

## A Reply to Dunn's Comment

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### ABSTRACT

*This short reply responds to Dunn's comment in the current issue of this journal challenging the transmutable credentials and axiomatic base of Austrian economics. It is argued contra Dunn (and Davidson) that the Austrians are transmutable theorists too with the economic calculation debate as their fundamentalist revolution.*

#### 1. CONTRA DAVIDSON: RECAP. AND PRELUDE TO DUNN

IN AN EARLIER contribution to this journal (Wynarczyk 1999) I maintained that Davidson's axiomatic-based argument against Austrian economics and in favour of Post Keynesian economics was misplaced. He failed to recognise that Austrian economics shared all of the axioms he highlighted as belonging to Post Keynesianism and so could not be reduced to little more than a minor variation of the neoclassical mainstream. In addition, I argued that there were other features of Austrian economics which echoed, and largely anticipated, Post Keynesian concerns, related to such matters as reasonable (sensible) expectations and a rejection of rational expectations, recognition that money always matters, alongside an awareness of human agency situated within history and institutions. My intent throughout was, contra Davidson, to focus on areas of similarity and agreement in order to demonstrate the close parallels between the two research traditions and the potential intellectual gains to be made from increased dialogue. I did not deny that there were tensions and differences between the traditions largely connected to the Austrian emphasis upon spontaneous order and the Post Keynesian preference for designed order resulting in very different policy stances. The crux of Davidson's argument resided in his claim that only Post Keynesian economics rejects the key axioms of gross substitution, monetary neutrality, and an ergodic immutable reality. He conveniently neglected that the Austrian tradition has a rich history embracing such fundamentals as non-neutral money, human agency situated in historical time and confronted by an absence of knowledge, made meaningful by the existence of a non-ergodic transmutable creative reality. Davidson appears unwilling to recognise the Austrian contribution and its radical ontological message.

## 2. *CONTRA* DUNN: WHY AUSTRIANS ARE ALSO TRANSMUTABLE THEORISTS

Although Dunn (2002) accepts both the substantial potential gains from intellectual trade between Austrians and Post Keynesians and the need to recognise and tolerate common shared areas of interest he largely continues to sustain the Davidson cause against my position. He takes particular exception to my argument that the axioms highlighted by Davidson, and much else besides, fail to demonstrate 'a paradigm's worth of difference' between the two research traditions. Dunn is keen to imply that my argument risks collapsing these two rival research traditions into one, and hence making them indistinguishable, if their axiomatic base is identical - thus posing an epistemic threat to both camps. I remain unconvinced that Davidson's suggested axioms are sufficient by themselves to distinguish between schools of thought or research traditions since they fail to adequately demarcate between Austrian and Post Keynesian economics or within Post Keynesian economics itself.<sup>2</sup> The simple truth is that the axioms Davidson chose to consider were ill-suited to his argument since Austrians had little difficulty in accepting all of them. Dunn challenges my claims here. He remains sceptical over whether Austrians are transmutable economic theorists who take money and history seriously enough.

The evidence base for my argument is the rich literature stock of Austrian economics rather than a headcount of the views of all the economists who ever belonged to that tradition. Engagement with that literature clearly permits a transmutable reading of many of the key contributions of that genre, which have shaped its direction and development. As I argued in my original piece, Davidson failed to appreciate or attend to the rapprochement recently witnessed within Austrian economics and the continued lack of intellectual convergence within Post Keynesianism. Dunn continues to pay insufficient attention to evolving intellectual affinities within Austrian economics but concedes that Post Keynesianism remains a house divided. He endeavours to show that most Austrians and some Post Keynesians continue to accept the ergodic axiom. Dunn selectively draws from the Prychitko and Torr exchanges with Davidson and other Austrians such as Kirzner and Selgin, and the ergodic vocabulary they allegedly use, in order to support his claim that Austrians, by and large, are immutable theorists. He has paid little heed to my argument that there has been something of a reconciliation between the Kirzner and Lachmann wings of Austrian economics allowing it to entertain the possibility of both equilibrating and dis-equilibrating activity. An early anticipation of this development was given by White (1976), when he perceptively argued that entrepreneurial activity involves imagination and the creation of new possibilities as well as alertness without any guarantees of success. By drawing on the insights of Mises, Hayek, and Kirzner, as well as Shackle, Lachmann, and Schumpeter, White provided a model of entrepreneurial activity which is *contra* Dunn; being transmutable, with agents as *future makers rather than future takers*, whose actions not only help manufacture tomorrow but can unleash disequilibrating as well as equilibrating forces. Modern day Austrians, as I stated in Wynarczyk (1999, pp.35-36), largely 'accept the need to consider openly the relative strength of the forces of equilibrium and disequilibrium appertaining in the economy at any particular time'.

