

# A Conceptual Review of the Austrian School of Economics as an Alternative to Keynesian Macroeconomics

Enrico Moch

Academic Director, Department of Economics, GrandEdu Research School, Germany,

Corresponding Author: Dr. Enrico Moch, E-mail: [Enrico.Moch@GrandEduResearchSchool.de](mailto:Enrico.Moch@GrandEduResearchSchool.de)

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## ABSTRACT

Macroeconomic research in advanced economies is still largely shaped by Keynesian and neo-Keynesian traditions. These frameworks work primarily with aggregates and assume that fiscal and monetary policy can stabilise the economy. The financial and banking crisis of 2007–2009 exposed persistent weaknesses in this view, especially in its explanations of instability and in its confidence in policy control. This paper revisits the Austrian School of Economics as a coherent alternative grounded in a distinct epistemology. Using a conceptual method, it reconstructs the Austrian action-theoretic tradition, beginning with praxeology as a theory of purposeful behaviour and deriving from it methodological individualism and subjective value theory. It then develops the Austrian account of decentralised knowledge, markets as discovery processes, and spontaneous order, with particular emphasis on capital theory and Austrian business cycle theory. From this perspective, economic crises emerge not primarily from fluctuations in aggregate demand but from intertemporal miscoordination within time-structured production processes, often amplified by monetary intervention. The paper argues that the most valuable contribution of the Austrian School is not short-term forecasting but its ability to

explain the structural origins of macroeconomic instability and to clarify the institutional conditions under which coordination can be sustained. In doing so, it supports pluralism in macroeconomic theory and advances research in regulatory economics.

**Keywords:** Austrian School of Economics, Keynesian Macroeconomics, Praxeology, Methodological Individualism, Subjective Value Theory, Decentralised Knowledge, Capital Theory, Business Cycle Theory, Spontaneous Order, Economic Order Theory

## INTRODUCTION

For decades, Keynesian and neo-Keynesian approaches have shaped macroeconomic theory and policy practice in modern economies (Keynes, 1936). They support an activist stabilisation agenda in which aggregate demand, employment, and output are treated as policy targets. Fluctuations are therefore read primarily as demand failures and met with fiscal expansion or monetary easing. This logic is not only influential in academic economics but also embedded in institutions that shape economic policy advice (Caldwell, 2005). A significant consolidation of this macroeconomic control logic has been observed since the global financial and banking crisis of 2007 to 2009 (Caldwell, 2005). Starting in the US real estate and financial sectors, a global

recession developed, to which numerous countries and central banks responded with extensive stabilisation measures (Caldwell, 2005). These included expansionary fiscal programmes, permanently low key interest rates and unconventional monetary policy instruments such as large-volume securities purchases (Keynes, 1936; Caldwell, 2005). These measures were predominantly justified using Keynesian arguments and continue to shape the macroeconomic policy of many countries to this day (Keynes, 1936; Caldwell, 2005). Despite their short-term stabilising effects, these measures have renewed fundamental theoretical debates. In particular, doubts have been raised about whether aggregate macroeconomic models can adequately capture the coordination problems of highly complex, modern economies. Assumptions concerning available knowledge, the degree of economic controllability, and the temporal structure of production and investment have come under increasing scrutiny (Hayek, 1937; 1945). As a result, interest has grown in alternative theoretical approaches to explaining economic instability (Hayek, 1973). One such alternative is the Austrian School of Economics (Menger, 1871/2007; Mises, 1949/1998). It pursues an action- and order-theoretical approach that consistently explains economic phenomena from the meaningful actions of individual actors under conditions of scarcity and uncertainty (Mises, 1949/1998). Instead of aggregated control variables, it places subjective assessments, decentralised knowledge and the intertemporal structure of production at the centre of its analysis (Hayek, 1945; Lachmann, 1956; Skousen, 1990). Economic order is understood not as the result of central planning, but as the result of decentralised coordination processes (Hayek, 1973). Although the Austrian School has an extensive theoretical tradition, it has only a limited presence in the current macroeconomic mainstream (Caldwell, 2005). Existing contributions often focus on historical accounts of ideas or on normative economic policy debates (Caldwell, 2005).

Less common are systematic, conceptually oriented works that explicitly reconstruct and comparatively classify the Austrian approach as an epistemological alternative to Keynesian macroeconomics (Caldwell, 2005). This is precisely where there is a gap in research that is particularly relevant for interdisciplinary journals. This paper closes this gap by conducting a conceptual and narrative review of the central theoretical elements of the Austrian School (Hayek, 1967; Mises, 1949/1998). The aim is to systematically present its action-theoretical, knowledge-economic and capital-theoretical foundations and to subject this approach to a comparative classification with Keynesian macroeconomics (Hayek, 1937; Hayek, 1945; Lachmann, 1956). The paper does not claim to be empirical, but pursues a theoretical interest in knowledge. It aims to reveal different epistemological premises and analyse their consequences for explaining economic instability (Hayek, 1937; Hayek, 1945). In this form, the article is intended as a conceptual basis that contributes to the theoretical reflection of macroeconomic control logics and strengthens the connectivity of alternative economic traditions of thought in current scientific discourse (Hayek, 1973; Caldwell, 2005).

