Book Review

Austrian Economics in Contemporary Business Applications

Hunter Hastings, ed.
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The six-chapter book *Austrian Economics in Contemporary Business Applications* promises to follow Mises’s and Rothbard’s lead and translate sound economic ideas for laymen. The book is, up to this point, the highest scholarly achievement of the “Economics for Business” project of the Mises Institute, launched in 2019.

It also aims to communicate opportunities of research and consulting to the Austrian audience. The contributors, all business school professors, show how Austrian ideas—value subjectivity, consumer sovereignty, capital allocation, entrepreneurship, etc.—can be useful “to practical management problems” in teaching and consulting (Hastings 2020, p. 4). The book suggests that Austrians should strive not only for a new science of managing business, but for a new science of business itself. This science would go beyond

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the management aspect, incorporating entrepreneurship (see Mises 1998). It would take an individualistic perspective and explicit include entrepreneurs and consumers.

The book starts with Steven E. Phelan’s chapter, which uses subjectivism to deal with the problem of how to properly assess a new project’s potential financial returns. Using a consulting example, he argues that, for correctly assessing the possibility of investing in a new project, quantitative analysis and judgment should be used together. As a consequence, “business technocrats (aka MBA students)” (p. 14) must learn from Austrian economics, especially in what concerns the (un)certainty of the assumptions made in the management models. Business people need to be better at dealing with unstructured problems, and this gains relevance with the advancement of artificial intelligence. Dr. Phelan shows that Austrians are not against quantitative data—they view it and its treatment as necessary, but not sufficient, tool to support decision making under uncertainty.

In chapter two, Matthew McCaffrey exemplifies the utility of the Austrian approach by showing how students learn and apply fundamental concepts while thinking about investments and new ventures. He reminds us about the Austrian emphasis in realism and claims that it leads Austrians to be more capable of providing tools to businesspeople. Starting from a common planning approach—modeling a business idea on a spreadsheet by guessing different values to the foreseeable costs—Dr. McCaffrey presents and discusses Austrian concepts such as economic calculation, prices, value imputation, time preference, and governmental intervention. He summarizes: “project investment appraisal is simply economic calculation on a small, practical scale” (p. 19). By using that tool, students can better understand the contributions of each part of the capital to the value proposition. They learn that prices are not arbitrary and that they need to deal with those prices to better understand the possibilities of action. They also learn to consider uncertainty both in the future input prices and in the final good prices. At the policy level, students understand that supposedly well intended actions—such as increases in the minimum wage—can quickly destroy the economic feasibility of a venture. As Dr. McCaffrey puts: “It’s one thing to be shown a supply and demand graph and told that minimum wage increases
can destroy the viability of a business: it’s quite another to see the NPV of a business disappear at the press of a button, simply by increasing the minimum wage by a dollar or two.” (p. 25). That experience surely substitutes for many classroom hours on the economics of supply and demand.

In Chapter 3, Peter G. Klein—the Austrian economist with the largest influence in management literature—contributes the book’s most academic chapter. He affirms that only Austrians consider the entrepreneur in economic theorizing and mentions precursors in the tradition such as Cantillon, Schumpeter, Mises, Rothbard, Kirzner, and Salerno. He presents the opportunity-based view (Kirzner 1973) and his own approach to entrepreneurship: the judgment-based view (Foss and Klein 2012). In his view, entrepreneurship is an economic function and occurs all over the economy, not only in new ventures. The entrepreneur is the agent that organizes production processes, deploying resources and exercising judgment in search for money profit under Knightian uncertainty. Dr. Klein outlines his own theory of the firm as the “entrepreneur plus the alienable assets she owns and controls” (p. 32) and mentions how entrepreneurs necessarily exercise derived judgment in pre-existing firms.

Vishal K. Gupta authored chapter 4. He presents theoretical connections between mainstream management literature and the Austrians. Dr. Gupta calls special attention to the dynamism of the market process and the consequent essential role of the entrepreneur in the constantly disequilibrated world seen in Lachmann. In Dr. Gupta’s thinking, all entrepreneurs inherently understand Lachmann’s points, and this should lead to a more central role for dynamism and entrepreneurship in management research and teaching.

