

TABLE VII-1
Two Contrasting Approaches to Economics

The Austrian School

Macroeconomists

(Monetarists and Keynesians)

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Time plays an essential role 2. "Capital" is viewed as a <i>heterogeneous</i> set of capital goods which receive constant wear and must be <i>replaced</i> 3. The production process is <i>dynamic</i> and <i>is divided into multiple, vertical</i> stages 4. Money affects the process by modifying the structure of <i>relative</i> prices 5. Macroeconomic phenomena are explained in <i>microeconomic</i> terms (variations in relative prices) 6. Austrians hold a theory on the <i>endogenous</i> causes of economic crises which explains their <i>recurrent</i> nature (corrupt institutions: fractional-reserve banking and artificial credit expansion) 7. Austrians hold an elaborate <i>capital theory</i> (structure of production) 8. <i>Saving</i> plays a decisive role. It causes a <i>longitudinal</i> change in the productive structure and determines the sort of technology to be used 9. There is an <i>inverse</i> relationship between the demand for capital goods and the demand for consumer goods. All investment requires saving and thus a temporary relative drop in consumption 10. It is assumed that production costs are <i>subjective</i> and not predetermined 11. Market prices tend to determine production costs, not vice versa 12. The interest rate is a market price determined by subjective valuations of time preference. The interest rate is used to arrive at the present value (toward which the market price of each capital good tends) by discounting its expected future flow of returns | <ol style="list-style-type: none"> 1. The influence of time is ignored 2. Capital is viewed as a <i>homogeneous</i> fund which <i>reproduces</i> on its own 3. There is a notion of a one-dimensional, <i>horizontal</i> productive structure in <i>equilibrium</i> (circular flow of income) 4. Money affects the <i>general</i> level of prices. Changes in relative prices are not considered 5. <i>Macroeconomic aggregates</i> prevent the analysis of underlying microeconomic factions (malinvestments) 6. An endogenous theory of cycles is lacking. Crises have <i>exogenous</i> causes (psychological, technological and/or errors in monetary policy) 7. A theory of capital is lacking 8. Saving is <i>not</i> important. Capital reproduces <i>laterally</i> (more of the same), and the <i>production function</i> is fixed and is determined by the state of technology 9. The demand for capital goods is <i>directly</i> related to the demand for consumer goods 10. Production costs are <i>objective</i>, real and predetermined 11. Historical costs of production tend to determine market prices 12. The interest rate tends to be determined by marginal productivity or efficiency of capital, understood as the internal rate of discount at which the expected flow of returns is equal to the historical cost of producing each capital good (which is considered invariable and predetermined). The short-term interest rate is believed to have a predominantly monetary origin |
|---|---|