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Conference: Perspectives of Integrated Austrian Theory

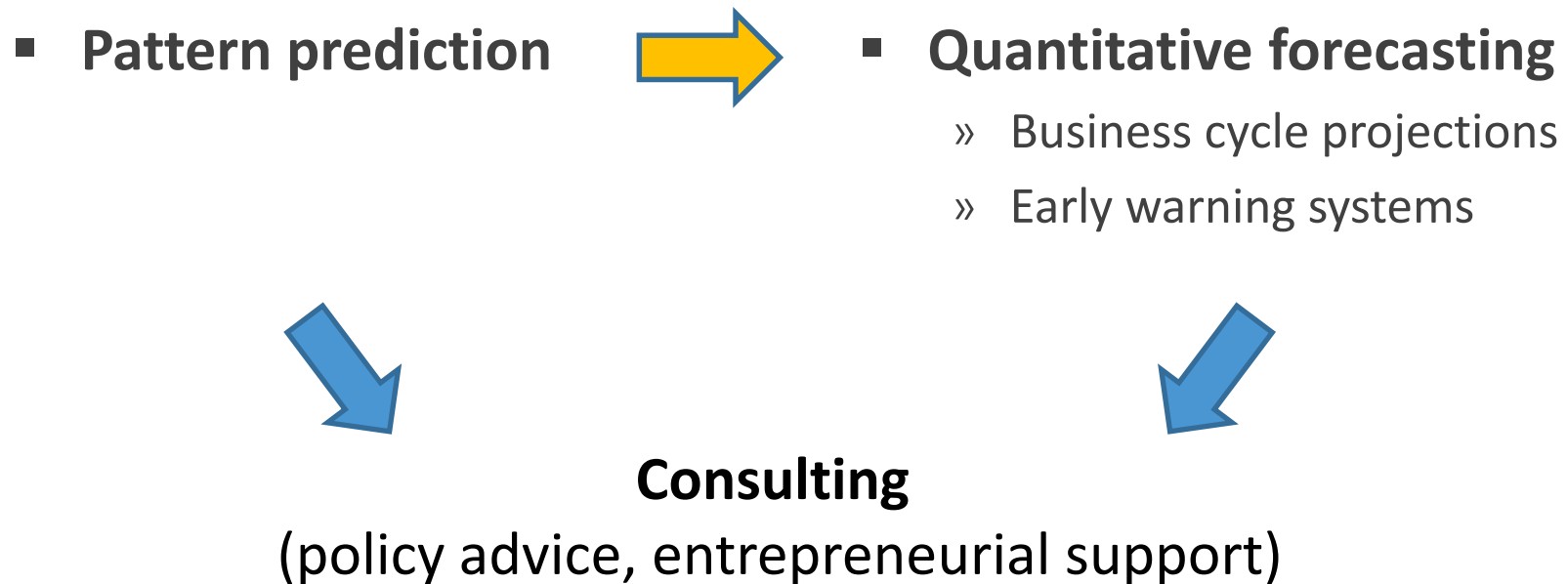
Towards a Coordinationist Paradigm of Macroeconomics

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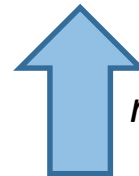


Coordinationist paradigm of (macro-) economics



inspired by

„Austrian Economics“
(Entrepreneurial Economics)



methodological backbone

Praxeology: Science of **Human Action**

Catallactics: Science of human inter-action via (market) exchange

- **Market process-oriented microfoundations**
 - » What microfoundations?
 - » Why market process-oriented?
 - ⇒ **Contribution to methodological diversity**

- **Capital, interest, and money**
 - » Production: Capital-based and consumption-driven
 - » Interest: Pure Time Preference and Loanable Funds
 - » Money: The ultra-pervasive good
 - ⇒ **Role of time in macroeconomics (intertemporal links)**

- **Applications and research**
 - » Linking financial/monetary sphere and real economy
 - » Production possibilities, path-dependencies, and crises
 - » Global perspective and top-down-approach
 - ⇒ **Towards a coordinationist paradigm of macroeconomics**

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- One economic process
 - » Micro level: Economic mechanisms and individual decisions
 - » Macro level
 - Mismatches on micro level show up as „imbalances“
 - Universal drivers (permeating into all micro markets)
- ⇒ Macroeconomics: Evidence for systematic misallocation of resources?

- Universal (= pervasive) drivers
 - » Money (medium of exchange)
 - » Interest (price of time)
 - » Capital (means for intertemporal coordination)
 - » Labor (most universal production factor)
 - » Constitutional framework (regulations, policy)

- ⇒ **Systemic micro disruptions as macro symptoms**

Market process view (1/2)

- Disequilibrium approach
 - » Menger/Hayek vs. Walras/Marshall tradition
 - » homo agens (HA) vs. homo oeconomicus (HO)

- Role of entrepreneurs
 - » Uncertainty: speculation, search, and discovery (HA as explorer)
 - » Universal arbitrageurs: investment as intertemporal arbitrage

- Dynamics and time
 - » Permanent adjustment process rather than sequence of equilibria
 - » Market system as feedback mechanism (ex-ante and ex-post prices)
 - » Separation of trend (potential output) and cyclical components?

