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THE AUSTRIAN SCHOOL AS A FIELD OF STUDY IN ECONOMICS – TRUTHS AND MYTHS

The article is concerned with studying of the Austrian school of economics, comparison of approaches of different representatives of the school to the analysis of basic economic phenomena and processes, and determining differences between scientists' views and their research methods. The importance of the ideas of Austrian economists for modern economic theory in the context of interaction between the state and the market is emphasized. The purpose of the article is to study the theoretical concepts of the Austrian school in the context of the search for new theoretical approaches to solve modern economic problems. The methods of comparative studies and the problem-personified approach to the study of the history of economic ideas are used. A comparison of the main ideas of the representatives of the Austrian school is carried out in historical and logical sequence. The results of the study give a description of the main theses of Carl Menger, Friedrich von Hayek, Ludwig von Mises and their scientific followers. The nature of prices and subjective valuation as well as price stabilization policy are revealed in the paper according to Austrian tradition. Attention is paid to the subjective approach, namely subjective information and costs. It is emphasized

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that entrepreneurship is a major force and the Austrian believe that an entrepreneur's profit comes from the assumption of simple identification of risk with error. Today, it is the Austrian approach that is of particular relevance, in accordance with which it is impossible to scientifically know what will happen tomorrow, since it depends mainly on knowledge and information that has not yet been created in the business process. The results of research are important for understanding the need to revive the interest in this strand of economics, which for decades had been treated marginally in textbooks of economic thought. Austrian theoretical approaches should be used to analyze the processes of modern economic development and solve complex multifaceted economic problems.

Keywords: *Austrian school of economics, History of economic thought, Austrian neoliberalism, Carl Menger, Friedrich von Hayek, Ludwig von Mises.*

Клім'юк Зб., Сливка Т.

АВСТРІЙСЬКА ШКОЛА ЯК НАПРЯМ ДОСЛІДЖЕННЯ В ЕКОНОМІЦІ – ПРАВДА ТА МІФИ

Стаття присвячена вивченню австрійської економічної школи, порівнянню підходів різних представників школи до аналізу основних економічних явищ і процесів, визначенню відмінностей між поглядами вчених та їх методами дослідження. Підкреслено важливість ідей австрійських економістів для сучасної економічної теорії в контексті взаємодії держави та ринку. Метою статті є дослідження теоретичних концепцій австрійської школи в контексті пошуку нових теоретичних підходів до вирішення сучасних економічних проблем. Застосовано методи компаративістики та проблемно-персоніфікований підхід до вивчення історії економічної думки. В історичній та логічній послідовності проведено порівняння основних ідей представників австрійської школи. Результати дослідження дають характеристику основним тезам Карла Менгера, Фрідріха фон Гаска, Людвіга фон Мізеса та їхніх наукових послідовників. Відповідно до австрійської традиції в статті розкривається природа цін і суб'єктивна оцінка, а також політика стабілізації цін. Приділено увагу суб'єктивному підходу, а саме суб'єктивній інформації та витратам. Підкрес-

люється, що підприємливість є головною силою, і австрійці вважають, що прибуток підприємця походить від припущення простого ототожнення ризику з помилкою. Сьогодні особливо актуальним є австрійський підхід, згідно з яким неможливо науково знати, що станеться завтра, оскільки це залежить головним чином від знань та інформації, які ще не були створені в підприємницькому процесі. Результати дослідження важливі для розуміння необхідності відродження інтересу до цього напрямку економічної науки, який десятиліттями мало розглядався в підручниках економічної думки. Австрійські теоретичні підходи доцільно використовувати для аналізу процесів сучасного економічного розвитку та вирішення складних багатограних економічних проблем.

Ключові слова: австрійська економічна школа, історія економічної думки, австрійський неолібералізм, Карл Менгер, Фрідріх фон Гаєк, Людвіг фон Мізес.

Introduction. Disproportionate development of countries and regions and changes in the world economy, which took place under the influence of the information and technological revolution, led to new challenges, the answer to which is becoming increasingly difficult within the prevailing economic paradigm, the priority of which is economic growth. The study of the importance of extra-economic factors for the development, socialization of the economy and the problem of social justice has not been given enough attention by economic theory for a long time. Today, the concept of a human-centered economy, building a socially oriented state, ensuring economic welfare, etc., is becoming more and more relevant. The study of the functions and role of the individual in the economy under the influence of the transformation of technological methods of production and socio-economic relations is becoming increasingly important for progressive development. That is why we consider it appropriate to turn to the origins of the subjective approach, the psychological-economic principle of marginal utility, methodological individualism, the priority of consumption, the psychologization of economic research, which are revealed in the works of representatives of the Austrian school of economic theory. This paper **aims** to study the theoretical concepts of the Austrian school in the context of the search for new theoretical approaches to solve modern economic problems.

Literature Review. Researches of the theories of the Austrian school are presented in the works of Banach W. [2; 3], Callahan G. [8], Kostro K. [14]. Studies of the ideas of Austrian economists are presented in the works of modern Polish scientists such as Megger D. [16], Wysocki, I. [25] and others. It should be noted the scientific works of the Ukrainian researcher Nesterenko O. [21; 22], that are devoted to research of the methodology of the Austrian school, the theory of entrepreneurship, social justice, spontaneous order, etc. of Austrian economists. The scientific analysis of economic theories, in particular of Austrian neoliberalism, is carried out in the works of Blaug M. [5; 6], Bochenek M. [7], Colander D.C. and Landreth H., [9], Ratajczak M. [23] and others.

