

What Is Austrian Economics?

A View from Pat Gunning

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Austrian economics is defined here as the economic theory that resulted from consistently following the revolution in thinking about market interaction that was instituted by the subjective value theory as described in Carl Menger's *Principles of Economics*. (1981 [1871]) Identifying the nature of this economic theory and separating it from other writings by the students of Menger, other economists, and later so-called Austrian and neo-Austrian economists, is arguably the most important task facing those scholars who are interested in the subject today.

Most of those who claim to be Austrian economists today are located in universities, where they face numerous constraints on their professional development and teaching. The private foundations and institutes that support Austrian economics are dominated by free-market liberals whose main interest is not economic theory but the promotion of liberal economic policies.

It so happens that the first step in the study of the subjective theory of value is the elucidation of economic interaction under the conditions of the pure, unhampered market economy. The fact that subjective value theorists begin here gives them a huge advantage over other professional economists in understanding how liberal economic policies give individuals incentives to produce wealth for others. In addition, understanding the imaginary construction of the pure, unhampered market economy demonstrates the illusions and fallacies of the notion that a managed society can achieve comparable results.

However, there is nothing in the study of the subjective theory of value that warrants the assertion that the everyday condition of individuals cannot be improved through government policies. The conditions in everyday life do not match those that are assumed in the imaginary construction of the pure market economy. Private property rights are never fully defined and enforced partly because it is costly to define and enforce them. Thus, there are common property resources. In addition, the image of the pure market economy contains unbridled copying of the products and the techniques of production and distribution. This dampens incentives to invent and be creative. Accordingly, the unhampered market economy limits investment incentives. Also, some goods have the characteristic of jointness in demand. And then there is the problem of the monopoly price.

In fact, we learn from the study of economic interaction under more realistic conditions that there is scope for corrective action. Of course, the *possibility* that there is scope for corrective action does not mean that such action can be discovered. We almost certainly cannot expect central planning to more effectively satisfy consumer wants than the individual planning that occurs under the conditions of the market economy. Moreover, even if a corrective action can be discovered, it may be impractical to implement. "Market failure" may be outweighed by "government failure." The point is not to claim that government intervention is warranted in every case where these "market failure" properties can be shown to exist. It may well be that in the vast majority of the cases, government intervention would make things worse.

The point is that the economist qua economist must approach the subject of market intervention with an open mind.

Economists supported by such think tanks are not inclined to explore the economic theory involved in these cases of so-called market failure.

After Menger, the next step is to identify those Austrian and neo-Austrians who have proposed flaws, corrections, or extensions of Menger's ideas. Each of these challenges and extensions must be analyzed carefully to see whether it warrants being part of the initial program or whether it should be cast aside. What did Friedrich von Wieser add to, or take away from, Menger? Eugen von Bohm Bawerk? J.A. Schumpeter, Ludwig von Mises? F.A. Hayek? And so on.

In my view, modern students who believe that they can learn Austrian economics by studying it in any other way are deceiving themselves. It is mistaken to think that one could learn Austrian economics by studying the papers and books of professional economists whose goal is to achieve recognition by their peers. Nor is it correct to think that one can learn Austrian economics by attending seminars taught by "Austrian scholars" supported by free market institutes. Austrian economics is not "what Austrian economists do." To know how to study Austrian economics, one must form an independent judgment based on the understanding of the subjective theory of value that he learns from Menger. There are no shortcuts.

You cannot yet find Menger's Principles on the web (which reveals something, I believe, about the people who manage and support professional Austrian economics today). You must buy it. You can buy it from the [Ludwig von Mises Institute](#). After you obtain a copy, the next step is to accumulate a full bibliography of Austrian and neo-Austrian literature. Then accumulate every paper or book about Menger or which has Menger's name in the index. Check out all of them, compare them to Menger's Principles, and evaluate them. The following [web-published papers by or about Austrian or Austrian-related economists](#) may help.