## **MATERIALS AND METHODS**

This paper follows a conceptual and narrative review design (Döring & Bortz, 2016). The aim of this approach is not to collect new empirical data or test statistical correlations, but rather to systematically reconstruct existing theoretical positions, analyse them comparatively, and place them in a coherent argumentative context (Hayek, 1967; Caldwell, 2005). The methodological focus is on the analytical penetration of theoretical concepts and their epistemological prerequisites (Hayek, 1937). The material basis consists of selected classic and modern key works of the Austrian School of Economics as well as fundamental contributions to Keynesian and neo-Keynesian macroeconomics (Menger,

1871/2007; Mises, 1949/1998; Keynes, 1936). The literature was selected based on theory and with a specific purpose in mind. Works that are formative for the respective traditions of thought and explicitly address central assumptions about action, knowledge, capital, time, and economic coordination were taken into account (Hayek, 1937; Hayek, 1945; Lachmann, 1956). A systematic database search in the sense of a systematic review was not attempted, as the value of the findings lies not in the completeness of the literature review, but in the conceptual reconstruction of lines of argumentation (Caldwell, 2005). Methodologically, the analysis is based on three interrelated steps. First, a conceptual and epistemological reconstruction of the central concepts of the Austrian School is carried out, in particular praxeology, methodological individualism, subjective value theory, knowledge economics, and capital theory (Mises, 1949/1998; Menger, 1871/2007; Lachmann, 1956). Second, these concepts are systematically contrasted with the fundamental assumptions of Keynesian macroeconomics, with a focus on aggregation logic, control assumptions, and crisis interpretations (Keynes, 1936; Caldwell, 2005). Thirdly, the resulting differences are analytically condensed and discussed in terms of their explanatory power for economic instability and coordination problems (Hayek, 1937; Hayek, 1945). The method is explicitly qualitative and theory-driven. It deliberately avoids formal modelling and quantitative operationalisation, as these approaches are insufficient to capture key aspects of the subject matter, in particular uncertainty, decentralised knowledge, and intertemporal coordination (Mayring & Fenzl, 2022). Instead, a logical-argumentative approach is chosen, which makes theoretical relationships visible in terms of their internal consistency and implicit assumptions (Flick, 2007). The paper is conceptual in scope: it does not use primary empirical data and conducts no statistical analysis. Discussion of economic processes functions as an

illustration, not as an empirical validation. Its contribution lies in conceptual clarification and epistemological transparency rather than in claims of empirical generalisability (Hayek, 1967). The methodological contribution to the paper is that, as a conceptual review, the paper presents a systematic comparison of two schools of thought about macroeconomics, which are normally discussed as disjointed (Caldwell, 2005). It demonstrates the existence of their most important theoretical differences that result in very different perspectives on stability and instability (Hayek, 1973; Caldwell, 2005).

### **THEORETICAL BACKGROUND**

The analysis is structured based on two schools of thought whose differences are not merely limited to policy, but also epistemological assumptions and methods (Hayek, 1937; Caldwell, 2005). On the one hand, there is Keynesian macroeconomics that has long been the staple of reference in economic policy analysis and control (Keynes, 1936). The Austrian School of Economics, on the contrary, is action- and order-theoretic in its approach and derives macroeconomic phenomena continuously on the basis of individual choices and the decentralised coordination processes (Mises, 1949/1998; Hayek, 1945). In the Keynesian tradition, instability is explained largely through movements in aggregate demand. Output, employment, and growth are analysed through aggregates that function both as explanatory variables and as policy targets. Where short-run unemployment is attributed to rigidities, coordination problems, and uncertainty, stabilisation policy appears as a necessary and routine policy response (Keynes, 1936; Caldwell, 2005). This aggregative orientation carries specific epistemological commitments. It presumes that the relevant information about “the economy” can be captured in summary indicators and that these indicators can guide policy in a meaningful way (Hayek, 1937; Keynes, 1936). Heterogeneous expectations, diverse planning horizons, and dispersed