Despite this, the output of the Austrian school is neglected by most Polish scholars. This seems to be a great loss because of increasing attractiveness of the ideas of the Austrian school and approaches to solving modern economic problems.

Results. The term «Austrian school» functions in economics as a conventional concept that is intended to define a certain way of looking at economics, the economy and the state. The term «Austrian school» itself comes from the fact that its first representatives who practiced a specific and specific way of thinking about economics were Austrians. Currently, saying that an economist is «Austrian» has nothing to do with the fact of origin, but only with the way of thinking and practicing science.

The emergence of the Austrian school is associated with the 19th-century «marginalist revolution», and its founder is Carl Menger, who presented the basic assumptions of the theory of marginal utility in the work Principles of Economics published in 1871. Another important economist of this school was Eugen von Böhm-Bawerk, who, inspired by Menger's works, studied, among others, such issues as value, capital and interest, formulated a theory of interest as a reward for refraining from consumption, which was important for the later development of the school. The most outstanding representatives of the 20th century Austrian school include Ludwig von Mises (born in Lviv), Friedrich von Hayek and Murray N. Rothbard. Of these three people, Friedrich Hayek is the most recognizable, for example due to the fact that he received the Nobel Prize in Economics in 1974. Hayek was also considered as one of the intellectual leaders of the liberal reforms of the 1980s that took place in Great Britain and

the United States under the governments of Margaret Thatcher and Ronald Reagan.

In the development of economic thought, the Austrian school is part of a broad deductive trend, the main assumption of which is to base economic research on deductive reasoning [10, pp. 28–31]. Economists of the Austrian school, unlike the Historical school, believe in the existence of unchanging economic laws. They consider logical analysis based on axioms as an appropriate method for discovering these laws. They also support the use of methodological individualism, which involves explaining economic phenomena by referring to the behavior of individuals. We also owe to the Austrian school the introduction to economics of the idea of opportunity costs, which is fundamental for efficiency analyses, and new perspectives on interest as compensation for deferring access to utility.

Nowadays, the term «Austrian school» is associated, first of all, with liberal social and political doctrine. Being an Austrian economist means becoming a defender of the free market. The second important contemporary meaning of the term «Austrian school» refers to the revival of interest in the ideals of Menger, Mises and Hayek, which occurred around 1970. Economists such as Murray N. Rothbard and Israel Kirzner are often referred to as the modern Austrian school or the neo-Austrian school. What they have in common with the mainstream is their full acceptance of the market, but their concept of its functioning differs. They understand the market process as a process of achieving equilibrium, and not a specific configuration of adjusted prices, quantities and qualities.

1. Menger's main theses. The starting point is a simple theory of needs. Menger wrote that all theoretical and economic searches begin with awareness of the fact of existence. Needs come from primal drives and desires. Then individual needs are transformed into the needs of various communities, and finally become general social needs. The next element of the system is the theory of goods, which starts from the set of things that constitute the human environment. Menger considers a simple human-thing relationship. If a person has knowledge of a need or its anticipation, if a thing has the objective properties of satisfying person's needs and person knows it, and finally, if this thing is available, it constitutes a good [23, p. 77]. The set of goods is divided into those directly available in unlimited quantities and economic goods that are rare and limited in quantity.

Another component of the general principles of economics are Menger's considerations on measuring the volume of needs and available goods. Human needs can be determined only within the limits of effective demand, i.e. based on the economic entity's real control over economic goods. The possession of goods of further orders, i.e. the means of production, determines the general limits of the availability of economic goods.

A fundamental part of Menger's system is his subjective theory of value. Utility and rarity are only general premises, because the value of an economic good is determined by the subjective point of view of the economic unit. Exactly this assesses the importance, i.e. the value of a good, using the knowledge of the rank of needs and the degree to which they are satisfied. According to Menger, when measuring value understood in this way, two moments should be taken into account – subjective and objective. The first one allows you to distinguish classes of needs depending on their importance. More important needs require more intensive satisfaction. It is also a rule that a person first meets the needs that are more urgent and important to one's life. Each act of satisfying a given need brings a smaller portion of satisfaction.

The second moment (objective) determines the limits of available resources of economic goods. Both moments should be taken into account in the calculus of an economic entity wishing to maximize its satisfaction in the conditions of existing constraints. Menger defined the content and role of production factors and the division of social income between them differently than the classics. «Capital» in a given period is the subordination of a stock of goods of further orders, which in the future will ensure the achievement of goods of a closer order. Menger also defined an original theory of computation, according to which the value of further-order goods is a consequence of transferring the subjective values of first-order goods to these goods [7, p. 132]. Menger recommended determining the contribution of individual production factors, the so-called by the remainder method, subtracting their previous combination from the current combination of goods constituting the first-order good. The subjective theory of value also explains the essence of exchange as receiving goods valued higher by both parties. Price is only a reflection of exchange value.

Friedrich Wieser's law of marginal utility is considered a valuable contribution to the study of subjective economics. Wieser devel-

ops the idea of the saturation of human needs and argues that in conditions of limited available resources, the process of satisfying needs must be interrupted not at the point of full saturation, but after using up the last available good and obtaining the last portion of utility, defined as «marginal utility». Calculating utility is more difficult than estimating value as value is simply an accounting form of utility. A lively discussion was sparked by the discovery of contradictions in the calculation of the value and utility of a stock of goods. The calculation shows that marginal utility decreases to zero and total utility increases until a good with zero marginal value appears. The paradox appears when estimating the total value of a stock of goods, i.e. when multiplying the marginal values of subsequent goods by their marginal utilities. It turns out that the value of the stock of goods increases to a maximum at half the size of the set, and then falls to zero.