Mark D. Packard is responsible for Chapter 5. He starts by suggesting that positivism is a problem in the social sciences and that there is “desperate need” for the Austrians’ insights. Dr. Packard encourages Austrians interested in academia to enter the profession in management because this is open to non-orthodox ideas, and because Austrians better understand entrepreneurship and the whole market process. He adds to the classic management scheme—formed by marketing, people, operations and finance—the value for the consumer that is at the core of all unhampered market
activities. The entrepreneur is needed to organize production and to connect consumers to whatever fulfills their needs via the organization of firms. Dr. Packard discusses the theory of organizations, but strangely does not mention Foss and Klein (2012) and Bylund (2016) who offer economic explanations for that function. He mentions strategic management (from an Austrian perspective, a responsibility of the entrepreneur) and how its origins in industrial organization make its tools unfit for supporting managerial analysis and action in a dynamic world. His insights on Human Resources and Organizational behavior are very interesting. Using thymology to contrast the current applied psychology approach can be fruitful and would expand the Austrians’ relevance in the social sciences as Rothbard (1951) suggested. Dr. Packard discusses consumer behavior and how it became positivistic. He suggests the adoption of a subjectivist view based on the insight that value lies in the consumer, a field that Austrians are starting to explore (Hastings, D’Andrea, and Bylund 2019; Packard 2016). He also points to future developments in finance and accounting and suggests an important research agenda: how stock traders can (not) be understood in light of the entrepreneurship literature.

In the last chapter, Per Bylund, the one most acquainted with talking to the layman in his entrepreneur.com pieces, suggests a metaphor for an entrepreneurial business: an island of specialization in the market ocean. He aims at correcting an error in business by substituting the very common war metaphors. Dr. Bylund argues that the use of the wrong metaphor leads to a poor understanding of the market as a zero-sum game, not a mutually beneficial arrangement, as it is in reality. He reminds us that, instead of conquering territory and becoming a king, the entrepreneur must serve consumers, the market kings. Entrepreneurs do that by facilitating value using their firms. There is no territory to be conquered, there are people to be pleased. Dr. Bylund presents the market as a process of collaboration and continuous specialization in which people become more productive when they engage in innovation and exchange. Entrepreneurs create new production processes, ‘islands’, via firms. To have a chance of success, entrepreneurs need to try to imagine what the future will look like, and try to create possible solutions that consumers will be willing to exchange for money. The firm should then be a reflection of the entrepreneur’s
imagination of what needs to be done and how to serve consumers in the future. This insight has direct implications for the discussion of the role of high-level managers in large firms. The ‘entrepreneurial spirit’ must come from somewhere. Where does it come from in those corporations? It also makes us question how those same large firms come to be. Since it is difficult for the entrepreneur to maintain control, would these firms exist if not for governmental intervention? (Thornton [2018] provides some insights.) Dr. Bylund summarizes the metaphor: the firm is the island where innovation happens and it can, even in the most dreadful ocean conditions, survive if it has a good team and preparation. In short, if it continues evolving, it can survive market storms, but if innovation stops, it will be drowned by the ocean. The island metaphor is indeed much more powerful and accurate than the common war one.

The book covers a lot in Austrian thinking and suggests directions for scholars and practitioners to build upon. It is a valuable initial effort. However, several important issues are missing. Possibly the most important flaw is that it takes too long to deal with the most important root of everything in the market: the consumer. The two first chapters touch indirectly on the topic, but the very first direct treatment is on page 22. This unfortunately resembles mainstream business academia, where the firm comes first and usually the consumer is disregarded.

The book also falls short in that it should, more often and more directly, offer more connections between the current management paradigms and the new directions that the Austrian way of thinking has to offer. While chapters 1 and 2 recognize the validity of mainstream management tools and add Austrian flavors, some criticisms to mainstream management seem misplaced. For instance, saying that commonly used frameworks such as the “Five Forces” are totally without validity seems incorrect. Those mainstream management tools are imperfect and must be understood and used properly. This is not to say that they are useless. Adding Austrian insights to currently used tools and methods is a good way to talk to business people that already understand and use them. Discarding those tools is not a good strategy. The academic literature is notably distant from practice—managers hardly listen to academics and quite often the opposite is also true. Adding the Austrians’ touch to mainstream tools and creating new ones can fill that gap.
Another noticeable missing subject is “brand”, mentioned only once. Given the increased speeds of market dynamism, the role of brands will increase substantially. Exploring that from the Austrian perspective remains to be done.

Lastly, the title suggests a much more applied approach, directed to businessmen, not to (potential) scholars. While the two first chapters explicitly try to follow that path, chapters 3, 4 and 5 are academic and will be a poor fit to a non-academic audience. They are focused on Austrians interested in business studies, not in business people interested in understanding more about the economy to improve their businesses. Chapter 6 tends more toward a layman audience, but it mostly addresses scholars, asking them to change the metaphors they use to talk about markets. The definition of the target audience is a problem of the book that should be addressed in the future.

In general, Austrian Economics in Contemporary Business Applications provides interesting pathways to Austrians interested in academia. However, it mostly fails to do what the title suggests: talk to the business professionals and make them understand the benefits of adopting an Austrian perspective. The book does not cover everything, but is a good first approach in the direction of approximating Austrian ideas to business people. Next efforts should turn the focus more explicitly to entrepreneurs and businessmen and less to academics. The laymen, far more than the scholars, will directly and quickly benefit from the insights that the Austrian School has to offer.

REFERENCES


