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Austrian Economics

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The term 'Austrian economics' refers to a set of positions in economic theory, methodology, and public policy first adopted by Carl Menger (1840-1921), founder of the school, and developed further by talented collaborators and successors at the University of Vienna, including Friedrich von Wieser and Eugen Böhm von Bawerk in the second generation, and Joseph Schumpeter, Ludwig von Mises, and Friedrich A. Hayek in the third generation. Eight positions lie at the core of Austrian economics: a subjective theory of value based on economizing actors' estimates of the marginal utilities involved in economic choices; the use of simple ordinal measures for ranking actors' economic preferences (thereby rejecting the use of the infinitesimal calculus in marginal utility analysis); sensitivity to issues of time and process in the study of entrepreneurship, production, and business cycles; methodological individualism (a term coined by Schumpeter in 1908); the compositive method (building up the edifice of economic theory from simple models of economizing action and exchange); a strongly aprioristic conception of the basic concepts and laws of economics; a conception of ideal social organization as a 'spontaneous order' arising from voluntary exchange transactions; and a libertarian, anti-interventionist stance in economic policy. (Wieser and Schumpeter must be exempted from the last two positions.) A contemporary, fourth generation of Austrian economists explores issues of time, uncertainty, and expectations in market processes while undertaking historical, polemical, and epistemological studies of the school's theoretical and methodological positions.

For decades Carl Menger was hailed, along with Leon Walras in Switzerland and Stanley Jevons in England, as one of three independent discoverers of the concept of marginal utility. (It is now recognized that at least a dozen economists independently developed the marginal concept under various names going back to 1752). The term 'Austrian school of economics' was originally used derisively during the bitter *Methodenstreit* ('struggle over methods') that Menger initiated in 1883, in defense of economics as an 'exact,' nomological-deductive science. That debate, and the label, crystallized the identity of the school. During the 1920s, Mises resolved to secure the school's core positions against any possible criticism. His efforts resulted in a new a priori inquiry, praxeology, based the concept of *homo agens* (acting man, the intentional—and therefore rational—agent) (Mises 1949). Its identity secured, Austrian economics lost its

theoretical edge. By 1930 its star had been eclipsed by the rapid theoretical consolidation of the Jevons-Walras wing of the marginalist revolution, which is today called 'neo-classical economics.'

The impact of Austrian economics on economic sociology has been indirect, mediated by methodological considerations, and hard to disentangle from other influences. The two sociologists closest to the school, Max Weber and Alfred Schutz, identified economic theory with Austrian marginalism and considered the methodological positions above to be appropriate for the study of economizing action, though they wished to refine them in certain respects. Weber, considered a 'champion of the Austrian school' at Heidelberg (Swedberg 1998; 185), felt that Menger 'proposed excellent views even if they were not methodologically finished' (1975; 33n). He rejected the remnants of psychologism in the subjective theory of value and of epistemological certainty in Austrian apriorism. So did Schutz. Schutz, who had many friends among the third generation of Austrian economists from his participation in Mises' private seminar on methodology, used phenomenological analysis to revamp Weber's concepts of social action, understanding, and the ideal type. He then showed how Austrian apriorism—its insistence that the basic concepts and laws of economics were self-evident truths confirmed by introspection and valid everywhere and always—could be placed on a more secure foundation. Discarding the naïve rationalism of Menger and Mises, he interpreted the basic concepts and laws of economics as ideal types that had been formalized and generalized to 'anyone' from the economizing actions of 'contemporaries' by theorists who were simultaneously defining the very subject matter of economics (Schutz 1967: 241-49). Schutz's subtle historicization and conventionalization of the a priori was rejected by Mises, but embraced by other Austrians embarrassed by the proclaimed indubitability of Menger's 'principles of human economy.'

Many economic sociologists follow Veblen (1961; 171) in considering the Austrian school to be 'scarcely distinguishable from the neo-classical.' In fact, Austrian marginalism resisted the emerging neo-classical synthesis since the 1880s. Its view of human nature is homo agens, not Bentham's calculating hedonist. In place of the perfect knowledge assumption, contemporary Austrians develop explanations based on rational-but-fallible agents equipped with imperfect knowledge. They focus theoretical attention on the disequilibria produced when agents act on false beliefs about prices and the goods-character of things, and attribute equilibria to actors' subsequent learning of pragmatic, market-specific knowledge.

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Further Readings and References

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