knowledge are condensed into average values to make the system legible and actionable. Yet this move is precisely what Austrian authors question: complex orders are only partly intelligible, and individual action is largely guided by rules and local knowledge rather than by complete information (Hayek, 1945; Hayek, 1967a). The Austrian School therefore starts elsewhere. It explains economic phenomena as the outcome of purposeful action under scarcity and uncertainty, not as the mechanical interaction of aggregates (Mises, 1949/1998). Macroeconomic regularities are treated as derivative: they emerge from micro-level interaction and from the institutional conditions under which coordination takes place (Menger, 1871/2007). This perspective implies a fundamental scepticism towards aggregate control approaches (Hayek, 1945). One of the most remarkable distinguishing aspects relates to knowledge management. Whereas the Keynesian models explicitly presuppose that the appropriate information is potentially aggregated (Hayek, 1937), the Austrian tradition focuses on the fragmented, decentralised and tacit character of economically relevant knowledge (Hayek, 1945). Knowledge is context-dependent and it can not be aggregated in the middle (Hayek, 1945). The implications of this assumption on the concept of economic coordination and the evaluation of the feasibility of state intervention are far-reaching (Hayek, 1973). The two strategies also differ greatly in time and economic dynamics. In most models based on Keynesian time is considered as a series of short periods of adjustments and the internal time structure of production processes is important only to a small extent (Keynes, 1936). The Austrian School, however, emphasizes on the intertemporality of economic decisions (Lachmann, 1956; Skousen, 1990). The investments are perceived as staggered processes, whose viability will be determined by the coordination of consumption tastes, savings and production forms (Lachmann, 1956).

The theoretical context of the present paper, in turn, indicates that the contrast between the Keynesian macroeconomics and the Austrian School cannot be narrowed down to specific policy implications. Rather, they are alternative epistemological theories of describing economic order, instability and coordination (Hayek, 1937; Hayek, 1945). These underlying differences become the starting point of the subsequent chapters where the theoretical ideas of the Austrian School are brought into coherent and systematic development and then categorised in comparison (Hayek, 1967; Caldwell, 2005; Hayek, 1967b).

## **PRAXEOLOGY AND ACTION THEORY**

Praxeology is central to the Austrian School's methodology and distinguishes it sharply from Keynesian macroeconomics (Mises, 1949/1998). Economic phenomena are explained by reference to purposeful human action and the structure of individual decision-making. The starting point for this approach is the assumption that individuals act to reduce subjectively perceived dissatisfaction by using scarce resources to achieve self-set goals (Mises, 1949/1998). Action is understood as a conscious choice between alternatives under conditions of scarcity and uncertainty (Mises, 1949/1998). A defining feature of praxeological action theory is the subjective nature of goals, evaluations and expectations. Individuals differ in their preferences, knowledge, and expectations about the future (Menger, 1871/2007; Mises, 1949/1998). In the Austrian tradition this subjectivity is not treated as noise that distorts analysis; it is the starting point for explaining economic order (Menger, 1871/2007). The motives and plans of the participants involved can be traced back to understand exchange, price formation and investment decisions (Menger, 1871/2007; Mises, 1949/1998). Praxeology is a deductive method because it develops its claims from the general structure of human action rather than from inductive generalisations based on empirical

observation (Mises, 1949/1998). Empirical material thus serves primarily to clarify historical developments and to provide illustration, not to test or falsify the fundamental categories of action (Mises, 1949/1998). This stance places praxeology at odds with positivist approaches that treat statistical regularities as the basis of economic “laws” (Hayek, 1937). A further implication is its emphasis on time and uncertainty: action is directed toward an unknown future and rests on expectations that may later prove mistaken (Mises, 1949/1998; Hayek, 1937). Economic processes are therefore conceived as dynamic and continuously adjusting, while equilibrium states have no independent explanatory status and function at most as analytical reference points (Hayek, 1945; Hayek, 1937). From a praxeological perspective, methodological individualism follows directly. Social and economic phenomena are interpreted as the result of individual actions and not understood as characteristics of autonomous collective entities (Mises, 1949/1998). Markets, institutions and economies do not have their own power to act, but arise from the interaction of individual actors (Hayek, 1945). This view does not exclude institutional influences on individual action, but requires that such structures themselves remain open to explanation (Hayek, 1973). Compared to Keynesian macroeconomics, praxeological action theory represents a fundamentally different theoretical approach. While Keynesian models often work with representative aggregates and simplified behavioural assumptions (Keynes, 1936), praxeology demands that macroeconomic phenomena be consistently linked back to individual action (Mises, 1949/1998). From this perspective, economic instability is not interpreted as an aggregate demand problem, but as the result of coordination processes between individual plans over time (Hayek, 1937; Lachmann, 1956). Praxeology is of great importance to this paper, as it provides the analytical framework for further theoretical elaboration

(Mises, 1949/1998). This approach enables the analysis of economic processes without resorting to aggregate shortcuts and prepares the systematic presentation of methodological individualism, subjective value theory, and knowledge economics (Menger, 1871/2007; Hayek, 1945). This chapter thus lays the foundation for understanding the specific explanatory power of the Austrian School in the further course of this work (Hayek, 1967; Caldwell, 2005).

