

REVIEW OF
*HERMENEUTICS OF CAPITAL.
A POST-AUSTRIAN THEORY
FOR A KALEIDIC WORLD*
BY CARMELO FERLITO
(NOVA SCIENCE PUBLISHERS,
N.Y. 2016, 106 PAGES)

BENIAMINO DI MARTINO*

Ludwig M. Lachmann (1906-1990) was a German economist who studied with Hayek at the London School of Economics during the 1930s. A professor of economics in South Africa, he became, with Israel Kirzner and Murray N. Rothbard, one of the protagonist of the Austrian revival during the period 1974-1976. He gave birth to the «radical subjectivist» stream of the Austrian school, characterized by the shift from preferences to expectations and by the introduction of hermeneutics in economics. On this last point Lachmann attracted a strong attack from Rothbard, who accused him of scientific nihilism.

Lachmann is well remembered for having applied his radical subjectivist view to capital theory; in doing so, he strongly criticized the traditional version of the so-called Austrian Capital Theory (ACT), the one elaborated by Böhm-Bawerk. His point is that such theory is still conditioned by Ricardian influences and therefore, in presenting an aggregative view of capital, is not fully consistent with Mengerian subjectivism.

Carmelo Ferlito's latest book presents a similar approach; while recognizing the validity of Lachmann's criticism to Böhm-Bawerk, Ferlito in turn «accuses» Lachmann for not being able of bringing his view to the extreme consequences when defining capital. According to Ferlito, Lachmann's definition of capital suffers the

* PhD. Director of *StoriaLibera. Rivista di scienze storiche e sociali* —www.StoriaLibera.it. Naples, Italy.

same limitation of the Böhm-Bawerk's one. Author's aim is to bring out a completely new definition for capital and capital goods, a definition which could be consistent with a radical subjectivist approach and with the Lachmannian idea of applying hermeneutics to economics; in this perspective book title roots can be found.

Ferlito not only looks at capital and capital goods from the individual perspective, but he also distinguishes different moment in times in order to properly define capital. In fact, he introduces the interesting distinction between potential and actual capital; taking into account *real* time as a fundamental dimension for economic analysis, capital goods, conceived as goods *thought* as suitable for achieving subjective ends defined by expectations, can lose their attitude of being considered as such over a period of time. Therefore, for Ferlito, when talking about capital it is crucial to distinguish between the moment at which goods are simply thought as suitable for achieving a certain end and the moment at which goods are actually combined together into production processes to achieve that end. His definition of capital and capital goods is then used to develop a new production function, which challenges the traditional neoclassical view and take into account time and expectations.

Ferlito succeeds to brilliantly link subjectivism, time dimension and capital into a new mix which, starting from the Austrian paradigm, is able to move beyond, toward a new and stimulating perspective. The same approach is used by the author when talking about business cycles; as done with the ACT, Ferlito uses the Austrian traditional approach as a starting point, in order to develop a new approach thanks to the radical adoption of the hermeneutical perspective. In particular, the author introduces the concept of *natural cycle*; according to Ferlito, who clarifies the different contributions by Mises and Hayek in developing the Austrian Business Cycle Theory (ABCT), economic fluctuations are inevitable. This point marks a strong difference with the Misesian approach, according to which monetary manipulation is the central factor in generating boom and bust cycles. The author, instead, step by step introduces different bricks coming from Hayek, Lachmann and Schumpeter, and their different accent on the concept of expectations; attributing a special role to expectations, Ferlito explains why a bust will always follow a boom. He distinguishes between

the typical Mises case, which he calls *monetary cycle*, and the *natural cycle*. According to Ferlito, in a monetary cycle most of the economic activities initiated during the boom has to be liquidated during the crisis due to the misallocation of resources; during the natural cycle, instead, only certain speculative initiatives will be liquidate. Therefore, what distinguishes sustainable and unsustainable boom is not the following insurgence of the crisis, but its duration and intensity.

I believe that Ferlito's book represents an important step for the development of the Austrian School of Economics; in fact, he presents original elements and allows Austrian theory to move on. The biggest risk for economists belonging to a school is to remain stuck to the Fathers' gospel; the author here, instead, demonstrates how the Austrian School can be a fertile starting point for further theoretical developments. Ferlito is not afraid to develop new ambitious paradigms for capital theory and business cycle theory, even if this implies to move partially against masters like Mises and Böhm-Bawerk. His attempt looks successful: his new capital theory, the distinction between potential capital and actual capital, the new production function and the concept of natural cycle deserve strong attention inside the scientific community and in particular inside the Austrian School.

As David L. Prychitko, one of the most brilliant pupils grown up under Lachmann's and Lavoie's influence, wrote in his foreword, this «book is, indeed, not your traditional Austrian analysis, and it sets the stage for a whole new level of debate».