- “Time cannot pass without modifying knowledge.”
(Hoppe)
- “The fact that time cannot pass without modifying knowledge ... appears to destroy the possibility of treating expectations as data of a dynamic equilibrium system.”
(Lachmann)

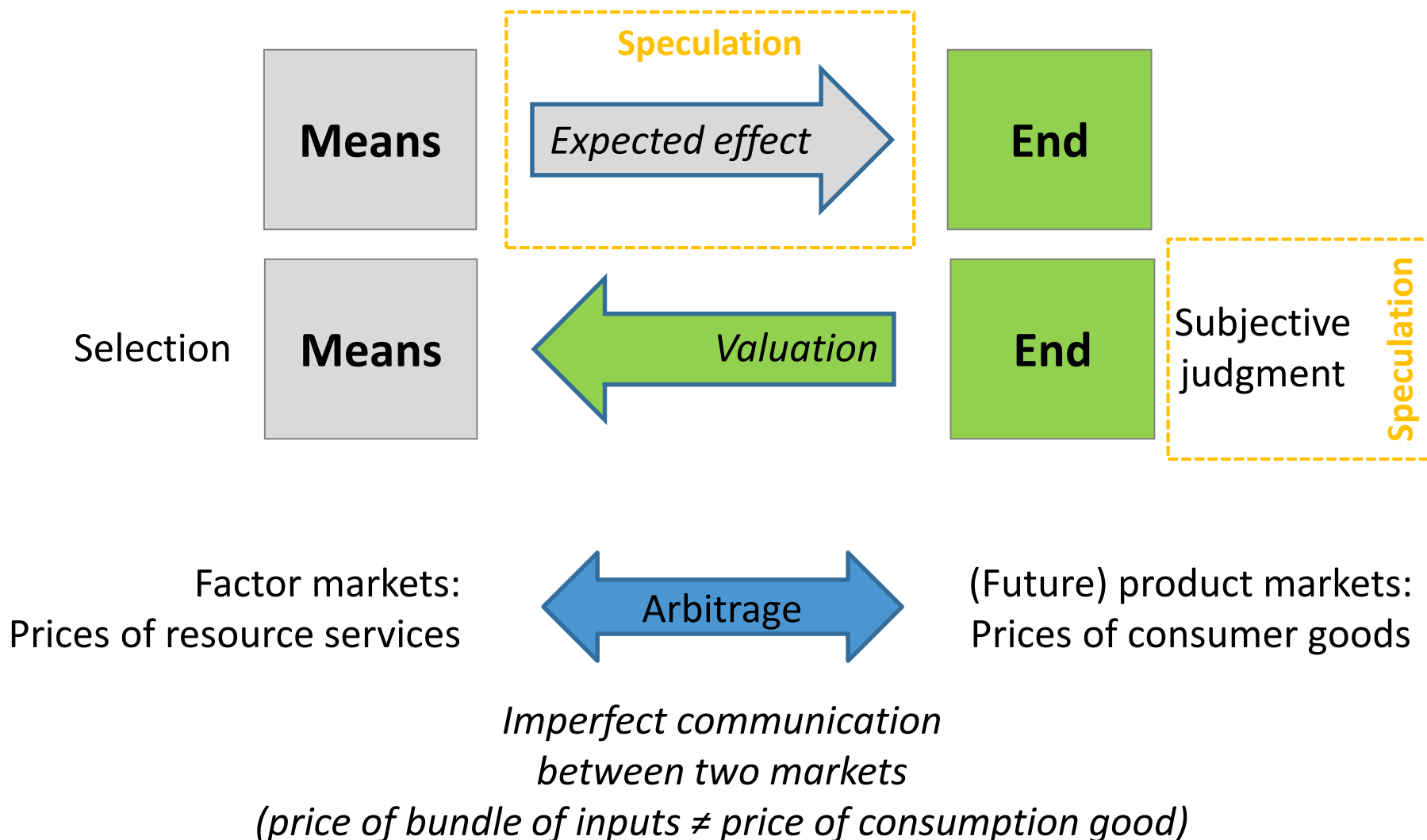
Market process view (2/2)

- Value theory
 - » Subjectivist perspective
 - » Reverse value imputation (from ends to means)

- Prices as knowledge surrogates
 - » Deficiency of monetary calculation:
Distorted price structures vs. price level movements
 - » Non-neutrality of money (Cantillon effects matter)

⇒ **Leaving the “evenly rotating economy” behind**

Means, ends, arbitrage, speculation, and entrepreneurship



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“Final aggregate demand”: No demand and not all of it is final

Goods and services account

Source/Input (not: supply)