## 3. THE ECONOMIC CALCULATION DEBATE: THE AUSTRIAN FUNDAMENTALIST REVOLUTION

I accused Davidson (Wynarczyk 1999, p.43, n4) of completely ignoring Austrian economics' 'finest hour' and its clash with mainstream orthodoxy under the heading of the socialist calcu-

lation debate. Dunn too, conveniently, remains neglectful of the significance of this episode for Austrian economics and its differentiation from Walrasian orthodoxy. As Vaughn (1998, p.38,n2)), and other modern Austrians have shown in their reappraisal of the significance of that debate, economic calculation demonstrated more than the impossibility of socialism, it showed the wide gulf between the rediscovery of the Mengerian vision by Mises and Hayek and the neoclassical Walrasian vision employed by the competitive socialists. It helped to introduce the huge and largely unbridgeable ontological and methodological distance separating Austrian and mainstream economics to this day. Neither Davidson nor Dunn allude to the significance attached by Austrians to this episode for good cause - it is unexplainable in their narrow view of Austrian economics as a poor version of orthodoxy. Although Dunn is more careful than Davidson here, he still has a tendency to over-focus on those Kirznerian versions of Austrianism designed to overcome minor shortcomings in neoclassical economics (with Mises and Hayek located, quite inexplicably, here), which clearly stand apart from the Lachmann and Shackle interpretations. In my original piece I was willing to accept the fundamentalist telling of the Keynesian revolution story and to view the Sraffian strand as little more than a minor aberration, yet they both fail to see the economic calculation debate or its key players in the same revolutionary light.

Of course, there may be another reason for this. Dunn, like Davidson before him, appears to suggest that ergodic environments are less in need of interventions than transmutable ones without giving any good grounds for this judgement. The lesson of the economic calculation debate is just the opposite. For Austrians, designed orders are more likely to work in an ergodic environment whereas spontaneous orders really come into their own in a nonergodic or transmutable reality. Austrians and Post Keynesians clash here because, whilst they both largely accept a transmutable reality, the former favour market solutions and the latter political interventions. As I noted in Wynarczyk (1999, p.44,n11), even Schumpeter, cited as an example of a transmutable theorist by Davidson, did not favour discretionary interventions with the workings of the market process. In addition, as I made clear in my original contribution, money always matters in Austrian economics partly for reasons similar to, and in anticipation of, the fundamentalist variant of Post Keynesianism. It is important to stress that for Austrians money arose in response to the problems posed by a nonergodic environment and it has continued significance only in such a world, with its need to distinguish between the marketability of different assets (including money and goods of different higher and lower orders). Dunn castigates me for honestly conceding that the Austrian tradition could make more of the role and relevance of money denominated contracts as an institutional response or convention to deal with the problem of nonergodicity. Paying greater attention to the money-contract payments structure would certainly enhance an Austrian macroeconomics rooted in time, capital and money. But I nowhere claimed that the Austrian tradition was perfect or had fully realised its potential regarding any of the axioms highlighted by Davidson. The whole point of increased dialogue is that both research traditions would learn from each other.<sup>3</sup>

#### 4. CONCLUDING REMARKS: SOMETIMES HISTORY GETS IN THE WAY

Austrians and Post Keynesians have much in common. They are, by and large, transmutable economic theorists who need to trade ideas in order to move the agenda of nonergodicity forward. This can only happen if both research traditions make themselves more aware of each

other's contributions. Both camps recognise a role for inertia, tradition, convention and rules in providing some regularity and benefit in a kaleidic world - so that there is always a little piece of history repeating. But little benefit is to be served from continuing some of the errors evident in Davidson's original highly charged and selective reading of what is representative of modern Austrian economics. Continued failure to fully engage with much of the Austrian literature, especially that related to the economic calculation debate, will allow some Post Keynesians to persist with old prejudices.

#### ENDNOTES

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2. There is a need to remain mindful of the fact that Davidson's treatment of his axioms is by no means exhaustive - he has said relatively little about institutional structures and behavioural characteristics or the forces of inertia and change driving the system.
3. I am reminded of Vaughn's perceptive conclusion to her book (1998, p.178) that 'Any progress forward, however, need not, indeed should not, be a further continuance of an isolated "Austrian" economics....genuine progress will come from some heterodox community.' Of which she includes Post Keynesianism among its membership.

#### REFERENCES

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