### **METHODOLOGICAL INDIVIDUALISM AND SUBJECTIVE VALUE THEORY**

Methodological individualism is central to Austrian economics and follows from its action-theoretic starting point (Mises, 1949/1998). Economic and social phenomena are explained through the actions of individuals rather than through collective entities treated as agents in their own right (Menger, 1871/2007; Mises, 1949/1998). Markets, institutions, and even “the economy” are understood as outcomes of interaction among individuals acting within given institutional conditions (Hayek, 1945). This does not imply psychological reductionism: the focus is not on reconstructing mental states but on the logical structure of purposive action (Mises, 1949/1998). Action is treated as goal-oriented choice under scarcity, guided by subjective assessments and expectations. This leads to the Austrian claim that economic calculation depends on market prices, since without price signals alternative courses of action cannot be weighed against one another in a coherent way (Mises, 1920/2012). Social order, in turn, depends on the extent to which individual plans are coordinated or miscoordinated through market processes and institutional rules (Hayek, 1945; Hayek, 1973). Subjective value theory follows directly from this individualist foundation and represents a break with objectivist accounts of value (Menger, 1871/2007). The Austrian School assumes that economic value does not lie in

goods themselves, but arises exclusively from the subjective evaluation of acting individuals (Menger, 1871/2007). Goods do not derive their economic value from their physical properties, but from their ability to satisfy subjectively perceived needs (Menger, 1871/2007). The subjective theory of value implies that prices cannot be interpreted as objective measures. Prices result from exchange processes in which different individual valuations come together (Menger, 1871/2007). They reflect relative scarcities, but always mediated by subjective expectations and situational information (Hayek, 1945). Prices thus fulfil a coordination function by coordinating individual actions without explicitly revealing the underlying valuation processes (Hayek, 1945). Subjective value theory has far-reaching implications for understanding economic allocation. Since valuations are individual, context-dependent, and changeable, no central authority can know which goods should be used in what form (Hayek, 1945). From this perspective, attempts to control economic allocation based on aggregate utility functions or macroeconomic welfare measures encounter epistemic limits (Hayek, 1937). Economic order does not arise from the optimisation of an overall goal, but from the continuous adjustment of individual plans (Hayek, 1973). In conjunction with methodological individualism, subjective value theory also explains economic misallocations. Misallocations do not necessarily arise from irrational behaviour, but from distorted price signals that systematically mislead individual decisions (Hayek, 1945; Lachmann, 1956). Actions can be rational from an individual perspective and yet lead to macroeconomic coordination problems if the underlying information signals lose their orientation function (Hayek, 1937; Lachmann, 1956). Compared to Keynesian macroeconomics, this perspective marks a fundamental theoretical difference. Keynesian models operate with aggregate variables and implicit average actors (Keynes, 1936), while methodological

individualism demands a consistent link between macroeconomic phenomena and individual action (Mises, 1949/1998). Subjective value theory contradicts the assumption that economic processes can be controlled independently of individual assessments (Hayek, 1937). Methodological individualism and subjective value theory are important for this paper because they form the basis for understanding knowledge, market processes, and institutional order (Hayek, 1945; Hayek, 1973). They enable an analysis of economic coordination that does not rely on aggregative shortcuts and prepare the ground for a discussion of uncertainty, decentralised knowledge, and market processes, which are the focus of the following chapter (Hayek, 1937; Hayek, 1945).

### **KNOWLEDGE, UNCERTAINTY AND THE MARKET AS A DISCOVERY PROCESS**

One element of the Austrian School of Economics is its specific understanding of knowledge and uncertainty (Hayek, 1937; Hayek, 1945). The Austrian tradition, unlike macroeconomic approaches, assumes a decentralised and fragmented, and often tacit knowledge structure (Hayek, 1945). Economic players can only access some limited, situational information obtained through personal experiences, locality and subjective anticipations (Hayek, 1945). This knowledge cannot be well-represented and centrally documented, since perception and direction are in turn rule-oriented and the general order can be perceived to a certain degree only (Hayek, 1945; Hayek, 1967a). The assumption of knowledge results in a particular interpretation of uncertainty. Uncertainty is not seen as a measurable risk which can be dealt with probabilistically but as an inherent feature of economic activity (Hayek, 1937). Decisions are always associated with the open future whose conditions are not exhaustive (Mises, 1949/1998). They are, thus, bound to be provisionally expected and amenable to revision (Hayek, 1937). In this sense, the

