CONTEMPORARY METHODS AND AUSTRIAN ECONOMICS

Edited by Daniel J. D'Amico
and Adam G. Martin

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INTRODUCTION: CONTEMPORARY METHODS AND AUSTRIAN ECONOMICS

Daniel J. D'Amico and Adam G. Martin

Austrian economics is known for extensive – and many economists would say excessive – ruminations on methodology. There are probably many reasons for this, but two in particular stand out. First, those attracted to Austrian ideas have a greater interest in philosophical reasoning within and about economics. Menger, Mises, Hayek, and many other authors in this tradition have no hesitance attempting to engage with strands of the philosophical literature of their time, though perhaps to varying degrees of success.[1] Openness to verbal reasoning – while not unique to Austrian economics – also probably coincides with a high tolerance for philosophical ruminations.

Second, the substantive content of Austrian economic theory also pushes in this direction. Austrian economics has always tried to steer a middle course between radical forms of historicism (there are no economic laws) and scientism (economic laws are as precise as physical laws).[2] From the perspective of mainstream economics, this middle course appears to diminish the importance of empirical testing and quantitative methods more generally. Some Austrian economists have embraced this view, while others have tried to develop a more nuanced account of the relationship between economic theory and empirical investigations.[3]

Since the Austrian revival of the 1970s, social scientists have developed a number of new theoretical and empirical approaches to studying the social world. Experimental and behavioral economics have exploded in popularity. Agent-based modeling has become feasible as computing power has increased. And, most prominently, econometricians have developed quasi-experimental techniques for examining real-world data. In an attempt to "take the con out of econometrics," the "credibility revolution" has swept applied economics by insisting on techniques that allow for reasonable causal inferences.[4]

This volume examines the relationship between Austrian economics and these new social scientific methods. Do Austrian critiques of the excessive ambitions of formal theory and empirical measurement still hold water (if they ever did)? Do the findings of these new approaches bolster or undermine distinctively Austrian theories? How should we update our views on the relationship between abstract economic theory and empirical investigations?

The first two essays examine Austrian critiques of behavioral economics and paternalism. Daniel Hausman explores the relevance of traditional Austrian objections to paternalism for evaluating the "libertarian paternalism" of thinkers like Cass Sunstein and Richard Thaler that makes the case for mild "nudges" as opposed to hard paternalist measures. Hausman identifies four traditional arguments against paternalist interventions from Ludwig von Mises and Murray Rothbard: such interventions confront knowledge problems, they make markets work less efficiently, they limit freedom, and they enlarge government. He argues that the first and last objections may still underwrite a presumption against libertarian paternalist nudges, but that such a presumption should not be absolute. Jason Aimone's essay argues that Austrian critiques of behavioral economics paint with too broad a brush. They tend to cite only the most prominent behavioral economists (some of whom are more popularizers than practitioners), focus on too narrow of a range of research in behavioral economics, fail to critique an up-to-date version of behavioral economics, and that Austrians sometimes hang their arguments on philosophical assumptions about behavioral economics that behavioralists would not recognize.

Chapters 3 and 4 take a more positive view of the relationship between Austrian economics and the findings of experimental economics. Erik Kimbrough argues that the concept of "social preferences" does a poor job explaining the variety of deviations from *homo economicus* that experimentalists observe in the lab. Hayek's work on humans as rule-followers offers a more productive framework for explaining variation in activity across different contexts. The task of experimental economics, he contends, should be to develop accounts of how such rules develop and why different contexts trigger different rules. Shaun Hargreaves-Heap likewise sees in laboratory results strong evidence that individuals are Hayekian rule-followers. However, he argues that once we get into the weeds of such findings they raise two potential problems for Austrian defenses of market institutions. First, market rules might crowd out rules that lead individuals to supply important public goods. Second, market rules might obscure the role of luck in market outcomes, leading Austrians to offer only weak rebuttals to demands for redistribution.

The next two essays address the relationship between Austrian economics and modern data science. Colin Harris, Andrew Myers, Christienne Briol, and Sam Carlen examine the decline of price theory and the rise of econometrics in economics. Both Austrian and Chicago school economists traditionally argued, in various forms, that abstract economic theory is necessary to guide fruitful empirical work. Using machine learning to identify the language associated with various strands of economic research, they document a sharp decline in the prominence of price theory. Kevin Grier's chapter highlights a potential comparative advantage for Austrian theorists to contribute to causal inference research mainly by providing rich and detailed analytical and historical descriptions to accompany empirical findings. In short, the identifying assumptions of causal inference research can be made more clear, understandable, and checked for validity with reference to the real institutional, economic, and historic conditions of the relevant social settings and contexts. Essentially, causal inference is an attempt to provide precision and measurement to the counterfactual scenarios. Given that Austrians already possess a conceptual appreciation for counterfactual analysis, Greer argues both the profession writ large and Austrian research therein would benefit from such methodological arbitrage.

The final three chapters examine how the Austrian understanding of subjectivity and knowledge problems relates to contemporary social scientific work. Bruce Carruthers attempts to update Hayek's critique of central planning for relevance to the more technologically enhanced knowledge economy. Today market actors are informed by more sources of knowledge than prices alone. Some such bits of information stem from private, public, and non-profit sources and some possess forms of calculative tractability perhaps unforeseen by Hayek during the early twentieth century. While much of Hayek's central insights retain significant relevance, the important role of intellectual property and the unique institutional demands of the information technology sector today require updated attention.

Nicolas Cachanosky's chapter explores a popular topic found throughout the Austrian tradition, mainly the empirical challenges of social science. Austrian capital theory's "empirical relevance depends on personal and subjective perceptions rather than on objective empirical tests" (p. 136). Hence, there is a common perceived tension between Austrianism and the dominant empirical standards of the social science profession. Cachanosky argues that a consistent financial approach to capital theory can successfully mitigate much of this tension as monetary finance provides a consistent reference point for capital variables across its various and competing definitions. Erwin Dekker similarly contributes to Austrian capital theory by applying it to the new field of cultural economics. He argues that Austrian perspectives have a unique potential to help explain cultural markets of infinite variety. Goods such as music, paintings, and much of the service sector economy are extremely heterogeneous regarding quality and quantity type. Thus, such markets tend to evolve elaborate but often-informal categorization schemas that effectively emerge and evolve akin to the Austrian process description of social institutions such as money, prices, language, and legal norms. Such institutional labels provide useful epistemic guideposts to shape behaviors, mitigate errors and coordinate across divergent interests among competing individuals and groups.

This collection was made possible by a generous grant from the John Templeton Foundation, and is part of a series of colloquia on the standing of Austrian Economics in the 21st Century. We are grateful to the participants and the outside referees that helped improve the arguments herein, and hope that readers find these extensive ruminations helpful rather than excessive.

NOTES

1. Martin (2015).
2. Martin (2015).
3. Zanotti and Cachanosky (2015) provide an excellent summary of the distinct views taken by Rothbard (1957) and Machlup (1955).
4. See Leamer (1983) and Angrist and Pishke (2010).

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