Another leading figure of the Austrian school was Eugen von Böhm-Bawerk. He corrected Wieser's entry regarding the calculation of the total value of a stock of goods. Wieser used the product of the marginal utility of a good in a stock by the number of goods in that stock. Böhm-Bawerk assumed that the total value of a stock of goods is the sum of the utilities of all the goods in this stock. However, Böhm-Bawerk made a mark in the history of economic thought with his theory of interest. The starting point is the claim that there are only two elementary factors of production – land and labor. Capital is a derived factor that only binds elementary factors and enables the implementation of production processes that are extended in time but bring higher results [6, p. 525]. The time factor makes it easier to understand the essence of return on capital and the nature of interest. By interest he means all income constituting remuneration for capital. The production process produces the so-called original interest, while a loan gives derived interest.

2. Prices and subjective valuation. Carl Menger, who initiated the tradition of the Austrian school, claimed that the value of goods, and therefore their prices, depends on their subjectively perceived usefulness for the consumer, i.e. the price is shaped by demand resulting from the demonstration of preferences of people that are participating in the exchange. Menger's thesis concerned the general cause of phenomena occurring in the economy. A person buys this thing for a specific price because of subjectively perceived value for person at this moment that is greater than the amount a person has

to pay, and not because of the costs incurred by the producer. If the cost of producing good X was greater than the money that people would be willing to pay for it, the price would not increase, but its production would cease. A temporary increase in the prices offered by producers for their goods due to the increase in production costs cannot be ruled out, although any transaction wouldn't take place without the valuation of these goods by consumers.

Hayek argued that in the long run the selling price would be correlated with production costs [8, p. 96]. This happens when buyers are willing to pay much more for good Y than the seller demands – they raise the price through the demand, which causes a price discrepancy between production costs and the price of the good. There is an opportunity to make a profit for other entrepreneurs and they influence the reduction of the proposed prices for good Y by entering the market with their offer.

The continuation of this story shows the sense of Menger's thesis, because entrepreneurs who feel a possible profit from the production of good Y must purchase appropriate materials to start production, machines, employ people, so they must report demand for specific means of production, and thus increase their prices, which constitute the cost of producing good Y. Thus, even costs depend on subjective human valuation.

3. Hayek's tradition. In his evolving views, F.A. von Hayek pointed to the important role of knowledge in the functioning of society. He emphasized that in all political and theoretical projects of constructing society from above, both in terms of moral principles and the economic order, their creators show pride because they do not take into account the gaps in their knowledge. Hayek distinguished two orders: «taxis» – «order» established by reason, e.g. an enterprise, and «cosmos» – «order» established spontaneously. The spontaneity of Hayek's order does not assume the absence of any logical and rational action. Hayek does not deny that in one of the cases of «cosmos», i.e. the market, people act logically, rationally and purposefully. Although these are actions aimed at achieving certain goals, they are not aimed at market order itself. It arises spontaneously as the result of reasonable actions aimed at achieving individual goals [3, p. 202]. Hayek sees the sources of the constructivist ideas of market opponents in their contempt for the fact that the market order is not defined from above and in their exaggerated faith in the capabilities of the human mind. In his vision of the market sys-

tem, Hayek emphasizes the role of prices as a transmitter of information and a factor coordinating human actions. He even calls it the «telecommunications system» [14, p. 133] because prices reflect changes in the economy and producers can make decisions based on them.

Hayek emphasizes the economy of the market, i.e. entrepreneurs do not have to analyze infinitely many data about the economy when they have prices, because the prices provide them with accumulated knowledge about facts important for economic management. Based on price changes, the trader can adjust his actions to changed market conditions without any further knowledge about them. Information about the consequences of these events that is important for economic entities is provided by prices. In addition to the informational function, prices also play an important motivational function – for fear of losses, producers must use a given product more wisely, the price of which has increased, or use its substitute. And when they produce a good for which there is no demand at a price that covers production costs, producers are informed that their capital would be better spent in another profitable use. Prices stimulate socially desirable actions without the need for government coercion.

One of Hayek's more famous students is Israel Kirzner. In his analysis, he emphasizes the role of entrepreneurs in the economy. He argues that discrepancies between the market prices of certain goods and the costs of their production cause hypothetical producers to invest in the production of these goods, supply them to the market, reduce prices, and thus the economy comes closer to a state of equilibrium, although it never reaches this state. Kirzner defines market imbalance as a state of «widespread ignorance». He emphasizes that as a result of confrontation with the pricing system, entrepreneurs learn and adapt their plans to prices resulting from the actions of other people, that consequently results in the coordination of activities.

Kirzner's vision of the market is related to his vision of the entrepreneur. He proposes two explanations. Firstly, investors modify their behavior based on experience. Second, Kirzner theorizes the «profit opportunities» that attract entrepreneurs. There would be nothing strange about this concept if the idea was to buy cheaper and sell higher. However, this is not what Kirzner means. He does mention price discrepancies that attract traders, but these «profit opportunities» must have previously gone unnoticed. This suggests that

it is a phenomenon that cannot be noticed. When looking through stock quotes, there are some potential profit opportunities that only the minds of selected, true entrepreneurs have access to. Moreover, Kirzner's concept assumes the pre-existence of these opportunities for the acting man, who does not create them through his actions, but only discovers them.