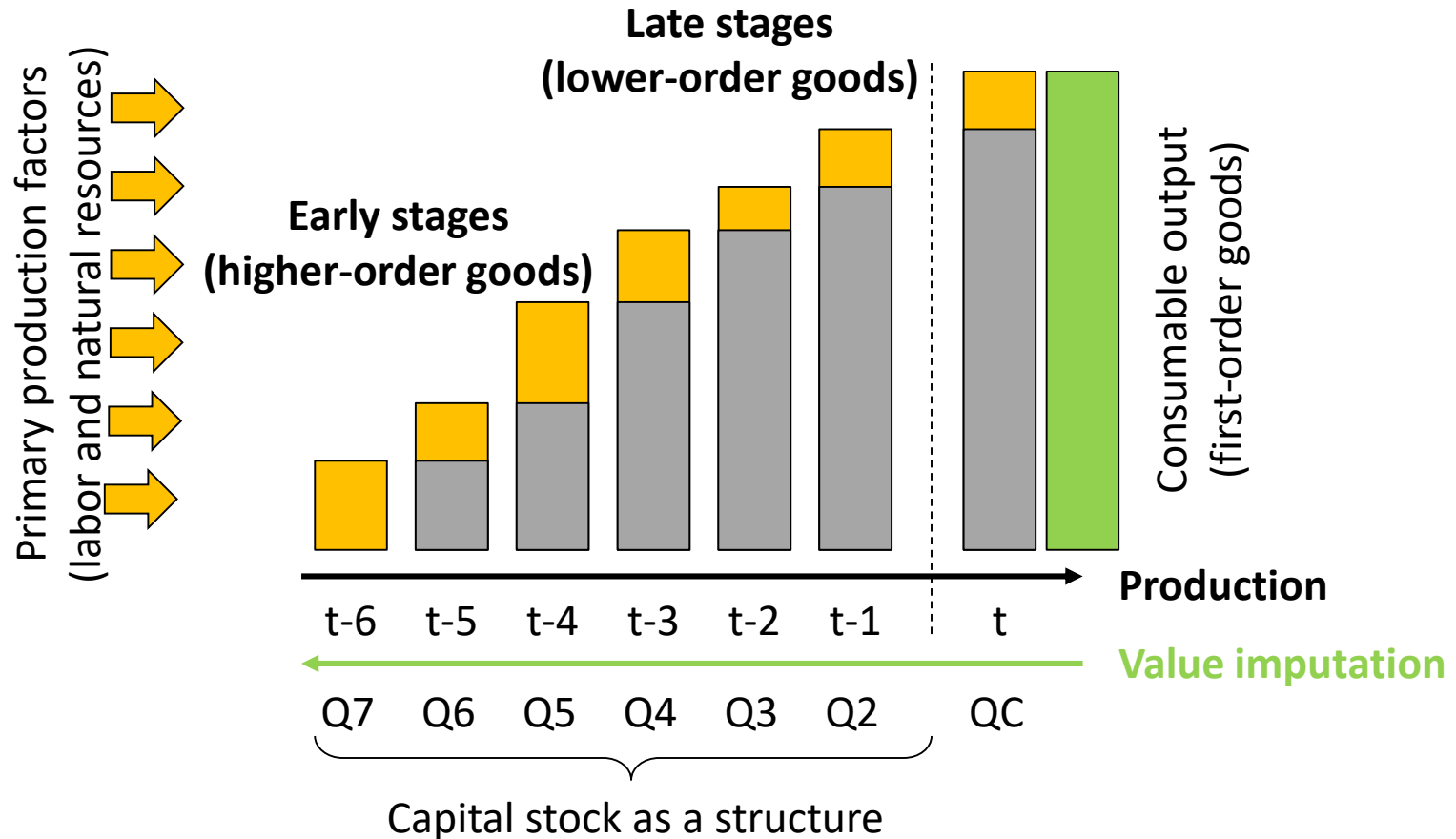
for period t

Use/Output (not: demand)

Intermediate consumption (production structure)	Intermediate consumption (production structure)
Domestic value-added	Final consumption (exclusive source of value)
	Domestic capital formation
	Capital formation abroad
Imports	Exports

**„Final“ use of domestic production
(only with respect to period t)**

Production as a time consuming, multi-stage process



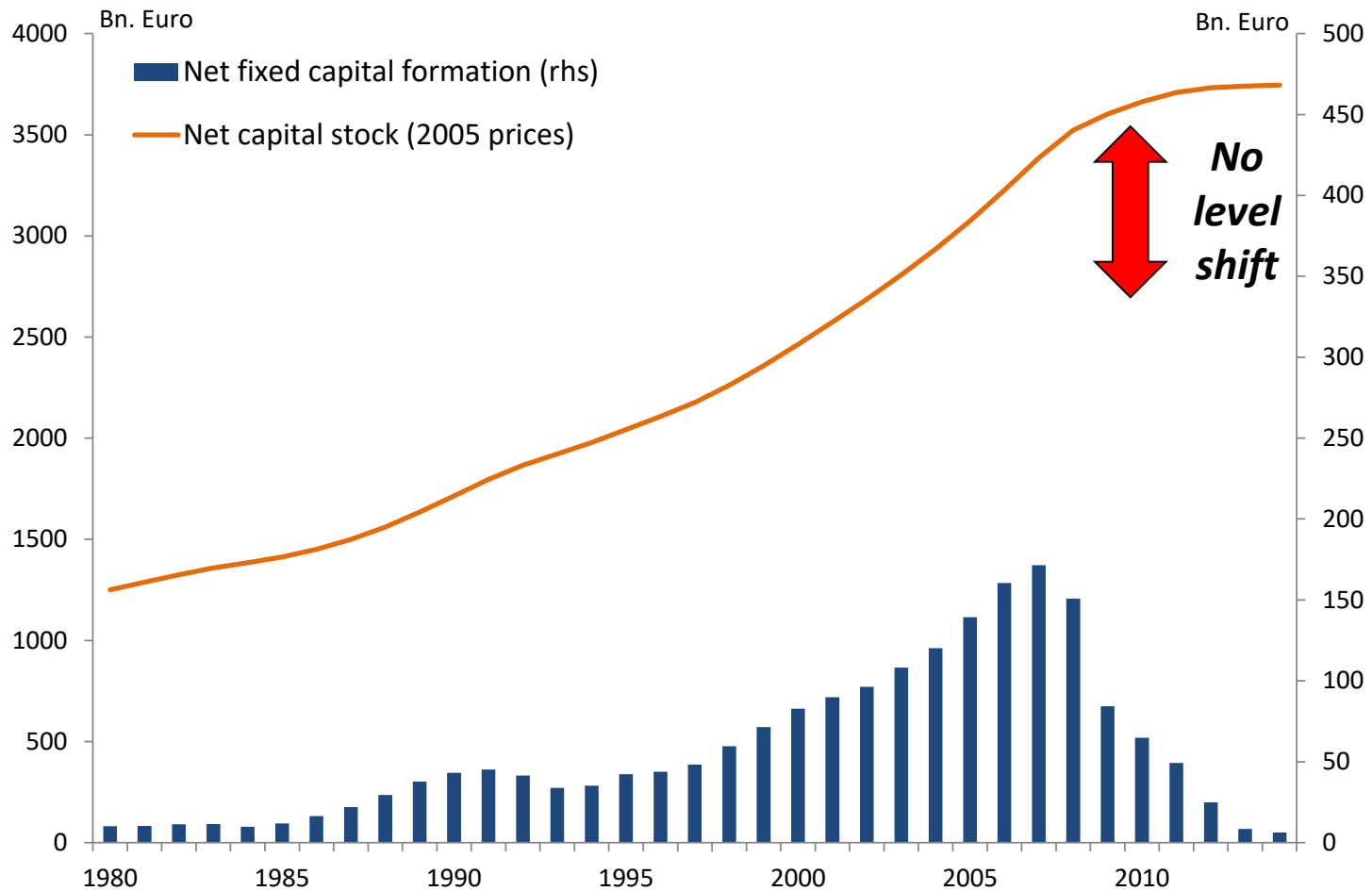
⇒ **Capital formation: intertemporal intermediate consumption**