stable equilibria do not define the economic processes, but instead time-changing adaptations to the new information (Hayek, 1945). It is against this backdrop that the Austrian School views the market not merely as an allocation mechanism of a given set of resources, but rather as a discovery process (Hayek, 1967). Markets use and co-ordinate fragmented knowledge without necessarily gathering it or making decisions at a central point (Hayek, 1945). The central role in this process belongs to prices, which summarize the information concerning the relative scarcities, preferences and opportunity costs (Hayek, 1945). They are the result of personal interactions and allow actors to change their plans in the light of the actions of others (Menger, 1871/2007). Entrepreneurial activity occupies a special position within this discovery process. Entrepreneurs respond to perceived discrepancies between existing production structures and expected demand (Kirzner, 1973). Through their decisions, they test assumptions about future market conditions (Kirzner, 1997). Profits and losses act as selection mechanisms that indicate whether these assumptions are compatible with consumer preferences (Kirzner, 1973). In this way, new knowledge is generated and disseminated in the market process (Hayek, 1945). In this context, competition is not understood as a static state, but as a dynamic process (Hayek, 1945). It enables the continuous review and correction of individual plans (Hayek, 1967). The efficiency of markets, therefore, lies not in achieving an idealised equilibrium, but in their ability to enable adjustments under conditions of incomplete knowledge (Hayek, 1937; Hayek, 1945). From this perspective, mistakes are not market failures, but a necessary part of the discovery process (Hayek, 1967). In comparison, Keynesian and neo-Keynesian models often operate under simplified assumptions about knowledge. Uncertainty is usually treated as calculable risk, while decentralised and implicit knowledge takes a back seat analytically (Keynes, 1936). Aggregate

variables replace individual information stocks, so the discovery function of markets is taken into account only to a limited extent (Hayek, 1937). Economic policy control thus appears to be possible in principle, even though the information required for this is not fully available (Hayek, 1945; Caldwell, 2005). The Austrian perspective makes it clear that central interventions in market processes are necessarily based on simplified assumptions about information (Hayek, 1945). If prices, especially interest rates, are systematically influenced, this can impair the market's information and coordination functions (Hayek, 1937; Hayek, 1945). The resulting maladjustments are not accidental side effects, but structural consequences of limited knowledge (Hayek, 1973). A prerequisite for this work is an understanding of the market as a discovery process. It forms the theoretical basis for the analysis of spontaneous order, institutional framework conditions, and economic dynamics (Hayek, 1973). The emphasis on knowledge and uncertainty explains why economic coordination cannot be planned but can be enabled, and prepares the ground for further discussion of institutional and order-theoretical aspects, which are the focus of the following chapter (Hayek, 1945; Hayek, 1973; Hayek, 1967c).

## **CAPITAL THEORY AND THE TIME STRUCTURE OF PRODUCTION**

The Austrian School of Economics' theory of capital is a central component of its theoretical approach and differs fundamentally from the capital theory concepts of neoclassical and Keynesian macroeconomics (Lachmann, 1956; Skousen, 1990). While capital is treated as a homogeneous, aggregatable factor of production in many macroeconomic models, Austrian theory understands capital as a heterogeneous and intertemporally structured order of production goods (Lachmann, 1956). These goods are functionally and temporally related to each other and form a production structure whose sustainability can only be assessed over time

(Lachmann, 1956; Skousen, 1990). The starting point for this perspective is the insight that production necessarily takes time and that economic decisions are always intertemporal (Mises, 1949/1998). Investments do not only affect the current use of resources, but also determine production paths whose results will only be realised in the future (Hayek, 1937; Lachmann, 1956). Capital is therefore not a static stock, but a dynamic structure of intermediate inputs, machinery, qualifications and organisational structures that must be coordinated with each other (Lachmann, 1956). Coordinating these elements requires expectations about future demand, technological developments and relative scarcities (Hayek, 1937). In Austrian theory, the interest rate coordinates production across time by linking present consumption with future output and signalling both time preference and real saving (Mises, 1949/1998). It is therefore treated as a price signal rather than merely a policy-controlled monetary instrument (Mises, 1949/1998; Hayek, 1937). Changes in the interest rate alter the attractiveness of different stages of production and can shift investment toward either shorter or more time-consuming processes (Hayek, 1937; Skousen, 1990). Since the time structure of production is closely tied to the structure of capital, longer production “detours” may increase productivity but require sufficient real savings to bridge the gap between resource use and consumption (Lachmann, 1956; Skousen, 1990; Mises, 1949/1998). If investment grows without an accompanying fall in consumption, an intertemporal inconsistency results and usually becomes apparent only gradually, as shortages, cost pressures, and corrective adjustments appear (Hayek, 1937; Lachmann, 1956). In contrast, many Keynesian and neoclassical models abstract from the internal structure of capital. Investments are treated as an aggregate variable whose volume is influenced by interest rates, expectations or government stimulus (Keynes, 1936). The timing of individual production stages remains analytically underexposed (Hayek, 1937).