The pricing system in this approach consists of two elements – equilibrium and non-equilibrium prices. In Kirzner's approach, equilibrium prices are signals enabling the coordination of decentralized decisions, while non-equilibrium prices are prices that stimulate discoveries made by producers [2, p. 132]. In an economy that, according to Kirzner, strives for balance thanks to entrepreneurs, such processes do not occur. It is worth emphasizing the difference between this approach to the role of the entrepreneur and the one presented by the Austrian economist J.A. Schumpeter. The Schumpeterian entrepreneur disturbed the balance in the economy and created disequilibrium, and later, thanks to entrepreneur's action, adjustment took place. So, Kirzner's vision is different. For him, an entrepreneur is someone who, in an economy that is in constant disequilibrium, introduces changes aimed at achieving balance. It is a factor that enhances, not disturbs, coordination.

The issue of equilibrium, raised in Kirzner's and Hayek's discussion of prices, is also central to Hayek's critique of socialism. While Mises can be found considering the state of the economy, which he calls the «uniformly rotating economy», this is not an equilibrium analysis in the neoclassical sense, because Mises does not consider the entire real economy in relation to the «uniformly rotating economy», but only uses this construction as a tool for considering the issue of interest rate. In particular, he does not use the Hayek's argument against socialism that a market economy is closer to equilibrium than a centrally planned one. For Mises, human preferences and decisions are constantly changing because human needs change, so any analysis of reality from the point of view of balance and making postulates based on them is wrong.

Kirzner agrees with Mises's vision of the economy, although his analysis of the market system gives a different impression. Namely, accepting equilibrium prices as certain signals means considering even a temporary equilibrium as a factual state. When we combine this approach with the fact that Kirzner considers that an important element of market coordination is the fact that people learn, and

therefore need time to learn and adapt their actions, this balance begins to become less and less temporary. It should not be confused with Mises's «ordinary state of dormancy», which is the state when the units involved in the exchange leave the market. After all subjectively useful transactions have been made, this is the state that always prevails. It may be accompanied by overproduction, so it is not an equilibrium either in the neoclassical sense or in the Kirzner's sense. Balance, according to Kirzner, therefore seems to be a potential static state, which is a kind of hidden pattern of the most effective use of goods discovered by entrepreneurs.

5. Mises's tradition. Although Hayek's students consider themselves disciples of Ludwig von Mises, some representatives of the Austrian school rely on the work of another of Mises's students, Murray Rothbard. They point to differences in the understanding of the economy by the Hayek and Mises. J.G. Hulsmann, J. Salerno or H.H. Hoppe criticize Hayek's concept of the price system as a system of transmitting knowledge. Hulsmann claims that we cannot talk about such a function due to the origins of prices. Prices arise as a result of human actions, but what is very important, and underestimated by Hayek's followers, are future actions. Thus, even if prices contain some information about the hypothetical Kirzner's equilibrium towards which they would guide producers, this would be an equilibrium of the past, irrelevant to the moment when producers made decisions.

In the analysis of price formation, a distinction should be made between the prices of consumer goods and production goods. Well, prices of consumer goods are shaped by consumers' preferences – some good meets their needs better, so they buy it. The situation is different with production goods. Producers do not buy them to satisfy their needs by consuming them, but to produce goods from them that they will sell. The most important issue for them is whether, when these manufactured goods appear on the market (in the future), the demand for them will be sufficient to cover the costs of their production and generate income. Misesian Austrians point out that certain trends can be read based on price changes and based on them predict future market conditions. Of course, such predictions may be wrong, but thanks to prices and economic calculations, producers can find out whether their predictions were correct or not. Knowledge provided by current or recent prices are consumer valuations, technologies, and supplies from the immediate past.

What interests the acting man who devotes his resources to the production of a good for sale is future prices, and the present commitment of resources is made by the entrepreneur, whose function is to predict future prices and to allocate these resources according to his predictions. This is the central role of the valuing entrepreneur, driven by the desire to make a profit and avoid loss, which cannot be fulfilled by the socialist planning office due to the lack of a market for the means of production. Without such a market, there are no true money prices and therefore no means by which the entrepreneur calculates and values in money. Moreover, the loss-making pricing system means that an entrepreneur who has incorrectly predicted future market conditions must cease his activity due to lack of funds. Instead, these funds are transferred to those producers who are successful. What should be emphasized here is the economy of the entire system through which income is distributed, without the participation in this process of costly institutions exogenous to market exchange, such as the state coercive apparatus.

Misesians notice the secondary role of information provided by prices, but emphasize the important role of another factor in the functioning of the market and the formation of money prices themselves. This factor is private ownership of the means of production. It is the fact that production goods are owned by private owners that causes prices as a result from the people's actions who manage their own resources, people who are keenly interested in the success of their ventures and feel the fear of losing their property. Misesians see private property as the source of the effective functioning of the market economy. They emphasize the fairness of this system. They conclude about its rationality in the following way – since there is competition between entrepreneurs for these resources and bidding is taking place on the market, the submission of the best offer by the entrepreneur means that he anticipates that his intended venture will be the most profitable among those that competed during the auction. This trend also includes a different view on the role of prices as a factor that rationalize management. A price expressed in money serves the function of excluding entities unable to pay from the use of the good for which it is designated. This exclusion is a mechanism limiting the «predatory management» of resources, without the need to establish a special «government agency for the protection of scarce goods».

6. Price stabilization policy. There is no shortage of supporters of influencing prices through monetary policy in the Austrian school. F.A. von Hayek believed that state control of money and credit was necessary. He also criticized the idea of a constant increase in the money supply. This criticism is astonishing in the light of Hayek's previously presented views on the price function. If prices change as a result of changes in the growth of the money supply, there will be disturbances in the price «telecommunications system» of the economy that may disturb its tendency towards equilibrium.