- Capital as intentionally produced productive means ...
 - » ... not a disembodied abstraction or homogenous aggregate
 - » ... nor a self-perpetuating (“Knightian”) fund

 - Structure of heterogeneous goods
 - » Limited convertibility and recombination losses
 - » Capital as a structural pattern (Lachmann)

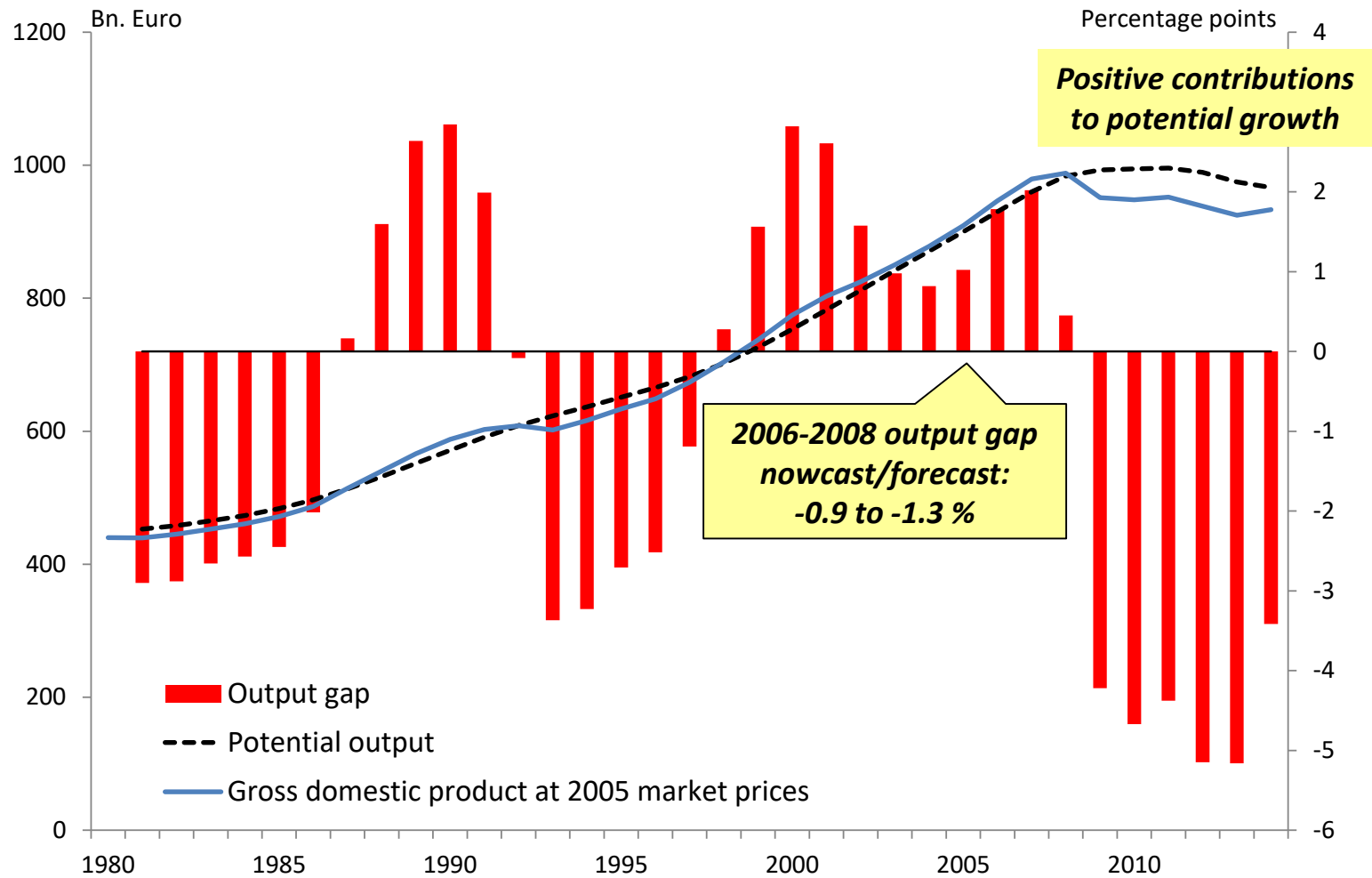
 - Value dimension:
 - » Ability to allow individuals to more readily realize their plans rather than physical characteristics or physical history
 - » “Unfinished entrepreneurial plans” (Kirzner): Capital goods to be assessed in light of their usefulness to those plans
- ⇒ **Missing link between micro and macro level (Skousen)**

