Why Christian Economists Should Pay Attention to Austrian Economics

It has become commonplace for economists to believe that they can conduct economic analysis without making any value judgments or drawing ethical implications. Clearly, positive analysis of economic problems can be undertaken, e.g., analyzing the incidence of an excise tax increase on cigarettes. However, the analyst rarely stops with positive analysis but proceeds to draw policy implications. This is where values and ethics come into play. For example, economists frequently advocate government rather than market solutions to the problem of pollution. Another case is antitrust policy, where market power is often taken to justify government regulation of markets. In such cases, the presumption is that the government knows best, has the best interests of the public in mind and can accomplish what it sets out to do, in contrast to the market which does not.

Economists can learn a great deal about these matters from Austrian economics. Austrian economics is rooted in the notion that no individual has enough information to control the economy. This notion of limited knowledge, though not alien to neoclassical economics, is often ignored when policy analysis is conducted and frequently leads to recommendations for government intervention as if the policymakers somehow had perfect knowledge or more knowledge than the market participants themselves. Austrian economics, however, is realistic in that it explicitly recognizes the limitation of economists and policymakers as well as market participants. Indeed, Austrian economics would affirm that only those individuals who have “knowledge of the particular circumstances of time and place”1 are in the position to make decisions. These central themes of Austrian economics—limited knowledge and the danger of conferring power on imperfect people—are tied closely to the Judeo-Christian belief that we live in a fallen world.

Entrepreneurship is another central theme of Austrian economics. The Austrian view of markets is that constantly changing supply and demand conditions provide profit opportunities and create incentives for people to innovate and find new ways to produce goods and services at lower costs.

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This means, for example, that increased concentration could be good in the sense that increased scale of production can lead to innovations and lower costs of production. Therefore, government regulation of market power could hinder market growth. This concept is also rooted deeply in Judeo-Christian theology because it highlights the significance of the individual and the creative potential of people in problem solving.

Another significant tenet of Austrian economics is that value is subjective and not in the good itself. This concept has enormous implications for the way we view such things as costs and wealth. In particular, this viewpoint says that costs are not objective but are subjective, depending on the options available to the individual and the values he places on them. The act of trade itself creates wealth because both parties obtain something of greater value than they had before, even though nothing new may be produced as a result of trade. This concept has direct ethical implications as well because economic events are affected by and affect directly the values people attach to the events. By focusing on the individual rather than good itself, evaluation of the effectiveness of a commodity promotion check-off program, for example, would be different. By focusing on the commodity advertised as opposed to the value the individual attaches to alternative use of his funds, one could easily underestimate the opportunity cost of funds used for advertising.

Michael Novak of the American Enterprise Institute points out that until the middle of the 19th century, economics was viewed as a branch of moral philosophy. While mainstream economics is dominated by the neoclassical paradigm, Austrian economics has clearly contributed to the development of modern economic thought in significant ways.

The main strategies of Austrian economics—focusing on the human subject, investigating the sources of human actions, and emphasizing the habit of enterprise—have all contributed to a shift in attention away from simply market equilibrium to the role of the individual in economic decisions. No longer are markets or governments viewed as amorphous institutions, but they are looked at as institutions made of individuals who are motivated to make decisions that promote their private interests.

Economics quite generally is a way of thinking that can be used to analyze reality. People make all sorts of choices (both financial and social considerations) in a world where incentives matter, where there are always trade-offs, where choice affects personal value, and where choices have long-run consequences, many of which are indirect and cannot be foreseen. However, while the economic way of thinking can help us understand reality by enabling us to predict what will happen if we make certain choices, it cannot by itself ensure that we will choose well.

Nevertheless, by focusing on people's choices, we can see how institutions, government policy, etc., affect those choices and the ensuing moral climate. For example, if IRS agents are rewarded for maximizing their collections from taxpayers it is not hard to see how such incentives lead to corruption and tyranny of government. As another example, the so-called marriage tax penalty, at least at the margin, encourages divorce. Free condom distribution encourages promiscuity, distribution of free needles encourages illegal drug use, and so on.

Agricultural economics is not devoid of moral implications. If we subsidize milk production through price supports that raise the cost to consumers, we place an especially undue burden on the poor who typically consume larger amounts than wealthy people. If we require that fruit not meeting certain quality standards be destroyed, then we may affect adversely the welfare of those (again, mainly the poor) who would choose to buy lower quality but lower priced fruit. Farmers (especially small, family farmers) may be forced out of business because of environmental regulations that reassign property rights to wilderness lovers.
Choices by both individuals in the market and government, and the interaction of their choices, have significant moral and ethical implications.

What are the implications of Austrian economics for how we practice economics? While I plan to continue doing quantitative economics, I believe the Austrian perspective has much to offer when it comes to selecting research problems, analyzing our findings and discussing policy implications of the results. Economic choices are made by individuals who are individually affected, often in distinct ways, as a result of policy changes and/or market changes. A careful assessment of the effects of such changes on the individuals' well being should be the primary responsibility of every researcher, i.e., our responsibility as economists should be to do economics well, using the best tools available.

ENDNOTES