Journal website : https://pse.razi.ac.ir

Razi University

Public Sector Economics Studies 11
Qurterly PSE
Department of Economics, Faculty of Economics and Accounting, Razi University
Vol. 4, Issue 11, Spring 2025 | Online ISSN: 2821-2681

Austrian School of Economics, Comparison and Study of the Labor Market in Iran

Gholami, M.[1] ‖ Jalaee esfandabadi, S. A.[2]

Type of Article: **Research**
10.22126/pse.2024.10782.1136
Received: 20 June 2024; Accepted: 25 November 2024
P.P: 91-112

Abstract

One of the important tasks that is defined for every government in all countries is to facilitate job creation conditions and improve employment and improve and upgrade the level and position of employment and work and wages. Carrying out any economic activity in the society requires the active presence of the labor force, and the unemployment of a part of the labor force means a reduction in production and moving away from full employment. In this research, the Austrian school of economics is first examined, and then, by examining the market literature and specifying the model, the time series analysis of the labor supply and demand function for the country is examined. To investigate the labor market in Iran, the Autoregressive Distributed Lag and also the annual data of the time period 1947-2019 have been used. In this research, while looking at the theories and approaches of the Austrian school of economics, the labor market is compared with the concepts, and the results of the analysis and comparison show that the labor market of Iran conforms to the basic concepts of the Austrian school of economics.

Keywords: Austrian School of Economics, Unemployment, Labor Supply, Labor Demand, Autoregressive Distributed Lag.

JEL Classification: J22, J23, N74, B41.

1. Ph.D Candidate of Economics, Faculty of Management and Economics, Shahid Bahonar University of Kerman, Kerman, Iran (Corresponding Author).
Email: m.gholami@aem.uk.ac.ir

2. Professor of Economics, Faculty of Management and Economics, Shahid Bahonar University of Kerman, Kerman, Iran.
Email: jalaee@uk.ac.ir

Citations: Gholami, M. & Jalaee esfandabadi, S. A. (2025). "Austrian School of Economics, Comparison and Study of the Labor Market in Iran". *Public Sector Economics Studies*, 4 (11), 91-112.
Homepage of this Article: https://pse.razi.ac.ir/article_3348.html?lang=en

1. Introduction

In examining the philosophical principles and foundations of any science, it is important to consider its "evolutionary-historical" course. Economics is no exception to this rule. By examining its evolutionary-historical process, a deeper understanding of its foundations, principles, and methods can be gained. The concepts of the Austrian School of Economics, with its individualistic approach and belief in the ability of individuals in society to play a role in the economy, can be a good starting point for critiquing the performance of the economy in closed, state-centered systems such as Iran and for trying to improve this situation. This research seeks to answer the question of how much the labor market structure in the Iranian economy is consistent with what has been proposed in the Austrian school of economics. This issue is important because if it is determined that the Austrian economic framework is compatible with the labor market in Iran, labor market strategies and those related to adjusting the unemployment rate will be better articulated and implemented.

2. Theoretical framework

Austrian school emphasizes the spontaneous order of the market, an order in which no one has complete knowledge of all the conditions on which to base economic action. The element of uncertainty or lack of complete information implies that economic agents are unaware of the impact of many events in their economic environment. Therefore, they are not sure about their success in the market. They focus only on the information they have. (High, 1998). The Austrian school does not deny the necessity of the state, but rather emphasizes the concept of the gradual evolution of the economic system. However, they essentially want the work and essence of the market to be examined and evaluated in an abstract manner and independently of the overall economic system. They do not deal with the historical process and the way the economic system is formed. The Austrian school focuses on markets, meaning that according to the Austrian school, the market mechanism causes the allocation of resources. In other words, the Austrian school emphasizes involuntary decision-making. (Miller, 1989).

3. Methodology

3.1. Labor supply

The model in question has been examined to examine labor supply in Iran between 1974–2019:

$$H_t=\alpha_t+\beta_1 W_t+\beta_2 M_t+\beta_3 Sch_t+\beta_4 K_t+\beta_5 DUM1_t+ u_t$$

H is the number of hours worked during the year, W is the wage rate, M is net earnings, Sch is the years of education as a variable affecting labor supply, K is the capital stock, DUM1 is a dummy variable to examine the effect of the war years on labor supply.

Public Sector Economics Studies 11 PSE Quarterly
Volume 4, Issue 11, Spring 2025

3.2. Labor demand

To examine labor demand in this study, the following model is examined for the years 1974 – 2019:

$$L_t=\alpha_t+\beta_1 W_t+\beta_2 K_t+\beta_3 GDP_t+\beta_4 Sch_t+ \beta_5 DUM1_t+u_t$$

L labor demand, W labor wage rate, K capital stock, GDP gross domestic product, Sch years of education as a variable affecting labor demand, DUM1 dummy variable to examine the effect of war years on labor demand.

4. Findings

The analysis of the ARDL method is based on the interpretation of three dynamic, long-run and error correction equations, the results of which are an equation in which the dependent variable appears with an interval on the right. To select the optimal interval, the Akaike, Schwartz, Hannan-Quinn criteria and the adjusted coefficient of determination can be used, in which the Schwartz-Bayesian criterion is used in this section to prevent the reduction of the degree of freedom.

Table 1. Results from long-term regression estimation using the ARDL method

prob	Variables	Coefficients	T-statistic
0/0138	LW	0/2317	2/6008
0/0235	LK	-1/1889	-2/3754
0/7102	LGDP	-0/1033	-0/3748
0/286	Lsch	0/4885	2/2895
0/0003	C	33/0494	4/0965

(Source: Research findings)

Based on the long-term results, the variables wage rate and years of education have a positive and significant effect on labor demand, and capital stock has a negative and significant effect, and GDP has a negative and meaningless effect on labor demand in the long run.

Table 2. Results from long-term regression estimation using the ARDL method

Variables	Coefficients	T-statistic	prob
LW	0/3177	1/5973	0/1259
LM	0/4441	3/0318	0/0066
LK	-0/7514	-3/0318	0/0066
sch	-0/3136	-1/3963	0/1779
0/0003	C	33/0494	4/0965

(Source: Research findings)

Based on the long-term results in Table 2, it is observed that the wage rate has a positive and meaningless relationship with labor supply, and net earnings have a positive and significant relationship with labor supply, and years of education also have a negative and meaningless effect on labor supply in the long run.

5. Conclusion

In this study, capital stock and GDP had a negative effect on labor demand. Also, years of education had a negative effect on labor supply. These cases indicate the fact that Iran's oil economy is not in line with production and employment, and on the other hand, the state economy in Iran, which has experienced large budget deficits, has caused unemployment to increase in the country in recent years. The results obtained regarding labor supply are that in the short run, labor wages have a positive effect, while net income, capital stock, years of education, and a dummy variable indicating years of war have a negative effect on labor supply. Also, considering the coefficient of the wage index in labor demand and the acceptance of wage stickiness in the Iranian labor market on the one hand, and the high share of the government in creating employment in Iran on the other, it can be concluded that there is a correspondence between the basic principles of the Austrian school of economics and the labor market in Iran.

6. Ethical considerations

6.1. Compliance with ethical guidelines

All ethical guidelines have been followed in writing this article.

6.2. Funding

No funding receive from public, commercial or not-for profit agencies.

6.3. Authors' Contribution

The authors contributed equally in writing this article.

6.4. Conflict of interest

There is no conflict of interest to declare from authors.