, has been lost and is now occupied by economic scientists. They think they own it. One should be under no illusion that the mainstream economics will let Austrians stake out the political economy domain, because in fact, the domain of political economy is by far the larger part of the domain of the field of economics.

Were the mainstream economics to limit itself to the pure science of economics—which given its current training, it should-- its size would be approximately the same size as the field of physics, and its job opportunities would be similar. Graduates of science of economics programs would be delighted when they get a post-doc. The reason is that, in truth, there isn’t a whole lot of interest in the pure science of economics. Society’s interest in economics is mainly in political economy.\textsuperscript{11}

My final comment is that if Austrian economics is to establish a foothold in the domain of political economy, it will not belong to it alone. An ideological neutral political economy would be inhabited by political economists with all kinds of political and moral views, some quite anathema to Austrians. If Austrian political economy programs only present their moral views, and do not became a forum within which the best of all moral views are allowed to interact and compete, these programs will be seen as ideologically driven, and not methodologically driven. Being seen as ideologically driven will undermine even the potential for success.

Bibliography


\textsuperscript{10} A good pool of applicants for these political economy programs will be students at top graduate programs who have become disillusioned with the education they are getting there. Credit should be given for courses taken there, and they should be welcomed into the political economy program. Similarly, undergraduates with Austrian leanings who are interested in studying economic science should be directed to attend mainstream science programs.

\textsuperscript{11} Even if one expands the narrow interpretation of Science (large “S” Science) that Robbins and I use, to include an engineering branch (small “s” science) as well as a pure science branch, while the domain expands considerable, that domain of the engineering branch shorn of its policy issues is limited to technical interpretation of data and pulling information from data. Relating the information to policy will remain the domain of political economy.
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Colander, D. (forthcoming-b) “What was “it” that Robbins was Defining?” *Journal of the History of Economic Thought*