Value of the Spanish capital stock?



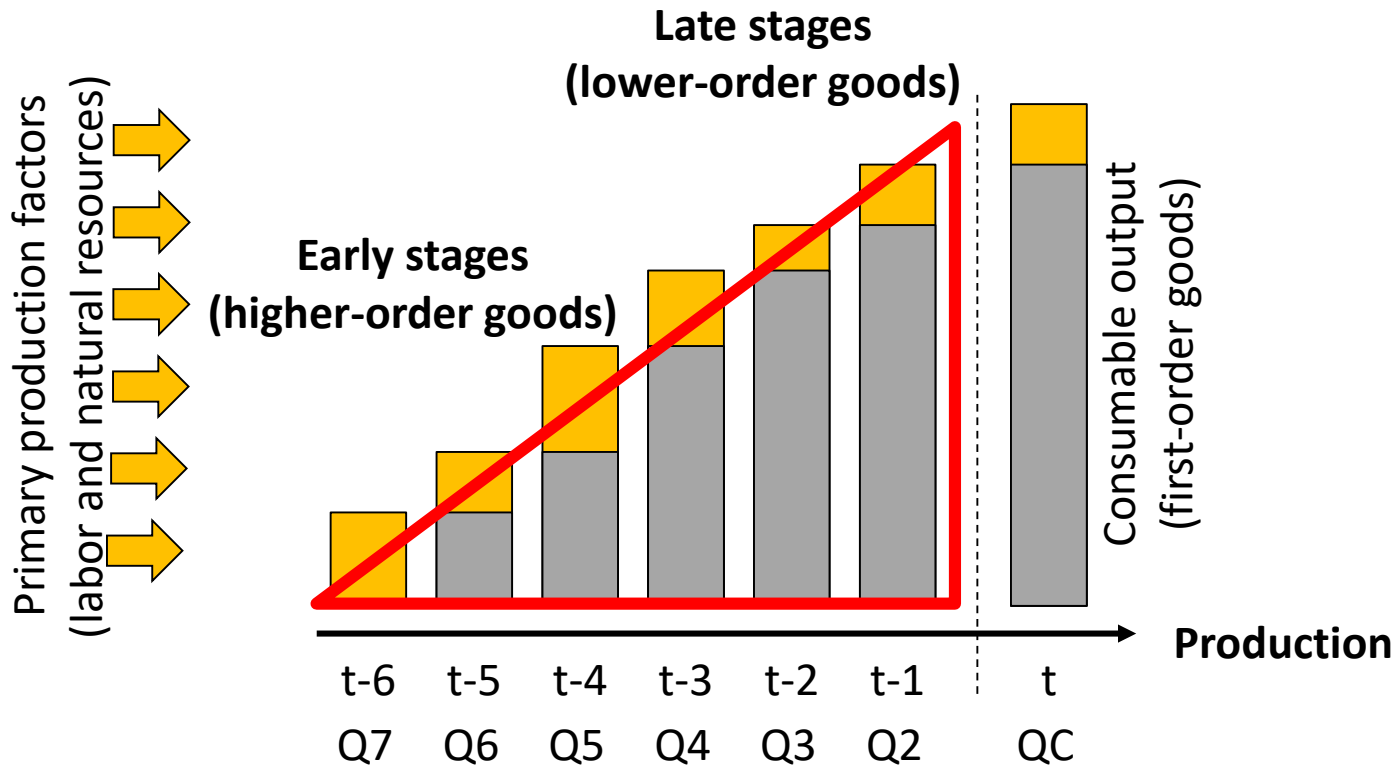
Source: AMECO Database.

Spain: Invisible “ghost estates”



Source: European Commission, AMECO and CIRCA databases.

