



THE AUSTRIAN SCHOOL AND CLASSICAL LIBERALISM

by Ralph Raico

I. INTRODUCTION

Classical liberalism—which we shall call here simply *liberalism*—is based on the conception of civil society as, by and large, self-regulating when its members are free to act within very wide bounds of their individual rights. Among these, the right to private property, including freedom of contract and free disposition of one's own labor, is given a very high priority. Historically, liberalism has manifested a hostility to state action, which, it insists, should be reduced to a minimum (Raico 1992, 1994).

Austrian economics is the name given to the school, or strand, of economic theory that began with Carl Menger (Kirzner 1987; Hayek 1968), and it has often been linked—both by adherents and opponents—to the liberal doctrine. The purpose of this paper is to examine some of the connections that exist, or have been held to exist, between Austrian economics and liberalism.

II. AUSTRIAN ECONOMICS AND *WERTFREIHEIT*

Writers have sometimes freely referred to “the Austrian ethical position” (Shand 1984, p. 221) and the “moral and ethical stance” of the Austrian economists (Reekie 1984, p. 176), denoting a position with strong (liberal) implications for politics. At first glance, this is surprising, since Austrian economists have been at pains to affirm the *Wertfreiheit* (value-neutrality) of their theory, and thus its conformity to Weberian strictures on the character of scientific theories (Kirzner 1992b). Ludwig von Mises, for instance (1949, p. 881), stated that, “economics is apolitical or nonpolitical ... it is perfectly neutral with regard to judgments of value, as it refers always to means and never to the choice of ultimate ends.”

This said, however, the fact is that all of the major figures in the development of Austrian economics habitually took positions on policy issues that they held to be somehow grounded in their economic doctrines. Mises, for instance, is widely recognized as probably the premier

* Originally published in *Advances in Austrian Economics*, Volume 2A, JAI Press, 1995, pages 3-38.

liberal thinker of the twentieth century. In his magnum opus, *Human Action* (1949), he shed light on the connection between value-free economics and liberal politics:

While praxeology, and therefore economics too, uses the terms happiness and removal of uneasiness in a purely formal sense, liberalism attaches to them a concrete meaning. It presupposes that people prefer life to death, health to sickness, nourishment to starvation, abundance to poverty. It teaches men how to act in accordance with these valuations The liberals do not assert that men *ought* to strive after the goals mentioned above. What they maintain is that the immense majority prefer [them] (p. 154).¹

According to Mises, economics teaches the *means* necessary for the promotion of the values most people endorse. Those means comprise, basically, preservation of a free market economy. Thus, the economist per se passes no value judgments, including political value judgments. He only proposes *hypothetical* imperatives (if you wish to achieve A, and B is the necessary means for the achievement of A, then do B) (Rothbard 1962, volume 2, pp. 880-881, 1976b). A question that will concern us is whether the division between Austrian theory and liberal principles is as surgically cleanly-cut as this seems to suggest.

III. METHODOLOGICAL INDIVIDUALISM

Methodological individualism has been a keystone of Austrian economics since the publication of the first Austrian work, Menger's *Principles*, in 1871.² As Menger wrote in his *Investigations*:

The nation as such is not a large subject that has needs, that works, practices economy, and consumes. . . . Thus the phenomena of "national economy" . . . are, rather, the *results* of all the innumerable individual economic efforts in the nation. . . [and] must also be theoretically interpreted in this light. . . . Whoever wants to understand theoretically the phenomena of "national economy" . . . must for this reason attempt to go back to their *true* elements, to the *singular economies in the nation*, and to investigate the laws by which the former are built up from the latter (Menger 1985, p. 93, emphasis in original).

Methodological individualism was endorsed by the other leaders of Austrianism,³ to the point where Fritz Machlup (1981) could list it as the first of "the most typical requirements for a

¹ Strictly speaking, it is not necessary for Mises to make this last qualification. It seems clear that, as individuals engaged not in science but in politics, liberals are free to make and promote their own value judgments.

² Erich Streissler (1990a, p. 60) has even maintained that it is in this area that Menger's achievement is to be found, and not in co-initiating the marginalist revolution.

³ Böhm-Bawerk, for instance, stated (1891, pp. 380-381): "We must not weary of studying the microcosm if we wish rightly to understand the macrocosm of a developed economic order. . . we must seek an understanding of the phenomena of great things in the study of the world of small things." Hayek, who probably did more than anyone else to identify Austrianism with methodological individualism, wrote (1973, p. 8): "The consistent use of the intelligible conduct of individuals as the building stones from which to construct models of complex market structures is of course the essence of the method that Menger himself described as 'atomistic' (or occasionally, in manuscript notes, as 'compositive') and that later came to be known as methodological individualism."

true adherent of the Austrian school.”

Perhaps because of the connotations of the noun, Austrians have stressed that what is at issue is *methodological* individualism. Israel Kirzner (1987, p. 148) cites Machiup’s criteria of Austrianism, including methodological individualism as the first. He warns parenthetically, however, that this is “not to be confused with political or ideological individualism;” it refers merely “to the claim that economic phenomena are to be explained by going back to the actions of individuals.” Lawrence H. White (1990, p. 356), too, seems to wish to distance methodological individualism from any hint of politics. White criticizes Max Alter for alluding to a “political” battle in this connection, commenting: “in fact the phrase *methodological individualism* was coined precisely to distinguish it from other varieties of individualism, including the political variety.”

But the interesting question is not whether the characteristic method of the Austrian school is *identical* with individualism in the political sense (usually more or less a synonym for liberalism). Obviously, it is not. The question is whether the method itself has any political *implications*.

It is certainly possible for someone to adopt methodological individualism and not endorse liberalism (Böhm 1985, pp. 252-253). Jon Elster, for instance, is able to insist on the necessity of methodological individualism in the social sciences, while continuing to view himself as a Marxist (Elster 1985, pp. 4-8).⁴ Yet it is significant that Elster dismisses certain claims of Marx on the grounds of their inconsistency with methodological individualism. In general, it seems clear that the Austrian approach in methodology tends to preclude holistic ideologies that happen also to be incompatible with liberalism, such as classical Marxism and certain varieties of racism and hypernationalism.⁵ To this extent, then, it is not simply *methodological* individualism.

Political factors played a role in the debate over Austrian methodology from the start. The very fact that “nation” and “state” understood as holistic entities were not primaries in his system, set Menger apart from important currents of economic thought in the German-speaking world of his time. Indeed, it was on the basis of Menger’s methodology that Gustav Schmoller, leader of the German historical school, instantly politicized the whole debate. In his review of Menger’s *Investigations*, Schmoller accused Menger of adhering to *Manchestertum* (*laissez-faire*), since his abstract and “atomistic” method might better be called “the Manchesterist-

⁴ Elster makes the important point (1985, p. 5, emphasis in original): “It is not only our confidence in the explanation, but our understanding of it that is enhanced when we go from macro to micro, from longer to shorter time-lags. To explain is to provide a *mechanism*, to open up the black box and show the nuts and bolts, the cogs and wheels, the desires and beliefs that generate the aggregate outcomes.”

⁵ The Austrian method also involves a universalism that has strong affinities with liberalism, in contrast to certain forms of conservatism. As Mises stated (1969, p. 38): “As against the declarations of Schmoller and his followers, [the Austrian economists] maintained that there is a body of economic theorems that are valid for all human action irrespective of time and place, the national and racial characteristics of the actors, and their religious, philosophical, and ethical ideologies.”

individualist” method (Schmoller 1883, p. 241).

Friedrich von Wieser (1923), himself one of the founders of the Austrian school, introduced a curious political note in discussing the origins of Austrianism. Wieser recalled how, as young economists, both he and Eugen von Böhm-Bawerk had been struck by the contradiction in classical economics:

While the chief accusation that was raised at the time against the classical economists in Germany concerned their [political] individualism, we found that they had become unfaithful to their individualistic creed from the start. As true individualists they would have had to explain the economy from the meaning of the individuals engaged in economic activity who were joined together in the economy... (p. 87).

Many decades later, Hayek, in a sense, concurred with Schmoller and Wieser. The central idea of his most extensive work on methodology, *The Counter-Revolution of Science*, is precisely the historical and theoretical connections between the denial of methodological individualism and the growth of socialism. Hayek (1955) assails “methodological collectivism,” with:

its tendency to treat wholes like ‘society’ or the ‘economy,’ ‘capitalism’ . . . or a particular ‘industry’ or ‘class’ or ‘country’ as definitely given objects about which we can discover laws by observing their behavior as whole. . . . The naive view which regards the complexes which history studies as given wholes naturally leads to the belief that their observation can reveal “laws” of the development of these wholes (pp. 53, 73).

The supposed discovery of such laws has resulted in the construction of philosophies of history on which major socialist projects have been erected— Marxism, of course, but particularly Saint-Simonianism, the system Hayek dissects in his book. The Saint-Simonians were practitioners par excellence of scientism, the illegitimate application to the study of society of the methods of the natural sciences. And it is scientism—the negation of methodological individualism—that, according to Hayek, “through its popularizers has done more to create the present trend towards socialism than all the conflicts between economic interests... “(Hayek 1955, pp. 100-101). By the same token, political opponents of liberalism, in criticizing Hayek in this area, have assumed that his methodological individualism was closely connected with his political philosophy.⁶

Marxist critics have made a further point regarding Austrian methodology. In their view,

⁶ See Gellner (1968, p. 256n4), where M. Ginsberg is cited: “those who refuse to accept methodological individualism. . . are well aware. . . of the dangers of concentrated power. But they deny that the only choice open to us is between a spontaneous competitive order on the one hand, and a system of all-pervading control on the other.” See also Geilner’s own comment on the same page: “[Methodological] individualists who attempt to save us, in the name of logic and liberty, from misconstruing our situation, are not wholly free at all times from suspicion that a little propaganda for laissez-faire is being hitched on to those very general issues.”

it stunts our understanding of social reality. According to Ronald Meek (1972), marginalism—including Austrian economics—took refuge in a schema centering on the psychology of isolated, atomistic individuals, thus (unconsciously) diverting attention from the crucial questions of *political economy* that had been the focus of classical economics (including Marxism). As a result, “real-life” issues, such as the division of the social product among competing classes—”those great problems of capitalist reality which worried the man in the street” (1972, p. 505)—have been systematically ignored.