This abstraction facilitates formal modelling and political application, but is accompanied by a loss of explanatory power for structural misalignments (Lachmann, 1956). Austrian capital theory makes it clear that economic stability does not depend solely on the level of investment, but on its structural fit with time preferences and real savings (Mises, 1949/1998; Hayek, 1937). Investments can be rational from an individual perspective and yet lead to macroeconomic coordination problems if they are based on distorted price signals (Hayek, 1937; Lachmann, 1956). This analysis is to be understood analytically and does not imply any normative evaluation of economic policy measures (Hayek, 1937). From an Austrian perspective, the limited formal operationalisability of capital structure is not a methodological deficit, but rather an expression of epistemic limits (Lachmann, 1956). Intertemporal coordination under uncertainty can only be represented to a limited extent in static models (Hayek, 1937). The theory therefore does not claim to provide a precise quantification of individual capital structures, but rather a conceptual explanation of their emergence, adaptation and possible undesirable developments (Lachmann, 1956; Skousen, 1990). Capital theory is also essential for this work, as it forms the basis for understanding economic dynamics and economic instability (Hayek, 1937; Mises, 1949/1998). The emphasis on the time structure of production links the analysis of investment with questions of knowledge, expectations and coordination (Hayek, 1937; Lachmann, 1956). This chapter thus prepares the ground for the discussion of Austrian business cycle theory, which is the focus of the following chapter (Hayek, 1937; Skousen, 1990).

### **AUSTRIAN BUSINESS CYCLE THEORY AND CRISIS INTERPRETATION**

Austrian business cycle theory represents a consistent application of the action, knowledge and capital theory principles of the Austrian School of Economics (Mises,

1949/1998; Hayek, 1937). It interprets economic fluctuations not as exogenous disturbances of a fundamentally stable economic system, but as potentially endogenous processes resulting from intertemporal miscoordination within the production structure (Hayek, 1937; Lachmann, 1956). The analysis focuses on the role of monetary influences on relative prices, in particular on the interest rate as a coordination signal between current consumption and future production (Mises, 1949/1998; Hayek, 1937). The starting point of Austrian business cycle theory is the insight that the interest rate fulfils a central information-conveying function (Mises, 1949/1998). It reflects the intertemporal preferences of economic actors and the scarcity of real savings (Mises, 1949/1998). In an undistorted market situation, the interest rate signals the extent to which resources can be used for longer-term production processes without consumption preferences and investment structures diverging (Hayek, 1937). If this signal is changed without a corresponding change in underlying time preferences or real savings, systematic distortions in economic decisions arise (Hayek, 1937). Austrian business cycle theory analyses expansionary monetary policy as a mechanism that can promote such distortions (Hayek, 1937; Mises, 1949/1998). A credit-induced expansion of the money supply can lead to an artificially lowered market interest rate without a corresponding increase in real savings (Hayek, 1937). This gives investors the impression that longer-term and capital-intensive production processes are viable (Hayek, 1937; Skousen, 1990). These investment decisions are rational from an individual perspective, as they are based on existing price and interest rate signals, but they lead to an inconsistent production structure at the macroeconomic level (Hayek, 1937; Lachmann, 1956). The resulting undesirable developments do not manifest themselves directly in aggregate indicators. Rather, structural imbalances build up within the staggered production processes

(Lachmann, 1956; Skousen, 1990). Certain investment projects appear profitable under distorted monetary conditions, even though they are not covered by real consumption sacrifices (Hayek, 1937). Austrian theory refers to these constellations as misinvestments, whereby this term is to be understood analytically and does not imply a normative evaluation of individual actions (Mises, 1949/1998). In this context, the economic upturn is not interpreted as a reliable indicator of sustainable growth, but as an expression of distorted coordination signals (Hayek, 1937). It is often characterised by rising investment, increasing employment in capital-intensive sectors and optimistic expectations (Skousen, 1990). At the same time, demand for consumer goods remains high, creating growing competition for real resources (Mises, 1949/1998). This competition reveals the intertemporal inconsistency of the production structure over time (Lachmann, 1956). The downturn occurs when monetary expansion can no longer be sustained or when shortages, cost increases and financing difficulties reveal existing misalignments (Hayek, 1937). Once these constraints assert themselves, it becomes evident that not all production projects can be completed concurrently (Lachmann, 1956). The results are interpreted as a necessary adjustment process in which misaligned investments are corrected and production structures are realigned, rather than as an exogenous market failure (Hayek, 1937; Mises, 1949/1998). Accordingly, crises are understood as endogenous manifestations of structural vulnerability rather than as deterministic repetitions of identical business cycles (Hayek, 1937). In contrast to the Keynesian interpretation of crises, the downturn is thus not primarily interpreted as a failure of demand that must be compensated for by additional stimulation (Keynes, 1936). From an Austrian perspective, a renewed expansion of aggregate demand does not address the underlying intertemporal coordination problems, but may delay their correction

(Hayek, 1937; Caldwell, 2005). This statement is to be understood analytically and does not imply any normative evaluation of economic policy measures (Hayek, 1937). Austrian business cycle theory is of great importance for this work, as it brings together the previously developed concepts of action, knowledge, capital structure and time in a coherent explanatory framework (Mises, 1949/1998; Hayek, 1937). It provides a consistent interpretation of economic crises as the result of distorted coordination signals and forms the basis for the subsequent comparative classification with regard to Keynesian macroeconomics (Hayek, 1937; Caldwell, 2005).