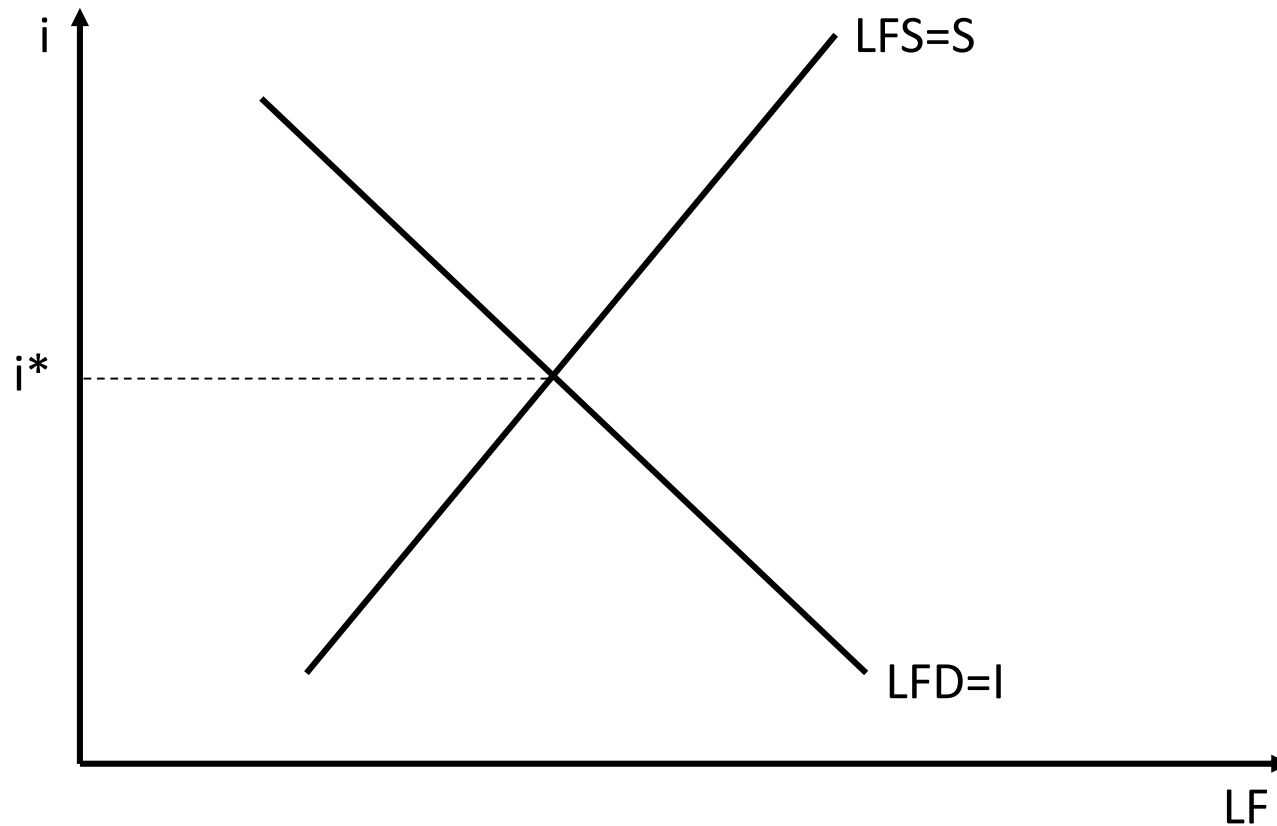
Production: The Hayekian triangle



⇒ Number of production stages/shape of the Hayekian triangle?

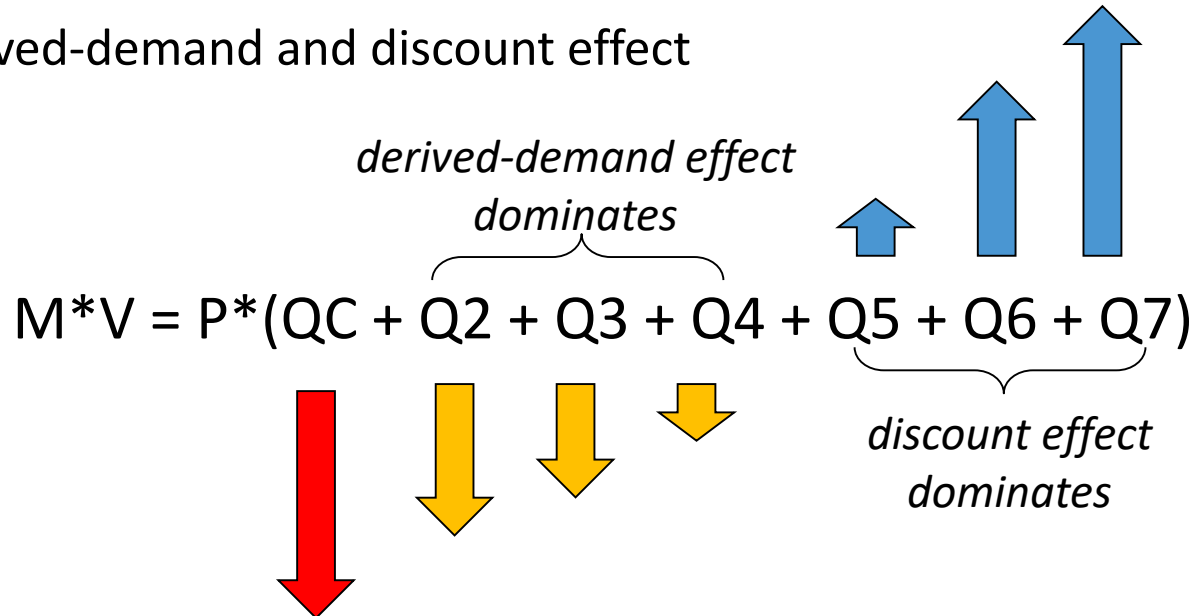
- Interest as a value phenomenon
 - » Expression of time preference
 - » Price of future goods relative to present goods
 - » Discount rate interwoven in the entire price system
 - Capitalization theory (Fetter): Interest vs. price of capital
 - » Productivity of capital reflects in price of capital goods
 - » Valuation of reproducible capital pushed backward to primary factors
 - » Price of capital = present value of future income streams
 - Interest and “roundaboutness of production”
 - » Capital-intensity increases productivity of labor
 - » Choice of more roundabout production schemes depends on time preference
- ⇒ **Pure time preference = market rate of interest?**