7. Theory of action. Austrian economic theorists understand economics as a theory of action rather than decision. This is one of the features that most clearly distinguishes them from their neoclassical colleagues. In fact, the concept of action encompasses not only the concept of individual decision, but much more. Firstly, the proper concept of action, apart from the hypothetical decision-making process operating in the environment of «given» knowledge about goals and means, also includes the perception of the structure of goals and means within which the allocation and management is to take place. Moreover, for Austrians, the most important factor is not making a decision itself, but doing it in action, i.e. a process (which may or may not achieve the goal) which consists of a number of interactions and coordination processes. According to Austrians, the study of the last one is the subject of economics. Therefore, economics, being a science distant from the theory of choice or decision, talks about the processes of social interactions, coordinated to a greater or lesser extent depending on the forethought of entrepreneurs participating in any venture.

For this reason, Austrians are particularly critical of the narrow, although generally known, concept of economics derived from J. Robbins, who defined it as the science of using scarce resources that have alternative applications in order to meet human needs. This approach assumes that knowledge about goals and means is known in advance, and therefore reduces the issue of management to a merely technical problem of allocation, maximization or optimization, under known constraints. In other words, Robbins's concept of economics is identical to the core of the neoclassical paradigm and is completely foreign to the methodology of today's Austrian School. Robbins's man is actually a robot, a caricature of a human being, only passively reacting to events. The position of Mises, Kirzner and other Austrians differs from Robbins's in that it views actual human

activity not as the constant sacrifice of given means for given ends, but rather as drawing conclusions from the past and using imagination to discover and shape (through activity) the future.

For Austrians, economics is part of a much broader science, that is, a general theory of human actions rather than human decisions. According to Hayek, if we need to name this general theory of human action, the term «praxeological sciences» (clearly defined and often used by Ludwig von Mises) seems to be the most appropriate one [20, p. 486].

8. Subjectivism. Another aspect of great importance to Austrians is subjectivity. In their opinion, the subjectivist concept is an attempt to build a science of economics that would see a flesh-and-blood human being as a creative individual who plays the most important role in all social processes. This is why, for Mises, economics is not the study of things and material objects. It is the study of people, their intentions and actions. Goods and wealth, as well as all other elements of action, are not part of nature, but only components of human intention and behavior. Whoever wants to deal with them cannot look at the outside world. One must look for them in the mind of the acting man. Therefore, for Austrians, boundaries in economics are not the creation of objective phenomena or material factors that are an element of the external world, but of entrepreneurial and subjective human knowledge [9, p. 167]. The subjectivist concept of the Austrians allows economics to be a general science that deals with every human action and to have objective validity, which may seem paradoxical at first glance.

9. Entrepreneur and the entrepreneur's mistake. In Austrian economic theory, entrepreneurship is a major force. It is a phenomenon which is typical of the real world, which is invariably outside the state of equilibrium, so it cannot play the slightest role in equilibrium models. There is a consensus among all Austrian economists on the classification of the belief that an entrepreneur's profit comes from the assumption of simple identification of risk with error. According to the Austrians, it is possible to make ordinary entrepreneurial mistakes if entrepreneurs do not find profit opportunities on the market. It is the existence of this type of error that makes pure profit for the entrepreneur possible.

10. Subjective information. Entrepreneurs are constantly generating new information that is essentially subjective, practical, diffuse and difficult to express. The subjective perception of information

is therefore a fundamental element of the Austrian methodology. This information is relevant, practical knowledge that is created, interpreted, known and used by humans in the context of a specific action. This is why Austrians criticise neo-classical information theorists for their inability to connect their theory of information to entrepreneurship, as Austrians have managed to do. Markets provide the opportunity to create potential profit opportunities that can be discovered and exploited by entrepreneurs in a continuously market-driven coordination process.

Economists from the Austrian school usually refer to the fact that entrepreneurial processes are moving towards equilibrium, although they acknowledge that this will never be achieved. The entrepreneurial process of social coordination will never cease or be exhausted. In other words, entrepreneurial action essentially involves the creation and transmission of new information that necessarily modifies the perception of ends and means by all members of society. This in turn leads to the constant emergence of further aberrations, signifying new opportunities for entrepreneurial profit, discovered and coordinated by entrepreneurs [11, p. 77]. This dynamic process, which repeats itself ad infinitum, is the driving force behind the progress of civilisation.

11. Entrepreneurial coordination. According to the Austrians, entrepreneurship plays a coordinating role. In fact, this ordering force not only creates and transmits information but, more importantly, is responsible for welding together the actions of the members of society. In effect, all social discoordination is materialised in the possibility of profit, which remains dormant until it is discovered by entrepreneurs. As soon as the entrepreneur realises that they can make a profit, and acts to exploit this opportunity, disorder begins to give way before the spontaneous process of coordination, which explains the market economy's drive towards equilibrium. In doing so, the coordinating nature of entrepreneurship is the only factor that makes possible the existence of economic theory as a science, understood as a theoretical set of laws of coordination to explain social processes. This approach explains the interest of Austrian economists in studying the dynamic concept of competition in understanding the competitive process.

