

AUSTRIAN SCHOOL VS. NEOCLASSICAL SCHOOL

A summary of the essential points of comparison between two paradigms.

Adapted from *The Austrian School: Market Order And Entrepreneurial Creativity*
by Jesus Huerta De Soto.

Points of Comparison	Austrian Paradigm	Neoclassical Paradigm
Concept of economics (essential principle)	A theory of human action , understood as a dynamic process (praxeology)	A theory of maximization subject to restrictions (narrow concept of "rationality")
Methodological outlook	Subjectivism	Stereotype of <i>methodological individualism</i> (objectivist)
Protagonist of social processes	Creative entrepreneur	<i>Homo economicus</i>
Possibility that actors may err a priori, and nature of entrepreneurial profit	Actors may conceivably commit pure entrepreneurial errors that they could have avoided had they shown greater entrepreneurial alertness to identify profit opportunities	Regrettable errors are not regarded as such, since all past decisions are rationalized in terms of costs and benefits; entrepreneurial profits are viewed as rent on a factor of production
Concept of information	Knowledge and information are subjective and dispersed and they change constantly (entrepreneurial creativity); a radical distinction is drawn between scientific knowledge (objective) and practical knowledge (subjective)	Complete, objective, and <i>constant</i> information (in certain or probabilistic terms) on ends and means is assumed; practical (entrepreneurship) knowledge is not distinguished from scientific knowledge
Reference point	General process which tends towards coordination ; no distinction is made between micro and macroeconomics: each economic problem is studied in relation to others	Model of <i>equilibrium</i> (general or partial); separation between micro and macroeconomics
Concept of competition	Process of entrepreneurial rivalry	State or model of "perfect competition"
Concept of cost	Subjective (depends on entrepreneurial alertness and the resulting discovery of new, alternative ends)	Objective and constant (such that a third party can know and measure it)
Formalism	<i>Verbal</i> (abstract and formal) logic which introduces subjective time and human creativity	<i>Mathematical</i> formalism (symbolic language typical of the analysis of atemporal and constant phenomena)
Relationship with the empirical world	<i>Aprioristic-deductive</i> reasoning: radical separation and simultaneous coordination between theory (science) and history (art) ; history cannot validate theories	<i>Empirical</i> validation of hypotheses (at least rhetorically)
Possibilities of specific prediction	Impossible , since future events depend on entrepreneurial knowledge which has not yet been created; only qualitative, theoretical <i>pattern predictions</i> about the disordinating consequences of interventionism are possible	Prediction is an objective which is deliberately pursued
Person responsible for making predictions	The entrepreneur	The economic analyst (social engineer)
Current state of the paradigm	Remarkable <i>resurgence</i> over the last 25 years (particularly following the crisis of Keynesianism and the collapse of real socialism)	State of <i>crisis</i> and rapid <i>change</i>
Amount of "human capital" invested	A <i>minority</i> , though it is increasing	The <i>majority</i> , though there are signs of dispersal and disintegration
Type of "human capital" invested	Multidisciplinary theorists and philosophers, radical libertarians	Specialists in economic intervention (<i>piecemeal social engineering</i>); an extremely variable degree of commitment to freedom
Most recent contributions	<ul style="list-style-type: none"> - Critical analysis of institutional coercion (socialism and interventionism) - Theory of free banking and economic cycles - Evolutionary theory of (juridical, moral) institutions - Critical analysis of "social justice" 	<ul style="list-style-type: none"> - Public choice theory - Economic analysis of the family - Economic analysis of law - New classical macroeconomics - Economics of information - New Keynesians
Relative position of different authors	Rothbard, Mises, Hayek, Kirzner	Coase, Friedman, Becker, Samuelson, Stiglitz