Interest rate and market for loanable funds



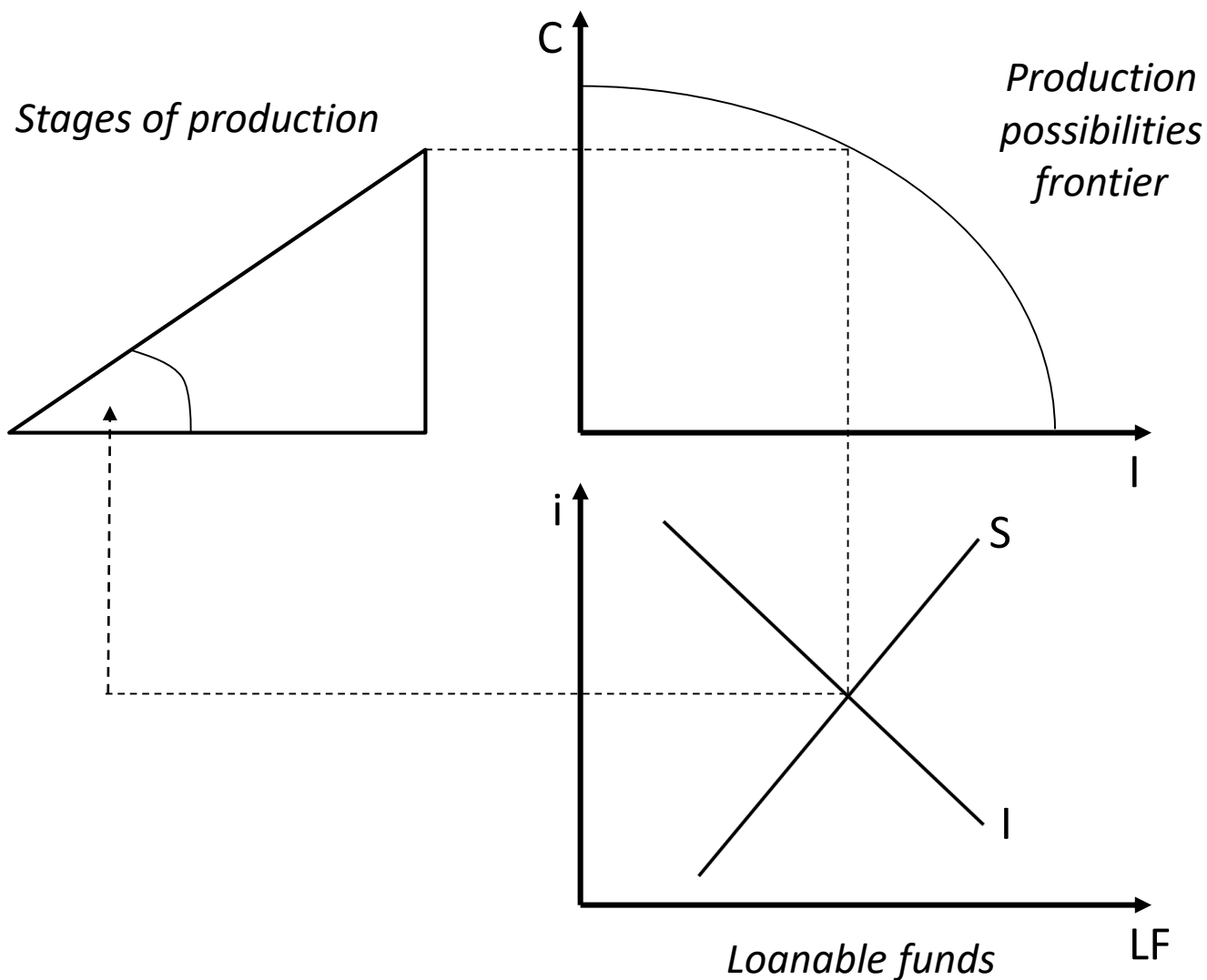
- Saving

- » Saving up for something: Future demand, not a leakage
- » Derived-demand and discount effect