## **RESULTS**

The present analysis leads to several key theoretical findings that result from the systematic reconstruction and comparative classification of the Austrian School of Economics in relation to Keynesian macroeconomics (Hayek, 1937; Keynes, 1936). These findings are conceptual in nature and relate to fundamental epistemological, methodological and explanatory differences between the two approaches. One key finding concerns the different levels of explanation of macroeconomic phenomena. The analysis shows that the Austrian School consistently derives economic processes from individual action, while Keynesian approaches use aggregate variables as primary explanatory categories (Mises, 1949/1998; Keynes, 1936). This different level of explanation leads to divergent interpretations of economic instability. While economic fluctuations appear primarily as demand problems in Keynesian models, they are understood in the Austrian approach as the result of intertemporal miscoordination between individual plans (Hayek, 1937; Lachmann, 1956). The other important finding relates to the place of knowledge and uncertainty. The analysis brings it forth that the Austrian School supposes a decentralised, fragmented and not entirely expressible knowledge structure (Hayek,

1945). Here, markets serve a discovery purpose in that they co-ordinate the knowledge of individuals through the market price (Hayek, 1945; Hayek, 1967). Keynesian models however suggest that relevant information can be aggregated to a significant degree and economic processes thus controlled in principle (Keynes, 1936; Hayek, 1937). The consequences of these various assumptions concerning knowledge directly stem in the evaluation of the economic policy interventions (Hayek, 1945). Additional explanatory variations are based on the Austrian capital theory. Instead of being a homogeneous factor of production, capital is considered to be a heterogeneous and time-organized order of production goods (Lachmann, 1956; Skousen, 1990). It is on this foundation that instability is not more due to the random shocks but due to a distortion in intertemporal coordination signals especially the interest rate (Hayek, 1937; Mises, 1949/1998). The outcome is an account of crises structuralism, which cannot be broken down to demand short-term effects (Hayek, 1937). This perspective is carried into the Austrian interpretation of downturns. The concept of Austrian business cycle theory views crisis as endogenous adjustment processes whereby former misallocations are manifested and rectified (Hayek, 1937; Mises, 1949/1998). It is not really a market failure, but a dynamic process of coordination where unsustainable investments are sold off and production structures re-organized (Hayek, 1937). This is unlike the Keynesian crisis models in which the recession is mainly explained by the lack of aggregate demand (Keynes, 1936). The Austrian School provides a unified framework that integrates action theory, the problem of dispersed knowledge, the time structure of capital, and the concept of spontaneous order. Its contribution is not primarily predictive. Austrian economists have generally been sceptical of attempts to derive quantitative forecasts from the complexity of market processes. The framework is instead valuable because it

clarifies how coordination is achieved through prices and entrepreneurial adjustment, and why this coordination can fail. Mises (1949/1998) and Hayek (1937, 1967) developed this position in direct opposition to Keynesian macroeconomics. The disagreement concerns not only policy prescriptions but also competing assumptions about the nature of economic knowledge and the appropriate methods for explaining market dynamics. Whereas Keynes (1936) treated aggregate relationships as suitable for mathematical modelling and policy management, Hayek emphasised dispersed knowledge and complex causal structures that resist formalisation. These divergent epistemological commitments have direct implications for how each tradition interprets economic crises, providing the point of departure for the following chapter.

## **DISCUSSION**

Aim of this work was to analyse the Austrian School of Economics within the framework of a conceptual and narrative review and to highlight it as an epistemologically grounded alternative to Keynesian macroeconomics (cf. Hayek, 1937; Mises, 1949/1998). The investigation began from the observation that, despite their practical significance, dominant macroeconomic models face structural limitations in explanatory power, particularly with regard to knowledge, time and economic coordination (Hayek, 1937; Hayek, 1945). The findings suggest that these limitations arise less from inadequate modelling techniques than from underlying theoretical premises (Hayek, 1967). The reconstruction of the Austrian School's action-theoretical foundations shows that economic phenomena are traced back to the meaningful actions of individual actors under conditions of scarcity and uncertainty (Mises, 1949/1998). Methodological individualism and subjective value theory therefore appear not as isolated assumptions, but as constitutive elements of a coherent framework (Menger, 1871/2007; Mises, 1949/1998). In this perspective, prices,