This Marxist criticism would seem to be misguided, however. The abstracting approach of Austrianism pertains—necessarily—to its theory. Many Austrians, it may be conceded, have neglected to *apply* their theory to the understanding of concrete, “real-life” issues. That this failing is not intrinsic to Austrian economics, however, is shown by the fact that at least one well-known Austrian economist, Murray N. Rothbard, has devoted himself not only to “pure economics,” but also to highly important questions of political economy, both on a theoretical level and in specific historical contexts (e.g., Rothbard 1963, 1970; on methodological individualism, see Rothbard 1979).⁷

IV. SUBJECTIVISM

Austrian economics begins with and constantly emphasizes the action of the individual human being (Mises 1949, pp. 11-29; Rothbard 1962, pp. 1-8). According to Lachmann (1978), for the Austrian school:

the thought design, the economic calculation or economic plan of the individual, always stands in the foreground of theoretical interest. . . . The significance of the Austrian school in the history of ideas perhaps finds its most pregnant expression in the statement that here man *as an actor* stands at the center of economic events (p. 47, 51).⁸

Austrian economics highlights the perpetually active role of all participants in market processes. Even consumers are viewed, not as fixed loci of consumption functions, but as sources of incessant change. As Mises put it (1949), in regard to the entrepreneurial function:

[it] is not the particular feature of a special group or class of men; it is inherent in every

⁷ In his account of the Great Depression (1963), as well as in other works, Rothbard applies theory to help explain quite concrete historical events, often interpreting those events in the light of the “class” (or, “caste,” in the stricter, Misesian-Rothbardian terminology) interests involved. See also the comment by Garrison and Kirzner (1989, p. 121) that, among other scientific benefits, “Hayek’s business cycle theory provided a basis for interpreting much of 19th- and 20th-century economic history.”

⁸ Cf. White (1984, p. 4): “The subjective approach to economic phenomena builds economic analysis upon the insight that every individual chooses and acts purposively. . . . This approach has been the hallmark of the Austrian School from its inception in the 1870s to the present day, although different members have defended their method in different ways.” Cf. also Vaughn 1990, p. 382: “The human being that is the subject of Menger’s study. . . cannot be summarized by a static and fully defined preference function. . . . He is an active creator both of himself and of his world. And creation is a process rather than a state of affairs.”

action and burdens every actor.... The capitalists, the landowners, and the laborers are by necessity speculators. So is the consumer in providing for anticipated future needs (pp. 253-254).

This standpoint may be contrasted to the neoclassical theory, of which Lachmann declared (1978, p. 51; emphasis in original): “Fundamentally, we cannot really speak of economic activity here. As in nature, people *react* to the current external conditions of their economic existence: *they do not act*.” In support of this rather severe judgment, Lachmann cited Pareto’s statement: “The individual can disappear, provided that he leaves us this photograph of his tastes” (1978, p. 56).⁹ Incensed by such a depreciation of individual acting man, Lachmann assailed (1978, p. 181) the “arid formalism” of neoclassical economics, which treats “the manifestations of the human mind in household and market as purely formal entities, on par with material resources.”¹⁰ In contrast, Austrian economics stresses the alertness, inquisitiveness, and resourceful creativity of the individual, especially in regard to the entrepreneur and the entrepreneurial function.¹¹

In this whole area there is a strong link to an important element of classical liberalism, as exemplified in the early Wilhelm von Humboldt, Benjamin Constant, and the J. S. Mill of *On Liberty*.¹² In combating authoritarian ideologies, liberal thinkers focused on the individual human being per se (i.e., irrespective of class, race, etc.) as the fountainhead of creative response to the challenges of an ever-changing world. From this they derived the chief and most general liberal demand, the need to concede as wide a latitude as possible to individual freedom of choice and action.

On the level of policy, Austrianism’s individualist and subjectivist methodology may tend, indirectly at least, to influence decisions in a liberal direction. Austrian economists are skeptical of the macroeconomic models devised by “mainstream” economists, with their assumption that various global magnitudes act upon one another.¹³ Although it is possible for a

⁹ Lachmann cites Pareto’s statement in its original form: “L’individu peut disparaitre, pourvu qu’il nous laisse cette photographie de, ses goûts.” It is worth noting, however, that despite the positivism and apparent “anti-individualism” of his methodology, Pareto was all his life a fervent economic liberal; see *Finer 1968*.

¹⁰ Cf. Kirzner’s remarks (1976b, p. 59): “It is easy to see how foreign the notion of the ‘automatic maintenance of capital’ [the Clark-Knight concept] must have appeared to Mises. An approach that concentrates analytical attention—as Austrian economics does—on the purposive and deliberate decisions of individual human beings when accounting for all social economic phenomena must treat the notion of capital as a spontaneously growing plant as not merely factually incorrect but simply absurd.”

¹¹ See especially the numerous works developing Misesian ideas on this topic by Israel M. Kirzner, beginning with *Kirzner 1973*.

¹² Herbert Matis remarks (1974, p. 257) of the early Austrian school that “this new intellectual approach in economics was subjective, relative, and psychological, since it started from the human being and not from abstract concepts; it signified, therefore, to that degree a departure from classical liberalism.” The confusions evident here are, sadly, not untypical of the superficial treatment of liberal ideology by many writers on its history.

¹³ Cf. for instance, Edward G. Dolan’s critique of “mainstream” economics (1976b, p. 6): “it necessarily omits an important component of reality—the concept of purposive action,” while Austrianism “insists on laying bare the true causal relationships at work in the social world and is not content to simply establish empirical regularities among

macroeconomist to be a liberal, it can be argued that there are affinities between a macroeconomic approach and antiliberal policies. Hayek, for instance, wrote of the shift of interest from micro- to macroeconomics associated with the Keynesian revolution:

It was largely a growing demand for greater deliberate control of the economic process (which required more knowledge of the specific effects to be expected from particular measures) that led to the endeavor to use the obtainable statistical information as the foundation of such predictions (Hayek 1973, p. 12).

Austrian economics adopts a similarly skeptical outlook on welfare economics, which, it holds, also violates the principle of subjectivism. As Kirzner puts it (1976a, pp. 84-85; emphasis in original): “Crucial to this theory is the attempt to aggregate, in some sense, the tastes, the purposes, or the satisfaction of individuals into an entity that it is the ideal of economic policy to maximize.” Austrianism, on the other hand, provides an analytical framework “*that preserves the individuality of individual purposes*,” by the use of the concept of coordination of individual plans through market processes.

Individuality bears an intimate, perhaps even logical connection, to diversity, and Austrianism, in contrast to neoclassical economics, likewise accentuates the role of diversity in economic life. As Lachmann wrote (1978, p. 189): “The vice of formalism is precisely this, that various phenomena which have no substance in common are pressed into the same conceptual form and then treated as identical.”

To the degree that Austrian economics emphasizes the importance of individual differences and diversity, a statist approach to policy becomes problematical. It seems hard to avoid the conclusion that positive government action must always in varying degrees abstract from the differences in individual cases, entailing a high degree of uniformity and thus the likelihood of a mismatch with actual social circumstances.¹⁴ Thus, it seems that distinctive Austrian emphases—on the role of the individual’s alertness to opportunities in his specific setting, on the market as a process of discovery, on the heterogeneity of the factors of production—are so many points telling against the possibility either of socialist planning or of efficient state intervention in the economy.

The fear that clumsy and ponderous government activism would trample on “the individuality of individual purposes” and human diversity was shared by a number of the great liberals of past. Wilhelm von Humboldt, for instance, (1969) wrote:

dubious statistical aggregates.” Austrianism offers “a microeconomic approach to macroeconomic problems” (p. 11).

¹⁴ As Crown Prince Rudolf in his notebooks on Menger’s lectures (quoted in Streissler 1990b, pp. 120-121, emphasis in original) stated: “A government cannot possibly know the interests of all citizens. . . . However carefully designed and well-intentioned [political] institutions may be, they never will suit everybody. Only the individual himself knows exactly his interests and the means to promote them. . . . The variety of work follows from the variety of individuals and, by its mansidedness, promotes progress in every way. It would be altogether lost with *comprehensive* bureaucratic controls.”

The solicitude of a State for the positive welfare of its citizens must further be harmful in that it has to operate upon a promiscuous mass of individualities, and therefore does harm to these by measures which cannot meet individual cases (p. 32).

Besides having implications for policy, the Austrian concern with the diversity of human beings and their situations is strongly congruent with liberalism's view of the nature of man.¹⁵ The epigraph that John Stuart Mill placed at the beginning of his *On Liberty*, from Humboldt's *Limits of State Action*, epitomizes this liberal outlook (Mill 1985):

The grand, leading principle towards which every argument unfolded in these pages directly converges is the absolute and essential importance of human development in its richest diversity (p. 57).

That individuality implies inequality is affirmed by both Austrian economics and liberal social philosophy.¹⁶ As against the neoclassical school, the Austrian approach, as Lachmann (1978, pp. 51-52) stated, views men as *highly unequal*, with different needs and abilities that decisively affect market transactions: "Man as a consumer cannot be squeezed into any homogeneous class. The same may be said of man as producer."