For Mises, it makes no sense to construct economic theory on the basis of an equilibrium model in which all the information affecting the shape of the supply and demand function is assumed to be

given. The basic problem of economics for the Austrians is quite different: the study of a dynamic process of social coordination in which different individuals, in their search for ends and means relevant to their actions, constantly shape new information (never given in advance). Thus, without realizing it, they contribute to the emergence of a spontaneous coordination process. From the Austrian point of view, the basic problem of economics is not of a technical or technological nature. For Austrians, the fundamental problem of economics is not the maximization of a known target function depending on constraints that are also known. On the contrary, it is a completely economic issue. It occurs when we have many competing goals and means, and the knowledge about them is neither given nor constant, but dispersed among countless individuals constantly creating and generating it anew, so that all possibilities that exist or will exist and the relative extent of their use cannot even be known. What appear to be merely human maximization and optimization have an entrepreneurial component because the performer must have first become aware, however automatic, mechanical and reflexive they may be, that these are actions most appropriate to the specific circumstances in which he finds himself.

According to the Austrians, dividing microeconomics and macroeconomics into two non-intersecting sections makes no sense. Economic problems should be examined on a common basis, without division into micro and macro. Mises points out that the origins of this division lie in the use of concepts such as the general price level, which ignore the marginalist, subjectivist theory of the value of money and are attached to the pre-scientific stage of economics, when attempts were still made to conduct analyzes using global classes or aggregates of goods rather than their growing or marginal units. The neoclassical equilibrium model assumes that all information is given, both in terms of certainty and probability, and that the various variables are perfectly matched. From the Austrian point of view, the main disadvantage of this method is that if it is assumed that all variables and parameters are perfectly matched, it is easy to draw erroneous conclusions about the cause and effect relationships between different economic concepts and phenomena. Balance acts as a kind of curtain, preventing theorists from seeing the real direction of cause-and-effect relationships in the laws of economics.

12. Subjective costs. Another element of the Austrian methodology is the purely subjective concept of costs. For Austrians, cost is

a subjective value assigned by a person to the goals that he gives up when he decides to act. In other words, objective costs do not exist. Rather, they are an entrepreneurial discovery of each person. In fact, many opportunities may be unnoticed, but once discovered, they will radically change entrepreneurs' subjective perception of costs. Therefore, there are no objective costs that would determine the value of goals, and the actual situation is quite the opposite: cost is a subjective value that results from the subjective valuation of goals (consumer goods) that an entrepreneur strives for. According to Austrian economists, the prices of consumer goods are the market materialization of entrepreneurs' subjective valuations, and the cost (which they are willing to incur in order to produce them) depends on their prices.

13. Verbal formalism. At the very beginning of the formation of the Austrian school, its founder, Carl Menger, took care to demonstrate that the advantage of verbal language is its ability to express the substance of economic phenomena, which is not possible with mathematical language. Mathematical formalism is particularly suitable for expressing the states of equilibrium that neoclassical economist's study, but it does not allow for encompassing the subjective realities of time, much less the creativity of the entrepreneur, which is an essential feature of the Austrians' analytical reasoning. This means that for Austrians many of the theories and conclusions of the neoclassical analysis of consumption and production make no sense.

It is a fact that the theoretical foundations of the so-called «laws of equality of (price)-weighted marginal utilities» are very questionable. In fact, this law assumes that the entrepreneur is able to simultaneously value the utility of all the goods at his disposal, ignoring the fact that each action is sequential and creative, and the goods are valued one by one in the context of different periods and activities, and not in the same time, which would mean the equality of their supposed marginal utility. Therefore, not only may the corresponding marginal utilities be different, but they are simply incomparable. For Austrians, using mathematics in economics is wrong because it synchronizes and connects quantities that are diverse from the point of view of the entrepreneur's time and creativity.

14. Relationship with the empirical world. Another issue is the attitude towards the world of empirics and the possibilities of forecasting. The fact that the «observing» scientist is unable to acquire practical information that is continually being created and dis-

covered in a decentralized manner by the «observed» entrepreneurs effectively explains the theoretical impossibility of any empirical verification in economics.

Austrians believe that the same reasons that determine the theoretical impossibility of socialism explain why such empiricism and cost-benefit analysis or utilitarianism in their most faithful interpretation are useless in science. It does not matter whether it is a politician or a scientist who tries in vain to obtain practical information to give coordinating nature to orders or to fulfill the wish to verify one's theories. If such a possibility existed, it would also be feasible to use information to coordinate society using coercive methods (socialism and interventionism) and to empirically verify economic theories. However, for the same reasons: first, the enormous amount of information discussed; secondly, their nature (diffuse, subjective and hidden); thirdly, the dynamic nature of the entrepreneurial process (information that has not yet been generated by entrepreneurs in the process of continuous innovation cannot be transferred) and fourthly, the effect of coercion and scientific «observation» itself (distorting, disturbing, embarrassing or simply making it impossible creation of information by an entrepreneur), both the socialist ideal and the positivist or purely utilitarian ideal are impossible from the point of view of Austrian economic theory [12, p. 132].

The same arguments justify the Austrians' judgment that creating detailed forecasts is theoretically impossible in economics. It is impossible to scientifically know today what will happen tomorrow, because it depends mainly on knowledge and information that have not yet been generated in the entrepreneurial process and therefore cannot be known. In economics, therefore, one can only make general «trend forecasts», which Hayek calls pattern forecasts. They are essentially theoretical in nature and mainly concern predicting the disruptions and effects of social discoordination resulting from institutionalized violence (socialism, interventionism) hitting the market.

It is important to remember that there are no such things as directly observable objective facts of the real world, because according to Austrian subjectivism, the «facts» of economic research are simply ideas about the goals and actions of others. They can never be observed directly, but only interpreted in historical terms. To interpret a social situation that has been shaped by history, first a theory and an unscientific assessment of significance are necessary.

