BOOK REVIEW: ADVANCED INTRODUCTION TO THE AUSTRIAN SCHOOL OF ECONOMICS

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RANDALL G. HOLCOMBE has provided an excellent service to the economics profession with his Advanced Introduction to the Austrian School of Economics. As the title suggests, the book is an introduction to Austrian economics, but not for economic beginners. Its target audience are readers with at least an intermediate familiarity with neoclassical mainstream economic analysis and who have had little to no exposure to the Austrian framework.

This is a very impressive effort indeed. The book features a tremendous coverage of ideas and concepts in a small number of pages, yet avoids superficiality. Holcombe does not waste words, but his discussion is always substantive and includes helpful illustrations of his points. He excellently compares and contrasts neoclassical and Austrian understandings of what firms and markets do. In doing so, he deftly distinguishes between the neoclassical view of the firm and business activity and the more realistic Austrian entrepreneurial firm. Additionally, while appreciating public choice

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analysis of government policy, Holcombe directs the reader to the more complete Austrian critique of socialism and interventionism that emphasizes the importance of economic calculation. All along the way, he draws not only on seminal works from the history of thought, but on recent literature.

Holcombe begins by making the case that the market process approach is the foundation of the economic analysis of the Austrian school. Everything he argues about the market process is compelling. Importantly, he notes that the neoclassical equilibrium framework depicts the conditions of equilibrium without explaining the market process that works toward equilibrium. He notes that Austrian economists recognize that the free market facilitates economic order resulting from a multitude of decisions made by individual entrepreneurs, capitalists, workers, landowners, and social organizations, not from the result of a central economic plan. As he writes, “Perhaps the most important lesson economics has to teach is that an orderly and efficient outcome can emerge without anyone planning it out” (p. 5).

The book also draws on Hayek’s reminder that much of the knowledge possessed by people in society is tacit, decentralized knowledge not easily communicated to others. Additionally, Holcombe notes the Austrian emphasis on the future being uncertain. Because of uncertainty, the market facilitates the coordination of various plans rather than producing a mathematical equilibrium. Economic activity is part of a dynamic, ongoing evolutionary process, so therefore equilibrium is a hypothetical concept rather than a description of economic reality. Because the future is uncertain and knowledge is not evenly distributed, action in the market is a discovery process. Time is an important element that must be incorporated into economic analysis.

Additionally, Holcombe points out the Austrian emphasis on subjective value. Because value is subjective, costs are subjective as well. People do not act to maximize utility, à la calculus, but to increase their satisfaction through mutually beneficial exchange.

The book also explains the Austrian view of competition, which is not depicted as a market structure in which firms all have perfect information and sell homogenous products at prices set by “the market.” Rather competition is the realistic process by which different entrepreneurs, using their differentiated knowledge, seek to outsell each other by offering to customers better products at lower prices.

Holcombe wisely notes the fundamental importance of economic calculation and entrepreneurship, explaining the nature of economic profit as an indicator of economic progress and welfare enhancement. In doing so, he provides an excellent distinction between neoclassical and Austrian welfare
theories. Further, he points toward the institutional necessities for economic development. He describes too the theory of progressive interventionism as developed by Austrian economics; however, this reviewer would have liked to see a citation of Mises’ “Middle-of-the-Road Policy Leads to Socialism.”

Holcombe also ably expositions the Austrian theory of the business cycle as a theory of economic recession. He does so by cogently identifying the source of the boom/bust business cycle—fractional reserve banking backed by a central bank. This leads him to stress the importance of good capital theory for understanding economic cycles. His analysis further provides an excellent discussion of expectations and why entrepreneurs can be led astray even if they know and understand business cycle theory. It would have been nice, at this point, to have directed the reader to Huerta de Soto’s *Money, Bank Credit, and Economic Cycles* as an excellent present-day treatment of Austrian business cycle theory. Holcombe does tip his hat to contemporary free banking theorists, but without engaging in much critical analysis. I would also say that along the way, he chases a bit of a rabbit trail by comparing and contrasting Schumpeter and Kirzner’s visions of the entrepreneur; however, given Schumpeter’s popularity, as well as the link between his ideas and Austrian writings that exists—rightly or wrongly—in the minds of many academics, perhaps such a discussion is justified.

The culminating chapter provides a good, concise discussion of where Austrian economics has come from and where it is now. It gives the reader a brief but helpful history of the development of Austrian economics and its place in the contemporary economics discipline. Turning to Austrian political economy, Holcombe shows that free market economic policy is the result of a long analytical tradition, not pro-market bias. He provides a short, accurate picture of the spectrum of political philosophy among Austrian economists, and also contributes a good discussion of the distinct Austrian economic method. However this reviewer thinks him a touch too generous toward the mathematical method.

While I have never been overly satisfied with the phrase “market process” as a moniker to distinguish the Austrian framework from the mainstream, in this book Holcombe makes better use of the term than anyone I have read. However, it struck me that what Holcombe describes as the market process approach is essentially a set of characteristics of economic activity in the real economic society of human action. Note how the various characteristics of the economy distinguishing the market process approach are all implications of a causal-realist understanding of human action. What Holcombe is arguing for is essentially a causal-realist approach to economic analysis. Therefore, it would have been helpful for him to begin with a brief introduction regarding the nature of human action and its implications, and
then proceeded to a discussion of the market process approach to economics. Nevertheless, this is a relatively minor quibble with this potentially very helpful work. I say “potentially” helpful because for the book to achieve all the good it can, it must find its way into the hands of inquiring economists schooled in ways of the neoclassical mainstream. Let us hope this occurs early and often.