It seems clear that this methodological underscoring of human inequality has an affinity with the liberal principle of inequality of wealth and income (Mises 1978a, pp. 27-30). Mises, who believed in the innate physiological and intellectual inequality of human beings (1990), stated outright (1949, p. 836) that: "The inequality of incomes and wealth is an inherent feature of the market economy. Its elimination would entirely destroy the market economy." Lachmann condoned the inequality of social influence and power, declaring (1978, p. 102) that "the market process is closely linked with what Pareto called 'the circulation of elites,' perhaps the most important of all social processes," and went on to assert that: "Equalitarianism is the favorite myth of our century. No thinking person can fail to notice that as societies become more civilized, inequalities are bound to increase" (1978, p. 108).

V. APRIORISM

Another issue that has been raised in regard to Austrian methodology concerns the strictly a priori approach of Ludwig von Mises and his followers. Here the—rather surprising—claim has

¹⁵ Cf. the comment by Lawrence Birken (1988, p. 256): "Only with the emergence of marginalism was individual taste decidedly emancipated from the idea of universal need. With occasional exceptions, pre-marginalist thought had ignored or downplayed the significance of the idiosyncratic consumer, thus precluding the recognition of consumer preference as a mark of individuality. Early economic thought, functioning as a kind of secular morality which sought to uphold the idea of the 'normal,' conceived of need or utility in universal terms. . . Only with the advent of marginalism do we see the emergence of a genuinely individualistic desire." Birken's analysis, however, would appear to apply much more to the Austrian, rather than the neoclassical, variant of marginalism.

¹⁶ And by Karl Marx, who speaks of "the unequal individuals (and they would not be different individuals if they were not unequal)." Quoted in Mises 1990, p. 191.

been advanced that Mises's method is *inconsistent* with liberal principles.

T. W. Hutchison (1981, pp. 223-224) maintained that a sharp division exists in methodological principles between Mises and the later Hayek ("Hayek II," as he calls him), and suggested that Hayek's own distinction between "true" and "false" individualism is pertinent to this division (Hayek 1948, pp. 1-32). In Hayek's analysis, true individualism is identified with the British empirical tradition, while the false variety is tied to the French rationalist tradition stemming from Descartes. Hutchison cites Hayek's essay:

The antirationalistic approach, which regards man not as a highly rational and intelligent but a very irrational and fallible being, whose individual errors are corrected only in the course of a social process, and which aims at making the best of very imperfect material, is probably the most characteristic feature of English individualism (quoted in Hutchison 1981, p. 224).

Hutchison holds that Hayek came at least implicitly to place Mises in the category of "false individualists," since, according to Hutchison: "surely no 'true' individualist will lay claim to knowledge of significant a priori propositions of 'apodictic certainty,' which are 'beyond the possibility of dispute,'" as did Mises. Clearly siding with what he takes to be the position of the later Hayek, Hutchison wrote:

We would suggest that... 'False,' as well as 'True' Individualism has been very much present among modern Austrian views on the philosophy and method of economics. . . it is important that [the Austrians'] methodology, or epistemology, should be clearly, logically and explicitly compatible with their political principles. As well as its ethics, politics, and economics, freedom has its epistemology, which must surely be one of its most fundamental aspects and requirements (1981, p. 224).¹⁷

A similar attack on Mises has been launched by Milton Friedman (1991). Friedman states that "the basic human value that underlies my own [political] beliefs" is "tolerance, based on humility. I have no right to coerce someone else, because I cannot be sure I am right and he is wrong." Accusing Mises (as well as Ayn Rand) of "intolerance in personal behavior," Friedman traces this supposed flaw in Mises's character to "his methodological doctrine of praxeology." Friedman explains:

his fundamental idea was that we knew things about 'human action' (the title of his

¹⁷ Hayek himself lent some support to Hutchison's distinction between Mises and "Hayek II" in his introduction to Mises's *Socialism* (Mises 1981, pp. xxiii-iv). Here Hayek criticized Mises's statement, that "all "social cooperation [is] an emanation of rationally recognized utility," as both "factually mistaken" and an expression of Mises's "extreme rationalism." But the general thrust of this passage is to underplay his disagreement with Mises. Hayek states that Mises "largely emancipated himself from that rationalist-constructivist starting point," and that "Mises as much as anybody has helped us to understand something which we have not designed."

famous book) because we are human beings. As a result, he argued, we have absolutely certain knowledge of the motivations [sic] of human action and he maintained that we can derive substantive conclusions from that basic knowledge. Facts, statistical or other evidence cannot, he argued, be used to test those conclusions. . . . That philosophy converts an asserted body of substantive conclusions into a religion. . . . Suppose two people who share von Mises's praxeological view come to contradictory conclusions about anything. How can they reconcile their difference? The only way they can do so is by a purely logical argument. One has to say to the other, 'You made a mistake in reasoning.' And the other has to say, 'No, you made a mistake in reasoning.' Suppose neither believes he has made a mistake in reasoning. There's only one thing left to do: fight (1991, p. 18).

How such an argument could emanate from such a distinguished source is quite simply baffling. Among other problems with it: Friedman's theory would predict the occurrence of incessant bloody brawling among mathematicians and logicians; the nonoccurrence of such brawling thus falsifies that theory in Friedman's own positivist terms. Moreover, Friedman's position entails that no religious person who felt certain about his religious beliefs could have any principled reason to respect the conflicting religious beliefs of others, which is an absurdity. Finally, his "explanation" of Mises's alleged personal "intolerance" fails to account for the personal tolerance of other practitioners of apriorism in economics.¹⁸

As for Hutchison, he really offers no argument at all for his strange attack on Mises.¹⁹ Instead, there is the veiled suggestion that the theory of knowledge of Karl Popper, a social democrat and Keynesian (as he was when he developed his theory), is somehow *the* "epistemology of freedom." There is also the endorsement, without argument, of Hayek's very dubious distinction between "false," French individualism, and "true," British individualism, and of the confusing account of intellectual history Hayek builds on this alleged distinction.²⁰ In any case, Hutchison, like Friedman, offers no reply to the objection that the problem, if there is one, is not apriorism as such, since, as Caidwell points out (1984, p. 367): "Any view can be held

¹⁸ It should be noted that Friedman expressed these views in a popular address. Still, it is difficult to see how his argument could be made substantially more rigorous or coherent. Friedman declares, for instance, that we must "beware of intolerance [such as displayed by Mises] if we're going to be really effective in persuading people," and yet concedes, very graciously, that "there is no doubt in my mind that Ludwig von Mises has done more to spread the fundamental ideas of free markets than any other individual" (Friedman 1991, p. 18). Friedman's brief account of Ayn Rand's alleged a priori philosophy is simply uninformed and incorrect.

¹⁹ To those familiar with Mises's achievements (see Rothbard 1988; Hoppe 1993; Zlabinger 1994), the attempt of some writers to minimize them is more ludicrous than troubling. Erich Streissler, for instance, says of Mises (1990b, p. 109, see also 1988, p. 200) that, "not without truth, though certainly with little charity, [he] might be called the arch-lobbyist for entrepreneurial concerns in interwar Austria."

²⁰ On the question of apriorism, it may be pointed out that Hayek (1955, p. 22ln.l) wrote of John Locke that he regarded "the moral sciences" (ethics, political theory, etc.) "as a priori sciences comparable with mathematics and of equal certainty with it." The context makes it clear that Hayek is here passing a *favorable* judgment on Locke. Furthermore, it is doubtful whether either Hayek or Hutchison would have wished to classify Locke as "a false individualist."

dogmatically and used in an authoritarian manner.”²¹

VI. AUSTRIAN ECONOMIC THEORY

There is a sense in which economic theory per se, any analytical economics, can be said to favor the market. As Hayek (1933) remarked, regarding the attack on economics in the nineteenth century:

The existence of a body of reasoning which prevented people from following their first impulsive reactions, and which compelled them to balance indirect effects, which could be seen only by exercising the intellect, against intense feeling caused by the direct observation of concrete suffering, then as now, occasioned intense resentment. (P. 125).²²

But Austrian economics has been so often and so closely tied to liberalism that it is plausible to seek the connection also in its distinctive economic theories.

The sustained theoretical attack on the possibility of rational economic planning under socialism that was initiated by Mises and then led by him and Hayek has doubtless played a major role—and rightly so—in associating the school with liberal doctrine.²³ In the following decades, the common view among economists—that Mises and Hayek had been bested by their socialist adversaries—tended to confirm the sense that the Austrian position in general was antiquated and obsolete.²⁴ However, recent scholarship (Lavoie 1985; Boettke 1990; Steele 1992)—as well as certain well-known world events—has served to overturn the older verdict on the economic calculation debate. Indeed, the revolution in thinking has prompted one Austrian economist to remark that “it is really scandalous to observe how decades of ridicule poured upon Mises’s ‘impossibility thesis’ [regarding rational planning under socialism suddenly give way to an appreciation of his views as if they had been part of conventional wisdom all along” (Bohm 1990, p. 231).²⁵

²¹ Cf. Caldwell’s comment (1986, p. 677): “The intent of the [logical] positivists was to oppose such dogmatism [in ‘certain forms of nineteenth century philosophy’], and such intentions are laudable. Unfortunately, the positivists were unable to come up with a logically watertight and operationally applicable criterion for distinguishing the speculative from the scientific. To act as if such a criterion exists, and to use it selectively against one’s enemies, is in my opinion simply another form of dogmatism.”

²² Cf. Mises 1969, p. 43 “All those not familiar with economics, i.e., the immense majority, do not see any reason why they should not by means of force coerce other people to do what these people are not prepared to do of their own accord.”

²³ On some differences between Mises and Hayek in connection with the famous debate, see Keizer 1994.