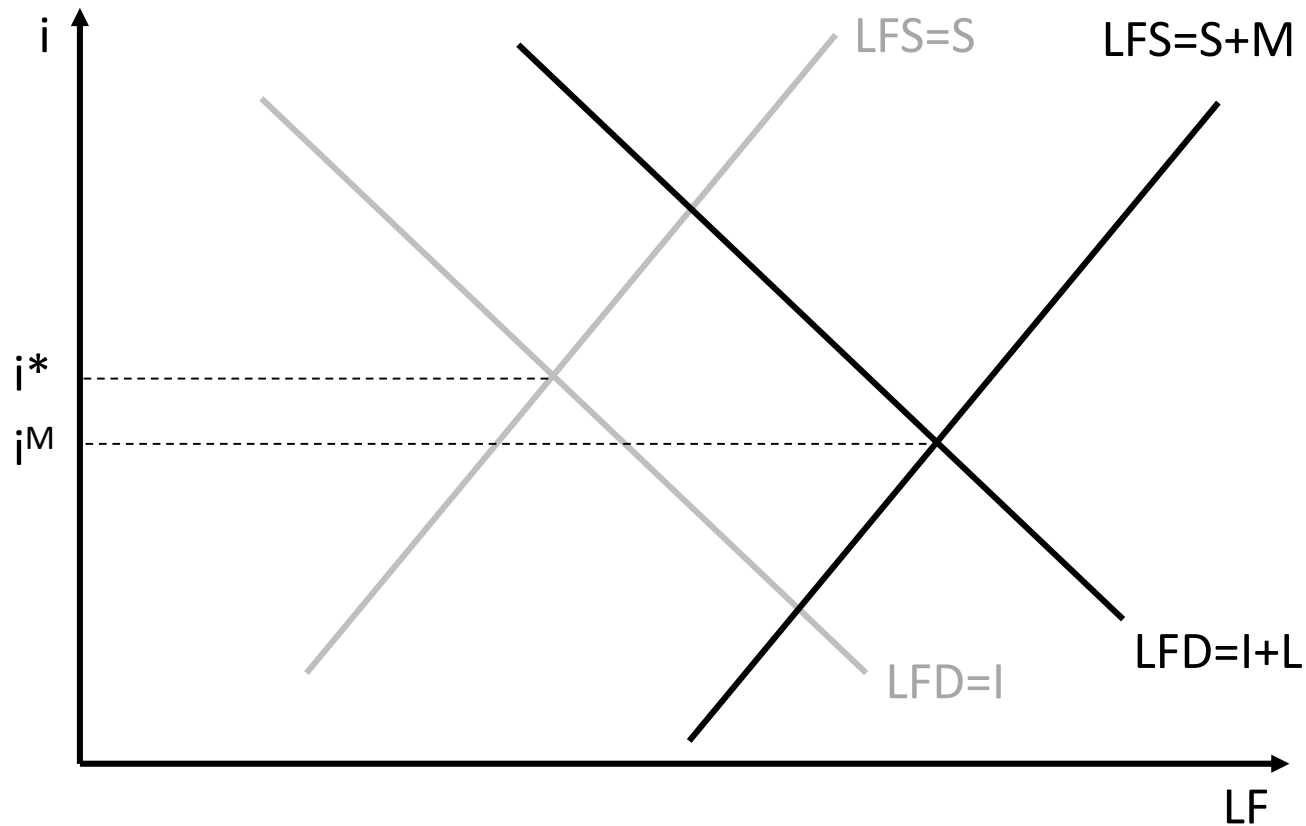


- Investment: Stage pattern matters (not volume alone)
- ⇒ Entrepreneurial challenge: bringing capital structure in line with pure time preference (intertemporal arbitrage)

Capital-based macroeconomic framework (Garrison)



Interest rate and monetary policy



- Multi-purpose weapon of “modern” economic policy
 - Generic target: Provision of a means of exchange
 - Other targets
 - » Government financing
 - » Debt-monetization
 - » Boosting employment
 - » Business-cycle stabilization
 - » Systemic financial stability
 - » ...
 - Monetary policy
 - » Today: Key price of capitalist system manipulated by central banks
 - » Back to simple money supply rules?
- What about Tinbergen?

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- Risks of macroeconomic misperceptions
 - » Aggregating/averaging the problems away (e.g. aggregate production function approach)
 - » Losing touch with microeconomic principles (e.g. key role of price mechanism)
 - » Over-interpreting national accounts concepts (e.g. identities tell nothing about causality or interdependency)
 - » Ignoring production structures (netting out intermediate consumption)

- Language (terminology) and reasoning (theory)
 - » Words can be misleading
 - » Wording matters

- Potential production/output gap estimations
 - » Disaggregated approaches (marketable production possibilities)
 - » Market revaluations compared to national accounting data
 - » Marketability in the absence of interventionism

- Capital stock distortions as flipside of financial crisis
 - » Repairing intertemporal discoordination problems
 - » New light on “austerity” debate
 - » Industry structure according to remoteness from final consumption (input-output-analysis as a matching problem)

- Non-neutrality of money/monetary policy
 - » Monetary theory of the business cycle (systematic investment failures due to excessive credit creation)
 - » “Capital gives money time to cause trouble” (Garrison)
 - » Scenario of globalizing monetary policy (multilateral swap agreements)
 - » Money: What money?

- International macroeconomic imbalances
 - » Current account vs. financial account (capital vs. trade flows)

- Global macroeconomic imbalances: The savings glut debate
 - » Negative natural interest rates ahead?
 - » Need for more public debt to fill the global “investment gap”?
 - » Approximation of natural rate of interest?

- Global business cycle and regional/national impact
 - » Top/down view:
Economic activity within countries derived from global dynamics
 - » National specialization and impact of capital restructuring

- Key research and policy question:
Evidence for hampered market coordination processes?
 - » Coordination efficiency vs. macroeconomic management
 - » Important role of intertemporal coordination (capital and interest)
 - » Path-dependency of economic activity via capital allocation

- Beyond the demand-side vs. supply-side controversy
 - » Coordinationist macroeconomics is not a cheerleader for growth
 - » Intermediary step to linking macroeconomics and well-being
 - Overcoming the production-biased view
(production serves consumption, not vice versa)
 - Putting consumers/households back in the center
 - Value theory remains key pillar
(whether preferences are exogenous or endogenous)

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