Austrians believe that empirical phenomena are constantly changing and therefore in social events everything is a «variable» and parameters or constants do not exist. Austrian economists try to base science on methodological rationalism and deduction. Their goal is to create a comprehensive logical-deductive system based on obvious knowledge acquired through introspection of the scientist's personal experience or taken for granted because no one can question an axiom without contradicting himself. This theoretical system is, according to the Austrians, necessary for the proper interpretation of the seemingly unrelated mass of complex historical phenomena that constitute the social world, thus making it possible to outline historical events and predict future ones with any chance of success. Now you can understand why the Austrians attach so much importance to history and their efforts to separate it from economic theory and use it appropriately.

Hayek calls the unauthorized use of natural science methods in the social sciences scientism. In the world of nature, we have constant and functional relationships that allow us to use the language of mathematics and perform quantitative laboratory experiments. According to the Austrians, similar relations (and therefore supply, demand, cost and other functions) in economics, unlike in the world of physics and natural sciences, do not exist. According to mathematical set theory, a function is just a one-to-one mapping between the elements of two sets, called «domain» and «counter-domain».

Knowing about the innate creative capabilities of man, constantly generating and discovering new information in each specific circumstance in which he acts using the means he considers using to achieve his goals, it is obvious that three elements necessary for the existence of a functional relationship are not present: a) elements domains are neither given nor constant, b) the elements of the counter-domain set are not given or constant, c) no relationships between the elements of two groups are given, but rather constantly change as a result of human activity and creative abilities. According to the Austrians, the use of functions in economics requires the assumption of the stability of information, which radically eliminates the main character of the entire social process: a person endowed with innate creative entrepreneurial abilities.

The great merit of the Austrians is to demonstrate that it is entirely possible to create a complete economic theory using the methods of logic, without any need to use functions or the need to as-

sume constancies contrary to the creative nature of man, the only true protagonist of all social processes studied by economic theory.

The Austrians place particular emphasis on the insufficiency of empirical research in the development of economic theory. At most, empirical research can provide information about some of the specific effects of social processes. However, they do not provide knowledge about their formal structure, i.e. what constitutes the research subject of economic theory. Statistics and empirical research simply do not provide any theoretical knowledge. Hayek rightly noted that aggregates that can be measured in statistical terms often have no theoretical sense and, conversely, many concepts of great theoretical importance cannot be measured and treated empirically.

The Austrian school seems to be relevant, if only because of the answers that the school's representatives give to the causes of the current financial crisis, their explanations about business cycles, or their tough defense of private property and the free market, which are different from the dominant trend. Where the market is now seen to be flawed and weak, Austrians see the government's flaws and weakness. First of all, they oppose the popular thesis that the unfettered free market is responsible for the current crisis. According to them, there is currently no unrestricted free market in any country in the world, and secondly, they believe that the cause of the current crisis is the greed of consumers or bankers and (above all) the erroneous monetary policy of the central bank. The problem is maintaining a banking system based on a fractional reserve system and, of course, money itself, the value of which is freely shaped by the monetary and political authorities. All Austrians believe that money and banking should be left to the free market and that government intervention in this area can only do harm. Mises argued as early as 1912 in *The Theory of Money and Credit* that when a central bank artificially lowers interest rates below market levels, it distorts the capital goods sector and creates a business cycle that must sooner or later end in economic decline when the market wrong investments happen [13].

In the 1920s, Mises and Hayek founded the Austrian Business Cycle Research Institute in Vienna, through which they demonstrated that the central bank was the source of the cycle. Hayek developed Mises' theories in the works «Prices and Production» and «Monetary Theory and Business Cycles», and Hayek's theory itself was called «the theory of business cycles as a theory of monetary overinvest-

ment». Hayek and the entire Austrian school reject the view that money is neutral for the economy; on the contrary, monetary expansion causes disruptions that have a strong impact on real allocation processes in the economy. The Austrian cycle theory states that if interest rates are at the right level, i.e. reflect the natural interest rate, a business cycle will not occur regularly in the economy. The Austrian school defines the natural rate of interest as the rate reflecting consumers' time preference. Therefore, if the authorities artificially lower the interest rate, they will trigger an inevitable business cycle. According to the Austrians, the quantity theory of money wrongly assumes that changes in the quantity of money affect only the general price level, while the impact of changes in the quantity of money on the price structure is ignored and, consequently, the subject of analysis is the influence of the quantity of money on the overall volume of production instead of on individual industries.

The Mises-Hayek model is based on the disproportion between the supply of consumer and investment goods in relation to the demand for them. Money changes relative prices and the time structure of production, which shifts consumption spending to investment spending. Consumer preferences for the future remain unchanged. A gap is created, which leads to an economic crisis and then to equilibrium again (fig. 1).