²⁴ For a recent statement of this position, see März 1991, pp. 101-113, where the author, in what purports to be a scholarly work, permits himself the Marxist polemical tactic of characterizing Mises as having launched “the theoretical and ideological counter-offensive of the Austrian bourgeoisie” in his critique of socialist planning (p. 105).

²⁵ Karen Vaughn (1994) maintains that the use by socialist writers of neoclassical theory to derive market socialist responses to the Austrian assault sensitized both Mises and Hayek to the distinctively Austrian components of their argument.

A major criticism of the market economy from at least the time of Sismondi and the Saint-Simonians has been that it is inherently vulnerable to the business cycle. In sharp contrast, the Austrian theory of the business cycle, originated by Mises and elaborated by Hayek and others (see, e.g., Mises 1949, pp. 547-583), traces the cycle of “boom-bust” to credit expansion, which systematically distorts the signals that would otherwise provide for the smooth functioning of markets. As Rothbard states (1963, p. 35): “The unhampered market assures that a complementary structure of capital is harmoniously developed; bank credit expansion hobbles the market and destroys the processes that bring about a balanced structure.” Since credit expansion is made possible by state action, the business cycle, so far from being a natural consequence of the free market and a heavy debit against it, is ultimately traceable to government, especially in the era of central banking. (Rothbard 1962, volume 2, pp. 871-874, 1963, pp. 25-33)

Austrian economic theories are supportive of liberalism in other ways, as well. The analysis of the market as a process precludes certain characteristic interventionist or socialist moves, for example, viewing the total of incomes of individuals and firms within a national jurisdiction as a kind of “national cake,” which may be divided up at will. The concept of the market as process also helps validate the social inequalities inherent in capitalism. As Mises put it (1949):

The selective process of the market is actuated by the composite effort of all members of the market economy. . . . The resultant of these endeavors is not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day (p. 308).

Another Austrian concept, of prices as surrogate information, also militates against interventionism. Streissler points out (1988, p. 195) that Mises, building on Wieser, attacked interventionism for destroying “the mechanism of the creation and dissemination of information about economically relevant circumstances, i.e., market pricing,” thus impeding economic efficiency.

Kirzner’s exploration of the “existential” conditions of the participants in market processes yields perhaps another close connection to the liberal doctrine. According to Kirzner (1992a):

For the science of human action, freedom is the circumstance which permits and inspires market participants *to become aware* of beneficial (or other) *changes* in their circumstances. . . . An understanding of Misesian economics thus permits us to see directly how it points unerringly to the social usefulness of political institutions which guarantee individual liberties and the security of individual rights to life and property (p.

248).

But probably the clearest and most convincing grounds for identifying Austrian economics and the free market has to do with the general conception of economic life propounded by the Austrians, beginning with Menger. As Hayek (1973) wrote:

It was this extension, of the derivation of the value of a good from its utility, from the case of given quantities of consumers' goods to the general case of all goods, including the factors of production, that was Menger's main achievement (p. 7)²⁶

This was a viewpoint that became standard with all of the founders. Kauder (1957, p. 418) noted that: "For Wieser, Menger, and especially for Böhm-Bawerk the wants of the consumer are the beginning and end of the causal nexus. The purpose and cause of economic action are identical."

According to Kirzner (1990), it was this central vision that explains why, despite the particular policy views of its founders (see Section IX), Austrianism was perceived as *the* economics of the free market. The founders' works:

expressed an understanding of markets which, *taken by itself*, strongly suggested a more radical appreciation for free markets than the early Austrians themselves displayed. It is this latter circumstance, we surmise, which explains how, when later Austrians arrived at even more consistently laissez-faire positions, they were seen by historians of thought as somehow simply pursuing an Austrian tradition that can be traced back to its founders (p. 93, emphasis in original).

Thus, Kirzner implicitly endorses the position Mises upheld in his reply to F.X. Weiss (see section IX). What is crucial is not the historically and personally conditioned policy views of the first Austrians, but the "overall vision of the economy" that was novel in Menger and shared by his successors. The market economy was seen as:

a system driven entirely and independently by the choices and valuations of consumers—with these valuations transmitted 'upwards' through the system to 'goods of higher order,' determining how these scarce higher-order goods are allocated among industries and how they are valued and remunerated as part of a single consumer-driven process (Kirzner 1990, p. 99)²⁷

In contrast to the classical economists, who saw the capitalist system as producing the greatest possible amount of material goods, Menger's view was that it was "a pattern of

²⁶ According to Streissler and Weber (1973, p. 227), Wieser identified as "the central illumination of the *Principles*" the proposition that, "the final determination of all prices is the valuation of goods by ultimate consumers..."

²⁷ Cf. Dasgupta 1985, p. 80: in contrast to classical economics, "consumption, not accumulation, appears in marginalist economics as the mainspring of economic activity. The new system, so to say, substitutes 'consumers' sovereignty' for 'capitalists' sovereignty."

economic governance exercised by consumer preferences” (1990, p. 99, emphasis in original). (Later, W. H. Hutt coined the term “consumer sovereignty” for this state of affairs.) As Kirzner points out, “it was this thoroughly Mengerian insight which nourished Mises’s lifelong polemic against socialist and interventionist misunderstandings of the market economy” (1990, p. 100). And, it may be added, it was this insight that terrified the Marxists.²⁸

VII. SPONTANEOUS ORDER IN SOCIETY

Since liberalism is based on the recognition of the self-regulating capacity of civil society (i.e., the social order minus the state), any social theory that centers on that capacity furnishes powerful support to the liberal position. Contemporary Austrians would find themselves by and large in general agreement with Rothbard when he writes (1963):

the network of these free exchanges in society—known as the ‘free market’—creates a delicate and even awe-inspiring mechanism of harmony, adjustment, and precision in allocating productive resources, deciding upon prices, and gently but swiftly guiding the economic system toward the greatest possible satisfaction of the desires of all consumers. In short, not only does the free market *directly* benefit all parties and leave them free and uncoerced; it also creates a mighty and efficient instrument of social *order*. Proudhon, indeed, wrote better than he knew when he called ‘Liberty, the Mother, not the Daughter, of Order’ (volume 2, p. 880).

From an early point, Austrianism was noted for its emphasis on “spontaneous order” in society in a sense that is close to and even derivative of the thinking of the writers of the Scottish Enlightenment. The social order is seen as the product of the *unintended* consequences of self-seeking individual action, which in this way gives rise to social institutions that are beneficial though undesigned (Hayek 1967, pp. 96-105; Hamowy 1987).

Chapter 2 of Book 3 of Menger’s *Investigations* (1985, pp. 139-159) is devoted to “The Theoretical Understanding of Those Social Phenomena Which Are Not a Product of Agreement or of Positive Legislation, but Are Unintended Results of Historical Development.” Here Menger raises the question, “How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?” (1985, p. 146). He points out that “Law, language, the state, money, markets, all these social structures are to no small extent the unintended result of social development.”²⁹ Menger goes on to provide a brilliant and famous explanation, based on methodological individualism, of the origin of money (1985, pp. 152-155; see also Menger 1981,

²⁸ A point awaiting elaboration, however, is whether the doctrine that sees the whole of the economic system as hinging, in the last analysis on consumer valuations is a distinctively Austrian one, or whether it is contained in marginalism *in general*—for instance, in Jevons as well as Menger.

²⁹ It will be noted that by including the state along with such social formations as language and markets, Menger is obscuring the liberal distinction between state and civil society.

pp. 256-285).³⁰

Schmoller (1883, p. 250), in his review of the *Investigations*, criticized Menger for praising Edmund Burke, Savigny, and Niebuhr, who understood law as (in Schmoller's words) "the unreflective product of a higher wisdom, rather than as derived from the action of superior power... a transference of their doctrine to economics, Menger thinks, would have opened up 'an immeasurable area for fruitful activity,' in the direction of Burke." Schmoller comments bitinglly:

This lively sympathy for the mysticism of Savigny's folk-spirit arises obviously from the Manchesterist aversion to every conscious action of the collective organs of society. Just as law originates of itself, so should the economy be left to its own devices, conceived of as merely the play of egoistic and yet harmonious interests.

Leaving aside the accusatory tone of this passage, it may be conceded that Schmoller makes a plausible point. As presented by Austrian economists, spontaneous-order explanations may certainly serve to validate the liberal view of the social order.

This is especially true of Hayek's work. Hayek even described Menger's question on the possibility of spontaneous order as "the central problem ~f the social sciences (Hayek 1955, p, 83), since:

The point., which was long not fully understood until at last Carl Menger explained it clearly, was that the problem of the origin or formation and that of the manner of functioning of social institutions was essentially the same. . . (Hayek 1967, p. 101).

Hayek insisted on the connection of this view with the struggle between liberalism and socialism (1955):

From the belief that nothing which has not been consciously designed can be useful or even essential to the achievement of human purposes, it is an easy transition to the belief that since all 'institutions' have been made by man, we must have complete power to refashion them in any way we desire (p. 83).

And yet it is not entirely clear to what degree the Menger-Hayek view of the spontaneous origin—and, hence, in Hayek's interpretation, spontaneous functioning—of institutions is serviceable to liberalism. Menger posited a crucial qualification:

But never, and this is the essential point in the matter under review, may science dispense with testing for their suitability those institutions which have come about 'organically.' It must, when careful investigation so requires, change and better them according to the measure of scientific insight and practical experience at hand. No era may renounce this

³⁰ Vaughn (1989, p. 170) equates the Mengerian and Hayekian concept of spontaneous order with Adam Smith's concept of the "invisible hand."

‘calling’ (1985, p. 234)³¹

Thus, a certain—undefined, but presumably large—area would seem to exist for “social engineering.”

