

Modern Neo-Austrian School: Problems of Institutions and Development Economics

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Abstract: The main trends of the modern liberal direction of an economic science are systematized. The neo-Austrian school of economic liberalism is actualized. The institutional approach of the neo-Austrian school is analyzed. The basic methodological approaches to reforming the modern development economics are defined.

Key wards: liberalism, neo-Austrian school, institutions, development economics, evolutionary approach.

Over the past decades in the context of a modern economic science wide popularity is occupied with ideas of the neoliberal trend and, in particular, the concept of a New Institutional Economy which, as a whole, organically supplements this neo-liberal direction. However, the modern Austrian School also pays much attention to studying of a role of institutions in society evolution and constitutes a serious competition in this direction.

It is generally accepted that the public institutes are divided into two large groups:

1. Exogenous — that “designed and established from above”;

2. Endogenous — “include local norms, customs and practices which have developed as informal in time in specific conditions” [1, P. 335].

For example, in the given context pointing out such important socioeconomic institution as a *money* it should be noted that before the emergence of the Central Banks when creation of money had not been monopolized by the state they concerned to endogenous institutes. After the passage of time, in the XVII-XVIII century — respectively, to exogenous. Although, representatives of the Keynesian direction initially treat money as a rational social convention which chronologically precedes the emergence of the state and the market — the so-called “‘chartalist’ theory of money” [2, P. 4], [3, P. 24].

The set of institutes which promote economic development is at the moment stated accurately enough: the property rights, the rule of law, easy state regulation, a freedom of trade etc. All of them are included in the global economic freedom rating of the Fraser Institute (Canada). “The Austrians” emphasize the special importance of the two institutions: clearly defined property rights and the rule of law [4, P. 81].

To a large extent the economic competitiveness of a country depends on the effective functioning of its institutions. According to F. Hayek, the most effective public institutions arise spontaneously: “The basic tools of civilization language, morals, law and money – are all the result of spontaneous growth and not of design,...” [5, P. 163].

The endogenous origin of these institutes indicates in their desirability from the point of view of indigenous people. They are informal in the sense that they are not imposed from above or from the outside and flexibly reflect the change in preferences to whom serve. The survivability of these institutes indicates that they are more attractive in comparison with exogenous. Using the biological terminology it is possible to speak about excellent getting accustomed of endogenous institutions in the body of a social organism.

According to F. Fukuyama, “the set of informal values and norms that are shared by the members of the group and which make possible the cooperation within this group” is nothing more than the social capital of a society [6, C. 30]. Earlier A. Smith specified on a deep rootedness of the economic life of society in the socio-cultural. This is the reason for A. Smith’s sympathy for the landowners and farmers in opposition to the manufacturers and especially to the corn-merchants who according to the scientist are subject to the “wretched spirit of monopoly” [7, P. 368]. Though, according to the opinion of the well-known representative of the neo-Austrian school of M. Rothbart it is A. Smith who is the ancestor of the utilitarian trend of economic liberalism and substantially the harbinger of K. Marx [8, P. 435]. By the way, in a short time landowners as an absolutely parasitic social class appear in the works of the most famous follower of the Scottish scientist D. Ricardo and, most importantly, he completely crystallizes a very abstract monistic formulation of the labor theory of value as well as the utilitarian-positivist concept of the “economic man”. The last two theses in an advanced form will completely enter into Marxism.

So, on the basis of the above mentioned division of institutions into *endogenous* and *exogenous*, it is possible to draw the following conclusions regarding a new development economics. Firstly, successful institutional changes in a promptly developing world should have a backbone in the form of endogenous institutions, evolutionarily generated by the society. Secondly, if the proposed changes cannot be linked to endogenous institutions, then it is best to refrain from such changes. However, not everyone endogenously created institute is effective under all conditions and promotes to economic development. In particular, the property rights that are unreasonably extended to the intellectual products to some extent violate the right to the tangible property.

Taking care of the systemic increasing of the national competitiveness it is necessary to start with a position of relevant institutional alternatives. It means that it is not necessary to compare the institutes of the underdeveloped country

to the institutes of developed market democracies. Responsible reformers should be guided not by an abstractly-ideal, but by a real acceptable alternative in the form of institutes which will get accustomed in a given society.

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