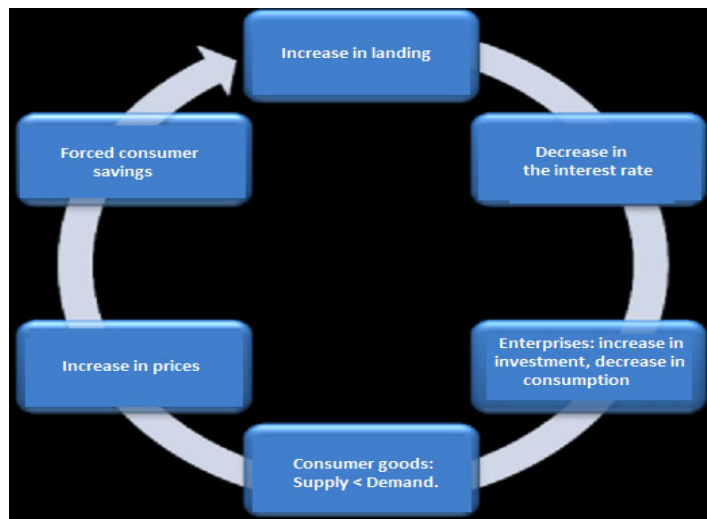


Fig. 1. The Mises-Hayek model

According to this school, any artificial boom (e.g. keeping interest rates low for a long time or «pumping» a large amount of funds into the economy) must end in a collapse. According to Hayek, an increase in lending causes the interest rate to fall below the natural level. Entrepreneurs interpret this as a shift of resources from consumption, which somehow forces them to make savings. Producers receive new capital injections in the form of credit. This will continue until the market interest rate increases. Previous investments will no longer be profitable and a crisis will begin. The state should not intervene to stimulate consumption, as this would worsen the situation. The longer the boom period, the more severe the economic downturn will be and the more difficult it will be to recover from it. According to Hayek, preventing the crisis should start in the boom period. Monetary policy should be neutral so as to minimize the impact of monetary disruptions.

Austrians point out that one of the basic problems of the modern economic system and the source of instability is the nationalized money market with a strong tendency to inflation. Already in the 1970s, Friedrich Hayek pointed out that containing inflation is not an economic or technical problem, but a political problem. Hayek primarily emphasized the disastrous effects of inflation and argued that if we want to maintain a free society, we must stop inflation caused by governments and monetary authorities at all costs. He pointed out that inflation primarily worsens the situation of creditors. He believed that as a result of inflation, long-term creditors – holders of government bonds – were partially expropriated. However, he pointed out that inflation undermines the credibility of accounting practices and, as a result, companies obtain false profits. On an accounting basis, currency depreciation can possibly be taken into account as a factor affecting the replacement cost of capital, but the tax authorities will always insist on taxing such pseudo-profits. For Hayek, an extremely dangerous effect of inflation was the deformation of the price structure, as he emphasised that prices never rise at the same time. Ludwig von Mises, on the other hand, pointed out that, at the beginning of the business cycle initiated by credit expansion, everyone feels happy, living in the belief that, at last, humanity has finally overcome the grim state of scarcity, having achieved eternal prosperity. In reality, however, all this astonishing wealth is fragile. There is no way to replace banknotes and deposits with non-existent capital goods.

Inflation is initially well perceived by businesses, product prices turn out higher than expected, a state of euphoria and a sense of prosperity is created. However, maintaining such a state requires rising inflation. Hayek stressed that not all inflation necessarily leads to hyperinflation, but if we want to maintain prosperity then unfortunately, we have to systematically increase the level of inflation. Causing inflationary phenomena, i.e. printing «empty money», is likened by Austrians to counterfeiting. Monetary expansion is regarded by the Austrian school as a gigantic system of hidden taxation imposed on fixed-income groups far removed from government spending and subsidies and targets savers. Austrians do not believe in the effectiveness of central banks' anti-inflationary policies. In their view, the claim professed by monetarists that central banks can fulfil the role in reducing the money supply that gold once did is a dangerous naivety.

According to Mises, the cause of economic crises is excessive credit expansion [19, pp. 75–76]. Inflation, as a consequence of monetary expansion, should be ruthlessly eliminated even at the price of high (albeit temporary) unemployment. In times of crisis, a policy of stimulating consumer spending (including public works) is harmful. Austrians call for the removal of government power over the money supply and the abolition of central banking, since, as they point out, economic cycles emerged in the eighteenth century with the establishment of the first central banks and became widespread and intensified in parallel with the development of central banking.

According to the Austrians, if we want to preserve a free society and a market economy, and avoid recurring dramatic business cycles, we should abolish the central bank and introduce free banking, return to the gold standard and guarantee full respect for property rights. As Murray Rothbard used to say, what is needed is an economic system based on the inviolable right of private property, on the right of everyone to own acquired property and to exchange the products of their labour.

Conclusions. This article reviewed the positions presented in the Austrian school on the issue of prices and the function they perform. From the precursors and their theses on the importance of subjective utility in price formation, to the «Hayekists» applying equilibrium analysis and emphasising knowledge and coordination as the most important research problems for them, to the «misesists» pointing to private ownership of the means of production as the most

important element of the economic order. There are differences between them not only in the views presented, but also in the research methods used. For example, Carl Menger and Murray Rothbard were proponents of Aristotelian empiricism, Ludwig von Mises modelled himself on the apriorism of Immanuel Kant, and Friedrich von Hayek drew on broad positivism.

The output of the Austrian school is neglected by most Polish scholars. This seems to be a great loss whether one agrees with the positions of its representatives or not, because even when there is a difference of opinion, the parties to the discourse can learn a lot from each other. The Austrian school is on the rise today. In policy terms, it seems increasingly attractive given the continuing conundrum of business cycles, the collapse of socialism, the cost and failure of the regulatory welfare-warfare state and the public frustration caused by government overextension.

Familiarising oneself with the views of economists from the Austrian school, who are highly critical of contemporary institutional solutions in the area of economy and the actions of authorities in the area of economic policy, seems particularly valuable in the face of events such as the economic crisis currently experienced by most countries in the world. Despite the presentation of the ideas of the Austrian school in the courses at Polish and Ukrainian universities and the leading universities of the world, the study of the approaches of Austrian scientists has not received due attention for a long time. The Nobel Prize awarded in 1974 to a representative of the Austrian school led to a revival of interest in this strand of economics, which for decades had been treated marginally in Polish university economics textbooks as well as in textbooks of economic thought.

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