VIII. THE IDEOLOGICAL BACKGROUND OF THE RISE OF AUSTRIAN ECONOMICS

In keeping with the attempt to depict Austrian economic theory, and marginalism in general, as fundamentally free of any political taint, Hayek declared (1973):

I can find no indication that Jevons, Menger, or Wairas, in their efforts to rebuild economic theory, were moved by any desire to revindicate the practical conclusions that had been drawn from classical economics. Such indications as we have of their sympathies are on the side of the current movements for social reform (p. 3).

Hayek here missed the point, however. The question does not concern Austrian (and marginalist) economics as a defense of laissez-faire capitalism against *social reform*, but as a defense of the basic market economy against *socialism*.

Hayek ignored the theoretical crisis that existed in economics on the eve to the marginalist revolution (at least in English-speaking countries). Friedrich von Wieser testified to this crisis in his biographical notice on Menger (Wieser 1923). Both he and Böhm-Bawerk were deeply troubled as they began their careers as economists. Among the problems confronting them were the implications of the classical theory of value. If that theory were true, then:

Is not the socialist critique of current conditions, is not Karl Marx with his theory of surplus value, totally correct? Is not socialist theory just the completer of the classical idea, which the classical economists themselves did not have the courage to think out to the end? (p. 88).

It should be noted that Wieser gives no hint of bad faith. He states that both he and Böhm-Bawerk became convinced that socialism, in consistently applying the classical concept of value, was *fallacious*. Their “intellectual distress” was then instantly alleviated when they happened to discover Menger’s *Principles* (1923, pp. 88-89).³²

³¹ Emil Kauder pointed out (1965, p. 61) that Menger opposed religious bigotry, anti-Semitism, militarism and dueling, and the glorification of war, and “was very critical of the feudal pillars of the Hapsburg monarchy—clergy, army, and nobility.” All of these are traditions or institutions which, it could be argued, developed “spontaneously.”

³² Wieser maintained that, before Menger, all the schools of economic thought “pursued the interests of one of the great economic parties. . . [and] sought evidence for their partisan interest.” Very oddly, he even deploys the Marxist terminology of “bourgeois” and “proletarian” economists, (Wieser 1923, p. 91) going so far as to assert that the “proletarian,” that is, socialist, economists, will be able to learn from Menger’s economic theory, without “in any way giving up their fundamental standpoint;” rather, they will be able to “strengthen their standpoint” (p. 92).

Frank A. Fetter was another scholar who saw the emergence of marginalism as a deliverance from an ideological dilemma. Fetter (1923) elaborated on the predicament of classical economics after the middle of the nineteenth century. Of Ricardo and his labor theory of value, Fetter stated (1923; see also Ross 1991):

with his sophistical arguments he had given to this really primitive conception the phenomenal authority of his name, and it was to go on exerting a tremendous and evil influence in ways then all unforeseen. Labor is the source of value (exchange value, virtually market price as he used it); labor is the cause of value; labor produces all wealth. Naturally follows the ethical and political conclusion: if labor produces all wealth then labor should receive all wealth (p. 597).

John Stuart Mill's attempt to salvage Ricardo, Fetter continued, was totally unsatisfactory, "a broken reed against the surplus-value attack upon the system of private industry and private property." Then "Marxian socialism rose on the horizon" and quickly gained advocates, who often supported their view with references to the "Mill-Ricardian labor-theory of value."

Well I remember the confidence and gusto with which this demonstration of the truth of Marxism was still presented by socialist speakers in the nineties, as I listened to them from Berlin to San Francisco (1923, p. 600-601).

Like Wieser, Fetter was quick to point out that no bad faith was involved in propagating the subjective theory.³³ Yet he asserted, contrary to Hayek:

A casual examination of the works of Jevons, Menger, Clark, and of their most influential colleagues reveals from first to last evidences of this undercurrent of interest in the political bearings of the value theory (1923, p. 602).³⁴

The story ends happily; the subjective-value theory won out over Marxism: "it would be difficult to find in the whole history of economic thought a more complete victory of one idea over another" (1923, p. 605).

In fact, a long line of socialist critics, from the 1890s on, pilloried marginalism as a rationalization for the capitalist system. The Italian socialist Achille Loria assailed the marginal

³³ It was left for Erich Streissler among nonsocialists to impute a class interest to the Austrian economists (1988, pp. 200-201): "after the end of the monarchy the members of the School belonged to the old ruling class dispossessed of power and mostly expropriated through the hyperinflation which had abolished their rentier capital. No wonder they were particularly critical of the state." See also note 35.

³⁴ Fetter notes that the negative implications of the subjective theory for Marxian economics appears more clearly in Wieser's and Böhm-Bawerk's works, but maintains that "this application had, however, been recognized from the very beginnings of the subjective school" (1923, p. 602). While he cites no particular evidence, he may have had in mind, for instance, Menger's critique of Rodbertus's claim that capitalists and landowners expropriate the product of labor and thus "live without working." To this Menger counters that they live "upon the services of their land and capital which have value, just as do labor services, both to individuals and to society" (Menger 1981, p. 168n.30).

approach for precluding “the possibility of a deep analysis of social relations” and eliminating “any theoretical threat against the established economic system” (Barucci 1972, p. 529). Karl Kautsky, the Pope of German Marxism before the First World War, took note of the Austrian challenge in the form of Böhm-Bawerk’s work. Kautsky declared: “Böhm-Bawerk’s and Marx’s theories of value are mutually exclusive. . . . That means, therefore: either-or” (Chaloupek 1986, pp. 198-199). Nikolai Bukharin (1927), who attended Böhm-Bawerk’s lectures, labeled Austrianism “the economic theory of the rentier class.”³⁵ More recently, Ronald L. Meek (1972, p. 503) has claimed, citing Menger and Jevons, that “the founders [of marginalism] were very well aware of the dangerous uses which were currently being made of these doctrines [of classical economics] in certain quarters.”³⁶

What the exact role of marginalism was in overturning the labor theory of value is complicated, however, by the findings of scholars who have drawn attention to theoretical developments in continental Europe in the earlier nineteenth century. As T. W. Hutchison (1972) complained:

The history of economic thought in the first half or three-quarters of the nineteenth century was and still is often portrayed in very Anglo-centric terms, as though the theories which achieved for so long in Britain such an extraordinary dominance and authority. . . . enjoyed a similar hold and authority elsewhere in Europe. This was not the case (p. 443).³⁷

Hutchison pointed out, for instance, (1972, p. 445) that “the wages-fund theory had been demolished by Friedrich Hermann in 1832 and never gained significant support in Germany.” German economists had already espoused the doctrine that value was founded on utility and income distributed to the factors of production on the basis of their productivity.

Erich Streissler (1990a) amplifies Hutchison’s argument, in tracing the German roots of Menger’s ideas. Streissler delves into the works of authors little known to Anglophone scholars, such as Hermann, Rau, and Mangoldt, mining them for telling quotations, for example, from a work of Hermann in 1832: the entrepreneur, in buying labor, “acts only as an agent of the

³⁵ Streissler (1990a, p. 64) makes the peculiar statement that “Perhaps Bukharin is not that far off the mark after all when he thinks it [neoclassical economics] is the economics of the rentier.” However, Gunther Chaloupek, an author sympathetic to Marxism, is closer to the mark when he states (1986, p. 221), in discussing Bukharin’s critique of Austrianism: “But: if the marginal utility school drew attention to demand, this was certainly not in the first instance a symptom of the beginning of age of the rentier, but rather a reflex of the increased standard of living of the masses as well in the train of capitalist expansion.”

³⁶ Joan Robinson (1962, p. 52), on the other hand, argued that while “the whole point of *utility* was to justify *laissez faire*,” the theory had inherently egalitarian and redistributionist implications.

³⁷ That the approach to the early history of economic thought that centers on the British tradition from Smith to Mill must be abandoned is argued by Murray N. Rothbard (1976a). Rothbard claims that a more informed interpretation would see “Smith and Ricardo, not as founding the science of economics, but as shunting economics onto a tragically wrong track, which it took the Austrians and other marginalists to make right” (p. 53). Citing the works of Marjorie Grice-Hutchinson and Raymond de Roover, Rothbard emphasizes the importance of medieval and early modern thinkers, particularly the Spanish Scholastics. See also especially Rothbard 1995.

consumers of the product. Only what the consumers give for the product constitutes the true remuneration of the service of the worker...” (1990a, p. 45n). So routine was the German rejection of the labor theory of value that Wilhelm Roscher, one of the founders of the “first” historical school, could dismiss that theory as a “genuinely national English view” (1990a, p. 47n).³⁸

This more recent account of the state of economic theory on the eve of the “marginalist revolution” creates a mystery, however. As Streissler notes (1990c, p. 164), Wieser and Böhm-Bawerk had studied in Germany and “imbibe[d] the old protoneoclassical German tradition at first hand.” Fetter, while his studies in Germany date from a later period, must surely have been aware of the earlier German texts. Thus, it is hard to understand the relief the three men expressed at the supposed definitive refutation of the labor theory of value and its socialist implications by Menger and the other marginalists, if that theory had already been superseded in the mainstream of German economic thought through most of the nineteenth century.

IX. THE SOCIAL PHILOSOPHY OF THE AUSTRIAN ECONOMISTS

Erich Streissler (1987, p. 1) has maintained that what united the Austrian economists into a “school” was never any theoretical concept, such as marginal utility, but simply their liberal political ideas. While this may be an exaggerated, even eccentric judgment, the political views of the leaders of the school have certainly played a part in identifying it with liberalism.

