

THE EPISTEMOLOGY OF THE AUSTRIAN SCHOOL OF ECONOMICS AND THE PROBLEM OF EMPIRICISM IN ECONOMIC THOUGHT

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Abstract: *The Austrian School of Economics, until now a rather marginalized economic doctrine in contemporary academia, passes through a period of resurgence, especially after the crisis of 2007/2008. The given article discusses the key element which differentiates the doctrine from other economic schools of thought, namely its aprioristic epistemology. The Austrian form of thinking is then applied upon the conflict between socialism and capitalism.*

Key words: *Austrian School of Economics, empiricism, epistemology, economic doctrines*

Introduction. The Austrian School of Economics is a current of different economic doctrines that are rooted in the works of the classical economists, the origin of their ideas being traced back to the Spanish Scholastics, especially of the 15th and 16th centuries (mostly, the School of Salamanca); main proponents being Carl Menger, Eugen von Böhm-Bawerk, Friedrich Wieser, Ludwig von Mises, Friedrich Hayek (Nobel Prize in Economics in 1974), Murray N. Rothbard and Israel Kirzner. Current renowned researchers include Hans Hermann Hoppe, Guido Hülsmann, Walter Block, Thomas di Lorenzo, Thomas E. Woods, Jeff Herbener, George Reisman and others.

Critical analysis of the field. Although until the first half of the twentieth century, the ideas of the Austrian school (or Viennese School) were considered mainstream economics, the rise of Keynesianism and other empirical economic doctrines made the image of the School suffer, until recently, marginalization in academia. From the mid-70s, however, and especially after the financial crisis of 2007/8 until today, there has been a worldwide resurgence of Austrian ideas. This is shown both by an increase in academic publications and studies at prestigious universities and by popularizing through literature, media and political debate.

Almost anywhere in the world over the past decade, research centers dedicated to studying and promoting the Austrian doctrine have appeared, as, for example the Mises Institutes in Alabama / USA, Brazil, Germany, Poland, Czech Republic and Romania. The last country also has a Friedrich von Hayek Center at "Alexandru Ioan Cuza" University Iasi and Rothbard Center at the American University in Bucharest.

The Austrian approach, once being considered economics mainstream, remained until today almost isolated seemingly the single economic doctrine, at least in the Austrian School tradition of Ludwig von Mises, which insists on a aprioristic and deductive approach, while other doctrines joined other social sciences (such as sociology or psychology) which try to adopt the empirical methodology of the natural sciences. Below, we briefly delineate the main elements of the Austrian analysis and discuss their relevance and applicability.

While most of the current economic doctrines consider that economic laws are not absolute, but should be subject to empirical testing, the result of which can never give absolute certainty, but only a statistical confidence interval, the Austrian School argues that economic laws, unlike historical events, can be inferred from a number of axioms that are intuitively true. Just as in trigonometry nobody does empirical studies to measure triangles all over the world, or to test whether the sum of the angles makes exactly 180 degrees, there are economic truths which are self-evident or which are applying the formal logic of original self-evident truths. Ludwig von Mises called economic science, based on the irrefutable axiom that man acts, praxiology.

Von Mises writes about economic science:

„Its statements and positions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification and falsification on the ground of experience and facts. They are both logically and temporally antecedent to any comprehension of historical facts. They are a necessary requirement of any intellectual grasp of historical events.”⁷¹

For the purpose of illustration, here are some economic laws derived from this axiom:

1. David Ricardo's law of association, which says that if a person is better than another in the production of goods A and B, based on the division of labor and concentration of production on only one of the two goods, at which he is still the most effective, the company will increase the volume of goods compared to the situation in which he would deal with the production of all goods.
2. If the minimum wages are set above the market price they will cause unemployment.
3. If the state sets maximum prices for certain commodities and products that are above the market price, the result will be a comparative disappearance of these goods.

