Published on *Adam Smith Institute* (http://www.adamsmith.org)

Coming around to the Austrian view of investment and recessions [1]

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I don't think it's any surprise to anyone that Madsen and Eamonn, here at the ASI, are rather more Austrian in their view of the world than I am. This is partly just because they are but also because I'm not really sure that I believe in any school of macroeconomics at all. I can see that there are useful things pointed out by all of the different schools: quite happy to accept that the New Keynesians have a point about sticky prices and menu costs, the Marxists aren't entirely wrong to think that class can sometimes matter (which Englishman could reject that basic point?) and so on and on. But I'm also extremely doubtful that any of the various schools manages to capture the full complexity of the economy in the way that, say, the microeconomics of prices and incentives captures activity at that level.

However, this story certainly supports one prime contention of the Austrian story [3]:

> Spain's €1bn white elephant airport could be yours for just €100m The first private international airport in Spain that turned into one of the country's biggest white elephants is being sold off for just €100m.

A vast airport built where very few live, fewer go and apparently almost none wish to fly to. This is very much he Austrian story about recessions: the boom times allow monstrosties of this type to be financed and built. A misallocation of capital in fact. And once the system gets sufficiently clogged with such misallocations then recession is going to happen. Further, we'll not return to growth until these misallocations are liquidated and we're back to allocating our capital sensibly, not on these white elephants.

What turns people off this Austrian view is that it almost seems to glory in the bankruptcies which are a necessary part of cleaning up the messes of the previous misallocations. Which isn't quite what is being said: rather that this is a sad necessity which we've got to go through so we might as well recognise that. And as I say, this particular case shows that there's at least one solid truth in that Austrian view.

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