Of the founders of the school—Menger, Böhm-Bawerk, and Wieser—it is Wieser’s views that are least problematical.³⁹ There seems little reason to dissent from Streissler’s characterization (1987):

On a Catholic-conservative foundation, he was an interventionist liberal of a strongly nationalist variety, with a considerable admixture of racist feelings, who, moreover, could still admire Marx and play around with social-revolutionary rhetoric. Above all, however, he was a statist, who believed in the wisdom of the state machinery guided by a wise bureaucracy (coming from his own caste) (pp. 14-15).⁴⁰

According to Streissler, Wieser’s favorite word was Führer, and, in 1926, he even welcomed the appearance of Adolf Hitler (1987, p. 15; see also Streissler 1986, pp. 86-91).⁴¹

³⁸ One of Streissler’s aims in this essay is to indulge his penchant for debunking by playing down Menger’s originality: “It is easy to show that very few of the basic ideas of Menger’s *Principles* cannot be found foreshadowed in the books of German economics that he knew well” (p. 33n).

³⁹ Mises (1978b, p. 36) went so far as to conclude that Wieser “could not be called a member of the Austrian School, but was rather a member of the Lausanne School...”

⁴⁰ In view of his own analysis of Wieser’s position, it is difficult to see how Streissler can also maintain (1988, p. 199) that “anyone who did not subscribe to some broad code of basically liberal economic tenets, such as a socialist or social reformer, could not be a proper member of the School.”

⁴¹ Cf. Hutchison 1981, p. 207: “...Wieser was highly critical of free-market capitalism, attached great importance to the growth of monopoly, and was highly sympathetic to social democratic and reformist ideas...” Streissler (1986, p.

Menger's political orientation, on the other hand, has been the most studied and is the most disputed. Mises, for instance, (1969, p. 18) gave the impression that Menger was more or less a classical liberal, asserting that he "heartily disapproved of the interventionist policies that the Austrian Government—like almost all governments of the epoch—had adopted." Streissler also accents Menger's liberalism, seeing him as the source of the school's commitment to the free market.⁴² Emil Kauder, on the other hand, claimed that Menger was a sympathizer with *Sozialpolitik* (social reform) and a critic of laissez-faire (1965, pp. 62-64).⁴³

Until recently, the chief source for Menger's policy ideas has been a piece he published in the leading Viennese newspaper in 1891, titled, "The Social Theories of Classical Economics and Modern Economic Policy" (Menger 1935b). Here Menger, on the hundredth anniversary of the death of Adam Smith, attempts to rescue Smith's doctrine from grave misunderstandings. The major misinterpretation, he finds (in the manner of the later Lionel Robbins 1953), is that Smith has been wrongly accused of supporting laissez-faire and his doctrine unjustly amalgamated to that of the Manchester School. (Starting with the socialist Ferdinand Lassalle, *Manchestertum*—*Manchesterism*—became in German-speaking countries the general term of abuse for the laissez-faire position.) It would be difficult for anyone reading Menger's piece to avoid the conclusion that he was more of a *social* than a *classical* liberal.

Streissler, however, believes (1987, pp. 20-24) that a totally new light has been cast on Menger's outlook by the researches of the Austrian scholar Brigitte Hamann. Hamann discovered the notebooks of Crown Prince Rudolf, who was tutored by Menger in 1876-1878. Streissler maintains (1990b, p. 110) that "the notebooks of the crown prince show Menger to have been a classical liberal of the purest water with a much smaller agenda for the state than even Adam Smith." It would seem, however, that Streissler exaggerates the probative value of these notebooks (see note on Carl Menger's Social Philosophy, below). Bruce J. Caldwell (1990b, p. 7) is probably correct when he writes: "One suspects that the final chapter on Menger's policy views remains to be written."

Böhm-Bawerk himself conceded (1891, p. 378) that the early Austrian school had not devoted much effort to practical questions of political economy, adducing as an excuse that "we must build the house before we can set it in order." He added, however, that "we have our opinions upon them, we teach them from our chairs, but our literary activities have thus far been bestowed almost exclusively upon theoretical problems. . . . "But what those opinions were that he taught from his chair remain somewhat obscure.

100) points out that Wieser's constant references to "the socialist state of the future" influenced his student Schumpeter in the latter's assessment of the probable historical development.

⁴² Cf. Streissler's insightful remark (1987, p. 24): "Through Menger his school became a vessel of economic liberalism, at a time when in other countries it stood under an unlucky star. This school took over a then 'lost cause,' and nursed liberalism at the time of its deepest ebb—especially in the period between the wars."

⁴³ Kauder asserts of Menger (Kauder 1965, p. 64): "He was not a consistent defender of free competition, and he was not a socialist, although his brother, the famous socialist Anton Menger, had some influence on him."

Kauder (1957) maintained that the founders of the school, including Böhm-Bawerk, displayed an “uneasy swinging back and forth between freedom and authority in their economic policy,” the result of contradictory forces working on their thought. On the one hand, they were “social *ontologists*. They believe that a general plan of reality exists. All social phenomena are conceived in relation to this master plan. . . . The ontological structure does not only indicate what is, but also what ought to be” (1957, p. 417). Kauder takes as an example Böhm-Bawerk’s *Positive Theory of Capital*, which demonstrates “the natural order under the laissez-faire mechanism. In ‘beautiful harmony’ the economic fabric is fitted together by marginal utility, discount theory of interest, and roundabout production, if the long run price (Dauerpreis) of free competition is reached” (1957, p. 417). This “social ontology”—an earlier version of Rothbard’s conception of the market economy, cited earlier—is deeply congruent with the liberal vision.

According to Kauder, however, the Austrian tradition had been one of state paternalism; even the expression of the concept of a spontaneous economic order had been actively suppressed. The founders “tried to compromise between British [i.e., Smithian] and Austrian tradition.” Thus, Böhm-Bawerk wrote that the economist had to stand above both free competition and state intervention. In the end, Kauder claimed, Böhm-Bawerk held that social stability was more important than progress, preaching a “social quietism akin to the ideals of the Austrian past” (1957, pp. 421-422).⁴⁴ To make matters worse, Stephan Böhm (1985, p. 256) points out that “Böhm-Bawerk’s outstanding achievement as Minister of Finance was the introduction of the progressive income tax on the total income of individuals”⁴⁵ (see also Weber 1949, p. 667).

Erich Streissler (1987, p. 10), on the other hand, refers to Böhm-Bawerk as “quite an extreme liberal. . . [with] a very extensive skepticism towards the state.” Of the three founders—Menger, Wieser, and Böhm-Bawerk—only the latter shared Adam Smith’s view of the state as both “bad” and “stupid.” It was Böhm-Bawerk’s experiences as Austrian Finance Minister, it appears, that turned him into a caustic skeptic of government leaders and the governmental process itself. Streissler cites two newspaper articles published in 1914, the last year of Böhm-Bawerk’s life, criticizing both the idea that coercive intervention (by labor unions) can circumvent economic law, and the tendency of politicians to buy support and temporary social peace through massive expenditure of public monies (1987, pp. 11-14). The question of Böhm-

⁴⁴ Paul Silverman (1990), however, criticizes Kauder on the nature of the “Austrian” background of Menger’s work (as well as on Menger’s alleged methodological dependence on Aristotle). Silverman points up the importance in Austrian history of a school of allegedly liberal cameralists, including the key figure of Joseph von Sonnenfels, who posited “a system of preestablished social harmony which the state was to watch over and protect” (p. 85). Josef von Kudler, whose work on economics was the standard textbook in Austrian universities in the decades before the appearance of Menger’s *Principles*, likewise displayed “a staunchly liberal outlook.” In Silverman’s view, the impact of the “Austrian tradition” on Menger was not in the direction of conservatism, spurring the search for a Metternichian stability; instead, it may mainly have worked to convey the notion of objective, rational ends for man in society, which set a limit to Menger’s subjectivism (leading him, for instance, to distinguish between real and imagined needs) (pp. 90-91).

⁴⁵ Böhm (1990, p. 232, n. 2) suggests that Mises’s extreme liberal viewpoint was out of step with the general position of the founders of Austrianism, who tended toward “a kind of ‘enlightened conservatism’ (in the European sense), or ‘paternalistic conservatism’—allegations of laissez-faire repeated ad nauseum notwithstanding.”

Bawerk's later views is of particular interest, as Streissler indicates: Mises attended Böhm-Bawerk's seminar in 1905-1906, after the latter's last stint in government.

However, in the 1930s, two economists, who were themselves sympathetic to the Austrian school, attempted to dissociate the Austrian founders from the principled economic liberalism of a (then) rising star of the school, Ludwig von Mises.

In an article in *Schmollers Jahrbuch*, Wilhelm Vleugels (1935) defended the scientific usefulness of Austrian subjective value theory, while at the same time asserting its compatibility with the older German tradition that placed the needs of the national community above individual needs. "If at the start a certain tendency reveals itself in [the writings of the Austrians] to consider the individually most important needs simultaneously as the socially most important, that was forthwith surmounted" (1935, p. 550). Vleugels's major piece of evidence (besides statements by Wieser) is an essay by Böhm-Bawerk dating from 1886 (Böhm-Bawerk 1924), to which the title, "Disadvantageous Effects of Free Competition," had been given.

In this essay, Böhm-Bawerk considers the claim that under conditions of free competition supply and demand are brought into the "most useful" and "socially most fruitful" equilibrium, creating "the socially greatest possible quantity of absolute [*rein*] utility." Surprisingly, the expositor of this viewpoint was Albert Schllffle, known for his social-reformist attitudes, and it is Böhm-Bawerk who holds it up to criticism. Böhm-Bawerk characterizes it as "deceptive," in that it rests upon a "confusion of high *relative* with high *absolute* gains from exchange" (1924, pp. 476-477). Hypothesizing an "ideal standard of measurement," Böhm-Bawerk maintains that a rich consumer who outbids a poor consumer for a given good may well gain less in utility than the poor consumer would have gained. While "cases of this kind occur, unfortunately, countless times in actual economic life" (1924, p. 479), Böhm-Bawerk takes as his example Ireland in the 1840s. Then the indigenous population could not afford the market price of grain, which instead was exported. The result was that the Irish starved and died, while the grain went, at least in part, to meet the demand of the rich for spirits and fine baked goods.⁴⁶ Böhm-Bawerk concludes:

every unprejudiced person will recognize at once that here egoistic competition in exchange has certainly not led to the socially most fruitful distribution of the commodities wheat and corn, the distribution attaching to the greatest absolute [*rein*] utility for the vital preservation and development of the people [*yolk*] (1924, p. 480).