The praxiological approach, especially from the 1950s onwards, has produced fierce discussions. On the one hand, although they did not use the terminology of Mises, almost all classical economists used the method of thought experiments, through which were thought till the end consequences if an isolated variable was modified, maintaining all others constant (*ceteris paribus*). They did so not because they still did not know the computational methods of statistical analysis, but from a deep understanding of what makes economic laws different from those in the natural sciences.

Unlike (some) natural sciences, in the economy it is impossible and undesirable to run controlled empirical experiments. It is not possible for practical reasons as well as ethical reasons. We can not manipulate at least one national economy with only one variable (or set of unrelated factors) while keeping another country with exactly the same parameters as the first one as a control group. On the other hand, it is highly irresponsible to lead experiments on behalf of the entire population, especially if traditional economic science has superior tools than empirical experimentation. Of course, we can mention the periodic occurrence of “natural” quasi-experiments, for example in the cases of North and South Korea, of East and West Germany. But here we find an abundance of factors that could not be controlled and that could confuse the results, especially both named cases clearly illustrate the inhumanity and cruelty of experimenting on people.

The classical economists, and Austrian economists nowadays, did not perceive this as a shortcoming of economics, but as an inherent feature of their field of study. While in the natural sciences we start from an absolute ignorance of the laws of nature to a gradual approximation of knowledge through centuries of empirical research, in economics the situation is exactly the opposite: it starts from absolute and knowable truths to deduct more complex situations.

States Jean-Baptiste Say:

„A treatise on political economy will ... be confined to the enunciation of a few general principles, not requiring even the support of proofs or illustrations; because these will be but the expression of what every one will know, arranged in a form convenient for comprehending them, as well as in their whole scope as in their relation to each other”.

or Nassau Senior (1790-1864), on economic assumptions:

„... premises consist of a few general propositions, the result of observations, or consciousness, and scarcely requiring proof, or even formal statement, which almost every man, as soon as he hears them, admits as familiar to his thoughts, or at least as included in his previous knowledge; and his inferences are nearly as general, and, if he has reasoned correctly, as certain as his premises”.

Apart from being a respected tradition, though marginal, in Western academic life that deserves to be introduced in the Republic of Moldova, there are good arguments in favor it. Even if we adopt an empirical perspective, which would not accept any conclusions before they can be tested empirically, it still does not negate the importance of the applying logic. On the contrary, even the empirical paradigm requires, at first, the development of a logically consistent theory from which testable hypotheses are to be extracted.

Personal vision regarding the problem. The Austrian approach allows for a great array of interdisciplinary applications of economic theory. One of its main tenets is the impossibility of economic calculation under socialism.

As von Mises wrote:

„Is precisely in market dealings that market prices are formed for all kinds of goods and services, which will be taken as the bases of calculation. Where there is no free market, there is no pricing mechanism; without a pricing mechanism, there is no economic calculation“.

Austrian economists, including von Mises, dedicated also much attention to the intermediary stage between capitalism and socialism, namely interventionism.

The Republic of Moldova offers many opportunities to apply an Austrian perspective on social, economic and political life. Like many countries of the former Socialist bloc, Moldova failed to make the full transition from a socialist economy to a fully capitalist system. This means that many domains of industry and public life remain still dominated by the same persons as under communism and/or are controlled by the public sector. The areas especially affected are the justice system, public transportation (railroads especially), the energy sector, education and public roads. In all those areas, a strong influence of a government monopolist impedes the effective and transparent use of resources.

An Austrian analysis of these areas could be useful for understanding the failure of current reforms, which rely on the existence of a state monopolist providing for and ensuring the quality of those services. Thus, on the basis of economic theory, the public case could be made for more privatization and for letting market actors provide those goods and services in the form of voluntary exchanges between producers and consumers, instead of the involuntary exchanges between taxpayers and state agencies.

Conclusions

In conclusion, we should mention that the Austrian School of Economics has since the 1970s undergone a true rebirth. Although its radically aprioristic epistemological and antiempiric approach made it appear less scientific in the economic academic environment, which in the 2nd half of the 20th century tried to emulate the natural sciences by adopting positivism, it offers various advantages: its relative accessibility for the public and opportunities for interdisciplinary research.

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