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Book Review

Contending Perspective in Economics: A Guide to Contemporary Schools of Thought

John T. Harvey
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Mark Thornton

It is a shame that most economic students, whether at the undergraduate or graduate student level, are exposed to precious little about the different schools of economic thought. Most course work is based on the "Neoclassical synthesis" with mathematical models and econometric testing being the ultimate goal.

This situation could be the simple result of competition. Some economists argue that the status quo is the result of a competition between economists in the publication market, where economists compete for journal page space and citations to their publications. Neoclassical economics won that competition and absorbed

Mark Thornton (mthornton@mises.org) is a Senior Fellow at the Ludwig von Mises Institute and the Book Review Editor of the *Quarterly Journal of Austrian Economics*.

everything of value from the other schools and it only makes sense to concentrate the student's time on the winner. In fact, most Neoclassical economists would argue that there is little in the manner of a fixed doctrine or dogma in the Neoclassical school. Just about everything is subject to questioning, change or evolution.

So far the World Economic Crisis since 2007 has done little to change the profession or to topple economists from their top spot in the social sciences. There was the French student protest against a lack of plurality in economic education in 2000 and there has clearly been a strong movement in support of Austrian economics since the housing bubble burst. However, there have been few signs of a grand refocusing within the profession similar to the widespread adoption of public choice theory.

This little book is an attempt to address the problem of a lack of plurality in economic education. It briefly reviews Neo-classical economics and six competing approaches, including Austrian economics, Feminist economics, Institutionalism, Marxism, New Institutionalism, and Post-Keynesian economics. The author tries very hard not to let his own views bias his presentations and critiques. The result is both refreshing and thought provoking.

Each school is given a basic description, its preferred methodology, its view of human nature, and its sense of justice. This is followed by the school's primary and secondary standards of behavior, i.e. what makes for good or bad economics. Each chapter concludes with a description of preferred professional activities, criticisms of the school, and a rejoinder from the school against its critics.

Before turning to the dominant Neoclassical school, the author employs arguments to explain how it came to dominate the profession. Part of the explanation is that it has been relatively good at being a "coldly rational institution, slowly stamping out ignorance and replacing it with the truth about the objective world around us" and eventually capturing the editorship of journals and control of graduate programs. This cemented its authority while permitting it to continue to adopt and evolve.

To this argument, the author adds the influence of two events that left Neoclassical economics as the dominant paradigm. The first event was WWII, when the fact that Neoclassical economics was the most operational form of economics, made it important for addressing wartime allocation problems. Indeed, many Anglo economists trained in the 1930s found themselves fighting the war in some bureaucracy helping to build the Allied war effort. The second event was the Cold War. The fact that the enemy was Marxist communists and that any sympathy for collectivism would be viewed with suspicion, meant that Neoclassical economics was the least suspect type of economics compared to the other schools of economics. It was generally sympathetic with the free market, offered solutions for market imperfections, and did not object to the rise of the Warfare / Welfare State.

While the dominant status of Neoclassical economics seems assured, the author's discussion of the profession's structure and institutional incentives in Chapter 2 shows that there are clearly some troubling imbalances. One well-known issue is the increasing importance of math and statistics. For example, if a person has already earned a master's degree in mathematics the odds are very good that he could get his Ph.D. in economics and thrive at the higher levels of the profession even though he doesn't know the difference between the S&P 500, the Fortune 500, and even the Daytona 500. However, someone with extensive hands-on experience in commodity markets, futures markets and financial markets would be hard pressed to get a Ph.D. without the proper math skills.

The author describes the core of Neoclassical economics as consisting of marginalism, rationality, a-priorism, and general equilibrium theory. In the early days of Neoclassical economics, the Austrians were considered different, but similar to Neoclassicals from 1871 to the early 1930s. They were also considered important contributors, even though most did not adopt general equilibrium theory. Over time Neoclassical economics adopted mathematical modeling and positivism and many of the Austrian features have lost significance.

The author brings up one natural barrier to entry that works in favor of Neoclassical economics—the dominance of the American Economic Association Conference over the job market for academic economists:

> I mention all this to emphasize the critical importance of this conference. The overwhelming majority of universities hire new faculty via this

> process. In addition, universities have limited travel money. Therefore, an Austrian economist hoping to attend the Austrian Economics Research Conference might be forced to instead spend travel money to go to the American Economics Association meetings in order to participate in the interviewing. (p. 54)

According to the author, the number of sessions allotted to pluralistic economics at this conference has been declining in recent years.

Because the book is short and easy to read, I am going to skip the other schools of economics and review the section on Austrian economics. The author notes the importance Austrians place on methodology, but wrongly suggests that most Austrians "spend a considerable amount of time on this issue." (p. 77) Austrians do think methodology is critical, but few of them spend much time writing about it.

The author describes a methodological divide between two camps of Austrians. The first camp is led by Mises and his "strict" praxeological method. Here, using deduction, introspection, and reason it is possible to develop "foolproof axioms." The second camp is the weaker, more flexible methodology of subjectivism. For members of this camp, the fact that all valuation is done by individuals means that aggregate statistics are meaningless, that market economies are better allocators of resources, and that government planning leads to ad hoc and arbitrary allocation of resources.

I suspect the division of weak and strong is driven in part by the desire to avoid the moniker of the possibility of truth associated with Mises's "strict" methodology. Austrian-subjectivists are more mainstream on this issue of truth, as is the author of the book. The amusing thing is that traditionally if a graduate student were to tell his Neoclassical graduate advisor that he found empirical evidence refuting the law of demand or that minimum wage laws increase employment, the student would be told they were wrong and to start their empirical analysis over. At least that was true until recent years.

Even with these divisions, I believe that the number of what I call "Confusionists" is actually small. This grouping consists of economists that *do* spend a good deal of effort writing and preaching about methodology, often deny the existence of truth, and try to *fuse* Austrian economics with any noteworthy economist who might have the slightest overlap with Austrian economics on a Venn diagram.[1]

A very short section on the "market process" does a good job summarizing the Austrian perspective. Austrians first try to explain how the world works using a realistic view of knowledge, uncertainty, and time. Real people have limited knowledge, face ongoing uncertainty, and their activities take place over time. As a result, markets are never perfect or in equilibrium, but they do produce prices and profit opportunities which help guide individual choices moving forward.

The short sections on the Austrian business cycle theory, Method, Views of human nature and justice, Standards, and Contemporary activities are all reasonably accurate given their brevity. The chapter on the Austrians is the second shortest with one more page than the chapter on the New Institutionalism.

The author has an interesting perspective on the interrelationships between the heterodox schools of economics. The author correctly portrays the Austrians as distinct. He notes that there is little interaction between the Austrians and the other heterodox schools, but there is some interaction between the Austrians and the Neoclassicals. On the dynamics between the heterodox schools he notes:

> Because they know that they are operating from a position of weakness within the discipline, most non-mainstream schools of thought avoid attacking each other. However, as suggested above, that courtesy is not always extended to the Austrians. (p. 85)

He describes Austrians as a threat to other heterodox schools. This threat is based on their jealousy of the ability of Austrians to interact with Neoclassicals and also the pro-free market orientation of most Austrian economists. "This means that Austrians come in for more than their fair share of criticism!" (p. 85)

The book is a good exercise in getting to know the broader economics profession, especially regarding the commonalities between the various schools of economic thought. The author

[1] See Salerno (2007, 2009).

should be applauded for his effort at remaining impartial, because that is clearly a difficult task. Hopefully, it will contribute to a better understanding of and resolution of some differences among the various schools.

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