A few years before Vleugels's article was published, Franz X. Weiss, who had edited the collection of the smaller works of Böhm-Bawerk in which this essay appeared, argued the same position as Vleugels—against Mises himself. At a meeting of the Verein für Sozialpolitik, held in Dresden in 1932, and attended by Mises, Hayek, and other members of the Austrian school, Weiss, too, attempted to distance Austrian economics from Mises's liberalism, citing various

⁴⁶ It remains something of a mystery why Bohm-Bawerk should have chosen as his example a catastrophe unprecedented in modern European history—one of such scope that all private and public relief efforts collapsed beneath its weight—to illustrate a phenomenon of which there are "countless" examples in everyday economic life.

published statements from the older generations of Austrians (Mises and Spiethoff 1933, pp. 51-53). Among these were Menger's statement that it was frivolous to accuse him of being a supporter of Manchesterism; Böhm-Bawerk's assertion, that, in the face of "many lamentable conditions in present-day society that require reform," "an indifferent policy of laissez-faire, laissez passer is totally inappropriate"; and Wieser's view that the concept of immutable natural laws of the economy whose course cannot be affected by state action "can hardly be taken seriously anymore." Weiss declared that his purpose was "to establish that a number of notable representatives [of the Austrian doctrine], among them its founders, did not draw from it the conclusions for economic policy that [Mises] believes he must draw" (1933, p. 131). Mises's brief response to Weiss's critique is highly significant: "I am not so pious towards authority [*autoritätsgläubig*] and quotation-minded [*zitatensfreudig*], and I base my argumentation on logic and not on exegesis" (1933, p. 118). The interesting implication is that the political significance of Austrian economics is to be gathered not from the particular views of its major adherents but from the inner logic of the system.⁴⁷

It seems clear that what writers like Weiss and Vleugels found unbearable about Mises is that he was, in Vleugels's words (1935, p. 538), "a scholar who is endeavoring to reanimate decisive errors of Manchesterism in a refined form, to be sure, but still in all its extremism." These fundamental "errors" of the laissez-faire doctrine had, so it was thought, been safely buried once and for all in central Europe, if not indeed throughout the civilized world. That Mises should presume to reopen the argument over the "discredited" ideas of laissez-faire was something his opponents, then and throughout his life, could never forgive him.⁴⁸ It was Mises, as Kirzner has indicated, who revealed the intimate connections between Austrian economics and authentic liberalism.

X. MISES AND HAYEK

Beginning with Mises and Hayek, the links between Austrian economics and liberalism become intense and pervasive, since the two scholars were themselves both the outstanding Austrian economists and the most eminent liberal thinkers of the twentieth century.

It must be pointed out, however, that there is a clear difference in the degree of liberalism of the two great thinkers. While Mises was a staunch advocate of the laissez-faire market economy (Mises 1978a; Rothbard 1988, p. 40; Hoppe 1993), Hayek was always more open to the useful possibilities of state action. He had been a student of Wieser's, and, as he conceded (Hayek 1983, p. 17), "was attracted to him. . . because unlike most of the other members of the Austrian School he had a good deal of sympathy with [the] mild Fabian Socialism to which I was inclined as a young man. He in fact prided himself that his theory of marginal utility had provided the basis of progressive taxation..."

⁴⁷ The tradition of attempting to dissociate Mises's "personal," "Manchester-liberal" world-view from "the objective findings of the Austrian school" was carried on by Weber (1949, p. 644).

⁴⁸ For a more recent assault on Mises, propelled by a barely suppressed hysteria, see Krohn 1981.

At an early point in his career, Hayek (1933) stated that the lessons of economics will create a presumption against state interference, adding:

However, this by no means does away with the positive part of the economist's task, the delimitation of the field within which collective action is not only unobjectionable but actually a useful means of obtaining the desired ends. . . the classical writers very much neglected the positive part of the task and thereby allowed the impression to gain ground that laissez-faire was their ultimate and only conclusion.. (pp. 133-134).

In fact, Hayek always avoided using the term laissez-faire to describe his own view, quite unlike Mises, who gloried in it. Provocatively, Hayek stated (1933, p. 134) that the supposed laissez-faire conclusion of classical economics “of course, would have been invalidated by the demonstration that, in any single case, State action was useful.”

In fact, Hayek consistently displayed a penchant for a degree of *Sozialpolitik*.⁴⁹ While Mises highlighted the possibilities of meeting the needs of the deserving poor through private charity and assailed Bismarckian state social insurance programs (1949, pp. 829-850, especially 832-836), Hayek declared (1960):

though a few theorists have demanded that the activities of government should be limited to the maintenance of law and order, such a stand cannot be justified by the principle of liberty... . It can hardly be denied that, as we grow richer, that minimum of sustenance which the community has always provided for those not able to look after themselves, and which cannot be provided outside the market, will gradually rise, or that government may, usefully and without doing any harm, assist or even lead in such endeavors. There is little reason why the government should not also play some role, or even take the initiative, in such areas as social insurance and education, or temporarily subsidize certain experimental developments. Our problem here is not so much with the aims as the methods of government action (pp.257-258).

The state, Hayek insisted, is not solely “a coercive apparatus,” but also “a service agency,”⁵⁰ and as such “it may assist without harm in the achievement of desirable aims which perhaps could not be achieved otherwise.” This opening to a fairly extensive welfare state in cases where it “involves no coercion except for the raising of the means by taxation” (Hayek 1978, p. 144), has been criticized by Anthony de Jasay (1991, pp. 15-16). De Jasay remarks that Hayek puts his proposal “a touch naïvely,” and states:

⁴⁹ See also Streissler 1987, p. 10: “pronounced liberals, at least in the eighteenth and nineteenth centuries, were rather averse to a redistributive function [of the state]. On the other hand, Friedrich von Hayek, for instance, is no longer of this opinion. He believes only that the pursuit of *Sozialpolitik* should not be attempted with the help of the market but through transfers independent of the market.”

⁵⁰ Cf. for example, Mises 1949, p. 149: “State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action... . The state is essentially an institution for the preservation of peaceful interhuman relations. However, for the preservation of peace it must be prepared to crush the onslaughts of peace-breakers.”

Here is a clear call, or what anyone might be excused for taking as one, to re-create something like the “Swedish model” under the liberal banner. Horrified as Hayek would be by the imputation of such a proposal, his exposition is fully consistent with it, and must be classed as “loosely liberal” for that reason.⁵¹

Predictably, Hayek’s endorsement of state activism in the “social” sphere has provided opponents of the laissez-faire position with a rhetorical argument of the form, “even F. A Hayek conceded...” (e.g., Battisti 1987, pp. 264-265, where the author uses Hayek to undercut the minimal state position of Wilhelm von Humboldt).

Hayek and Mises may be contrasted in other respects as well. For instance, J. C. Nyiri (1986) points out that Hayek’s social philosophy resembles not only the British Whig (moderate liberal) tradition, which Hayek explicitly recognized, but also that of Austrian *Aitliberalismus* (Old Liberalism), which had many features in common with British Whiggism. As Nyiri (1986, p. 104) states: “There is a haunting traditionalism, or conservatism, in Hayek’s position...” Austrian *Aitliberalismus* had a marked attraction toward inherited institutions and a skepticism toward the concept of individual rights (whether understood as natural or positive). Many of its representatives were “definitely averse to unrestricted social mobility” (1986, p. 106)—which meant, in Austria-Hungary, the self-betterment of the Jews.

Mises, on the other hand, was more radical in this as in other areas. (On Mises’s radicalism, see Rothbard 1981.) While a strong proponent of traditional “bourgeois” (*not* aristocratic) culture, which he regarded as in important ways harmonious with what we know of human nature, Mises understood that culture to be founded on a commitment to reason as a way of life. Tributes to the faculty of human reason are strewn throughout his works, for example, reason is “the mark that distinguishes man from animals and has brought about everything that is specifically human” (1949, p. 91); “Man has only one tool to fight error: reason” (p. 187). This stands in stark contrast to Hayek’s disparagement of reason in his later works (see especially, Hayek 1988).

As for tradition, Mises’s attitude was perhaps best expressed in *Theory and History* (1957):

History looks backward into the past, but. . . it does not teach indolent quietism; it rouses men to emulate the deeds of earlier generations. . . Faithfulness to tradition means to the historian observance of the fundamental rule of human action, namely, ceaseless striving to improve conditions. It does not mean preservation of unsuitable old institutions and clinging to doctrines long since discredited by more tenable theories (pp. 294, 296).⁵²

⁵¹ Hans-Hermann Hoppe (1994, p. 67) has gone so far as to assert that “Hayek’s view regarding the role of market and state cannot systematically be distinguished from that of a modern social democrat.” But see the attack on Hayek for his rejection of the concept of social justice by a social democratic writer, Plant 1994.

⁵² A comprehensive examination of what Hayek criticized as Mises’s “extreme rationalism” (introduction to Mises

Contemporary Austrian economists, following in Mises's footsteps, have by and large adopted a more radical form of liberalism. At least one of them, Murray N. Rothbard (1970, 1973), has gone even further in his anti-statism. It is to a large degree due to Rothbard's "libertarian scholarship and advocacy" (Kirzner 1987, p. 149) that Austrianism is associated in the minds of many with a defense of the free market and private property to the point of the very abolition of the state, and thus of the total triumph of civil society. It should be noted, also, that Rothbard has dealt extensively with questions of international relations, foreign policy, and war and peace, a dimension largely neglected by other Austrians (e.g., Rothbard 1972, 1978; but see also Mises 1944). In this area, too, Rothbard has sought to implement the liberal ideal of minimizing state power.