investments and production decisions cannot be interpreted independently of individual assessments and expectations (Menger, 1871/2007; Hayek, 1945). With regard to knowledge, uncertainty and market processes, the Austrian perspective emphasises markets as discovery mechanisms that coordinate decentralised and often implicit knowledge (Hayek, 1945; Hayek, 1967). This provides a basis for the argument that economic order cannot be centrally planned, but can only be enabled through appropriate institutional framework conditions (Hayek, 1973; Vanberg, 2006). The result is a form of analytically justified scepticism towards comprehensive macroeconomic control approaches, without implying a normative rejection of policy measures as such (Hayek, 1937). Austrian capital theory follows the same logic, as does the business cycle theory derived from it. Because production unfolds over time and requires coordination across periods, investment decisions cannot be assessed solely in terms of their aggregate volume (Hayek, 1937; Lachmann, 1956; Skousen, 1990). From this perspective, economic instability reflects structural problems that arise when coordination signals, particularly interest rates, convey misleading information. Crises are therefore interpreted as endogenous adjustment processes within a production structure that has become misaligned, rather than as external shocks to an otherwise stable equilibrium (Hayek, 1937; Mises, 1949/1998). Comparing the Austrian approach with Keynesian macroeconomics reveals disagreements that go beyond the choice of policy instruments. Keynesian models aggregate individual behavior into macroeconomic relationships, treating these relationships as stable enough to analyze and manage through deliberate intervention (Keynes, 1936). Austrian economists question this entire procedure. They insist that knowledge limitations, coordination processes, and institutional arrangements are too important to be set aside, and that doing so sacrifices explanatory power (Hayek, 1945, 1973).

Because the two schools begin from such different analytical premises, they diagnose crises in fundamentally different ways and reach opposing conclusions about whether stabilisation policies can be effective (Hayek, 1937; Keynes, 1936). In summary, this paper shows that the Austrian School of Economics provides a coherent and analytically powerful framework for the study of economic order and instability (Mises, 1949/1998; Hayek, 1967). Its work lies less in short-term forecasting ability than in revealing structural relationships and epistemic limits of macroeconomic control (Hayek, 1967). The work thus provides theoretical added value for basic macroeconomic research and underlines the importance of theoretical plurality for understanding complex economic processes (Caldwell, 2005).

## CONCLUSION

This work analysed the Austrian School of Economics, within the framework of a conceptual and narrative review, as an epistemologically sound alternative to Keynesian macroeconomics (Hayek, 1937; Mises, 1949/1998). The investigation began from the observation that, despite their practical significance, prevailing macroeconomic models face structural limitations in explanatory power, particularly with regard to knowledge, time and economic coordination (Hayek, 1937; Hayek, 1945). The results suggest that these limitations arise less from inadequate modelling than from fundamental theoretical premises (Hayek, 1967b). The reconstruction of the Austrian School's action-theoretical foundations indicates that economic phenomena must be traced back to the meaningful actions of individual actors under conditions of scarcity and uncertainty (Mises, 1949/1998). Methodological individualism and subjective value theory therefore appear not as isolated assumptions, but as constitutive elements of a coherent theoretical framework (Menger, 1871/2007; Mises, 1949/1998). On this basis, prices, investments and production decisions cannot

be interpreted independently of individual assessments and expectations (Hayek, 1945). The discussion of knowledge, uncertainty and market processes further shows that, from an Austrian perspective, markets function as discovery processes through which decentralised and often implicit knowledge is coordinated (Hayek, 1945; Hayek, 1967). This implies that economic order cannot be centrally planned, but depends on suitable institutional framework conditions (Hayek, 1973; Hayek, 1967c). The outcome is an analytically grounded scepticism towards comprehensive macroeconomic control approaches, without deriving normative policy recommendations from this position (Hayek, 1937; Hayek, 1967a). A further contribution lies in the reconstruction of Austrian capital theory and the business cycle theory built upon it (Lachmann, 1956; Skousen, 1990). The emphasis on the time structure of production and intertemporal coordination supports a structural interpretation of economic instability that extends beyond short-term demand fluctuations (Hayek, 1937; Mises, 1949/1998). In this framework, economic crises appear as endogenous adjustment processes within a poorly coordinated production structure, rather than as isolated disturbances in an otherwise stable system (Hayek, 1937; Lachmann, 1956).

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## ABOUT AUTHOR



Enrico Moch studied business administration at the University of Wismar and subsequently completed a degree in business law at Saarland

University. Several years later, he completed a doctorate in economics on the topic of the influence of artificial intelligence on the world of work. His main job is as an administrative officer at the DLR Project Management Agency in the Society, Innovation and Technology division, where he is assigned to the AI Applications in Business department. In this role, he deals with the monitoring, evaluation and structuring of research and innovation projects in the context of digital technologies. Enrico Moch also works as a university lecturer at various institutions in Germany, including the Baden-Württemberg Cooperative State University Ravensburg. He also holds the position of Assistant Professor of Economics at the IICUT. He has been Academic Director of the Herford-based GrandEdu Research School for several years. His research focuses on AI governance, technical data protection and the institutional governance of digital platforms. In terms of content, his work focuses on regulatory frameworks, governance structures and the economic impact of artificial intelligence and data-driven systems. Enrico Moch regularly publishes scientific articles, is involved in interdisciplinary book projects and is active in academic peer review. He is also active in knowledge transfer between academia and practice and hosts the podcast "GrandEdu Research School - On the trail of the economy!".

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