APPENDIX

A Note on Carl Menger's Social Philosophy

Erich Streissler assumes that Crown Prince Rudolf's notebooks reflect the policy views of his tutor, Menger. If that is so, Menger at this time harbored a fairly restrictive idea of the functions of the state, limiting them (beyond justice and defense) to remedying certain "externalities." "Only abnormal cases permit the intervention of the state; in the normal situations of economic life we shall always have to declare such a procedure to be harmful," the Crown Prince wrote. The state's duties are to be restricted to: measures against the spread of cattle diseases; negotiating trade treaties with other states; building roads, railroads, canals, and schools; and abolition of child labor and the limitation of adult labor in factories to fifteen hours a day (Streissler 1987, pp. 22-23).

What to make then of Menger's later statements that seem to endorse *Sozialpolitik* (social reform)? In dealing with the 1891 essay on Adam Smith, Streissler (1990b, pp. 109-110) misrepresents Menger's position in a passage that he himself quotes in German in a footnote. Streissler writes: "What [Menger] actually says is simply that Adam Smith did not consider justice always to be on the side of the employers in all their conflicts with and all their demands against their workers (obviously true!); and that Smith was not against all types of state actions in all cases (again obviously true)." In the quotation he gives, however, what Menger says (1990b, p. 109n, emphasis in original) is: "A. Smith places himself in all cases of conflict of interests between the poor and the rich, between the strong and the weak, *without exception*, on the side of the latter. . . . State intervention *in favor* of the poor and the weak is so little rejected by Smith, that he instead endorses it in all cases in which he expects a *favoring*. . . of the propertyless classes."

In his defense of Smith, Menger states that in fighting for the "poor" against the "rich" Smith went beyond support of the abolition of mercantile measures harming the poor to outright advocacy of positive legislation. "Smith is even for legal determinations of the level of wages,

1981, p. xxiii) is presented, with an implicit critique of Hayek's position, in Salerno 1990.

insofar as they are set *in favor* of the workers, and declares such wage controls *always* just and fair. . . . Indeed, A. Smith goes so far as to designate *the profit on capital as a deduction from the full return to labor, and ground-rent even as the income of those* who wish to harvest where they have not sown” (1935b, p. 224, emphasis in original). Menger treats J.-B. Say in the same manner. Say’s—and Smith’s—alleged support of tariffs to give an advantage to national industry is compared to the ideas of Friedrich List (1935b, pp. 230-231). Menger declares that the German social reform writers were:

in part right in their fight against the representatives of capitalistic Manchesterism—the distorted image of classical economics, in regard to social policy—not *however against Smith and classical economics*. The final shape that classical economics assumed is not found in Cobden, Bright, Bastiat, Prince-Smith, and Schulze-Delitzsch, but in *John Stuart Mill*, that social philosopher who, next to Sismondi, must be characterized as the most important founder of the modern social reform [*social-politischen*] school, insofar as it has an objective scientific character (1935b, pp.232-233).

Further on, Menger explains the differing positions of the classical economists and the social reformers by referring to the conditions of their respective times. While the earlier economists sought the removal of politically-erected hindrances, now the emphasis is on the positive intervention of the state, “a further development of the efforts for the betterment of the condition of the working class” (1935b, pp. 234-235).

Menger had already disassociated himself from laissez-faire in 1884, in his rebuttal to Schmoller’s review of his *Investigations* (Menger 1935c, pp. 90-93). Here Menger writes in a confusing and apparently contradictory manner. First he asserts that:

to be a supporter of the so-called Manchester school is, to be sure, no dishonor; it means only adhering to a series of scientific convictions, of which we can well characterize as the most important the proposition that the free play of individual interests best promotes the common good. Social philosophers intellectually much superior to Schmoller, men guided by the noblest love of truth, have professed themselves supporters of the above principle and the maxims of economic policy resulting from it (1935b, 92n).

Menger goes on to say, however:

If anything reconciles me to Schmoller’s activity in the field of our science, odious in so many respects, then it is the circumstance that he is fighting, with an unmistakable devotion, on the side of honorable men against social evils and for the fate of the weak and the poor. This is a struggle in which, as different as the direction of my researches may be, my sympathies lie entirely on the side of such efforts. I may devote my meager power to the investigation of the laws in accordance with which the economic life of men is shaped; but nothing is further from the trend of my thinking than service in the interest

of capitalism. No accusation of Schmoller's is more contrary to the truth, no reproach more frivolous, than that I am a supporter of the Manchester party...(1935b, p. 93)⁵³

Note that in this passage Menger implies that laissez-faire writers are in service to “the interest of capitalism.” Similarly, in 1906, Menger published in a Berlin newspaper an appreciation of John Stuart Mill on the hundredth anniversary of Mill's birth (Menger 1935a). Here he credits Mill for having devoted so much effort in his *Principles* to social questions, “and in this way attempted for England in many respects what a few decades later the so-called *Kathedersozialismus* [school of the socialists of the chair] tried to accomplish for German economics and Cauwès and Gide for the French.” In doing this, Mill's work:

in particular contributed essentially to the fact that in the educated circles of all countries and in the public discussion today, social problems are to a far lesser degree than before comprehended from the standpoint of a one-sided class interest (1935a, p. 290).

Once again, there seems to be an implication that the laissez-faire position serves the interests of capitalists to the detriment of the working classes.

Streissler, incidentally, is quite misleading when he says (1990b, p. 128) that, “J. S. Mill.. . was considered, at least by Menger, hardly better than a socialist.” As the quotations from the essays of 1891 and 1906 show, Menger viewed Mill with great respect, as a social reformer whose work represented the culmination of classical economics.

Streissler tries to discount these later statements by Menger (1990b, p. 112): “There is not a shred of evidence in his writing that [Menger] did change his position towards a more muted liberalism [after the period of the Crown Prince's notebooks]. His *general* pronouncements just appear more in favor of social policy; but he never gives *concrete* examples in conflict with the lecture notes.” But as Streissler himself writes of the founders of the Austrian school (1987, p. 11), they “were all theoreticians and thus almost never wrote anything on their political views, although they certainly had quite pronounced views on economic policy.” “Concrete examples” of Menger's overall policy views appear to be rare, except perhaps as reported *indirectly*, in the notebooks. On the other hand, Menger was surely aware that terms like *Sozialpolitik* and *Kathedersozialismus* denoted support for an activist state in economic affairs. If Menger was “a classical liberal of the purest water,” as Streissler claims, why did he write so favorably of *Sozialpolitik* and *Kathedersozialismus*—to the point of conceding Schmoller's great services in furthering the cause of “social reform” in the midst of a diatribe against him? Why did he attack Manchesterism so vehemently? Unless the explanation is to be found in political opportunism, these statements represent a great mystery, given Streissler's interpretation.

As against Menger's published statements spanning the years 1883-1906, Streissler sets

⁵³ Menger adds in a footnote (1935c, p. 93n): “I certainly attack the so-called ‘ethical’ tendency in political economy in a number of places in my *Investigations*, while strictly distinguishing it from the ‘social-political’ [social reform] tendency in economic research.”

what he takes to be implications of the notebooks of 1876. But we know that in certain respects the notebooks do not correspond to Menger's views (although they presumably reflect what Menger taught the Crown Prince). Marginal valuation does not appear in the notebooks, and, according to them, Menger even taught the young prince "the iron law of wages" (Streissler 1990b, pp. 127-128). Streissler overestimates the probative value of these notebooks—and subverts his own case—when he states (p. 125) that, since none of Menger's own ideas on economics was taught to the Crown Prince: "From the lectures to Rudolf we must conclude that Menger evidently thought his innovations unimportant frills on the great edifice of classical economics erected by Adam Smith."

Margarete Boos (1986) has cited the letter Menger wrote to the Kaiser, outlining his political views. Here Menger distinguished between the "individualists" and the "ethicists" (*Ethiker*); "the ethicists [also] hold freedom of economic activity to be the natural and normal state of affairs, but are aware of conflicts between individual and common interest in economic affairs, and attribute to the state. . . the right to influence economic affairs in the direction of the common interest." He himself, he wrote, adhered to the "moderate school of the ethicists" (1986, p. 29). Later, in an anonymous obituary for the Crown Prince published in a Vienna paper, Menger made a point of putting on the record that the Prince had been tutored from a point of view "as distant from Manchesterism as from protectionism" (1986, p. 31).

The fact is, as Boos points out, that Menger was under suspicion at the Court of being too liberal. At least at an early point he was even subjected to police reports on his political inclinations (1986). Thus, it may be that political opportunism—within the framework of a state where the expression of liberal opinions could be highly damaging—really does explain, at least partially, Menger's endorsement of *Sozialpolitik* and his sometimes odd and contradictory statements on economic policy.

ACKNOWLEDGMENTS

I am grateful for the comments on an earlier version of this paper from the members of Professor Mario Rizzo's Graduate Colloquium on Austrian Economics, of New York University, and Professor Barry Smith.

REFERENCES

- Barucci, P. 1972. "The Spread of Marginalism in Italy, 1871-1890." *History of Political Economy*, 4(2): 512-31.
- Battisti, S. 1987. *Freiheit und Bindung. Wilhelm von Humboldts "Ideen zu einem Versuch, die Grenzen der Wirksamkeit des Staats zu bestimmen" und das Subsidiaritätsprinzip*. Berlin: Duncker and Humblot.
- Birken, L. 1988. "From Macroeconomics to Microeconomics: The Marginalist Revolution in Sociocultural Perspective." *History of Political Economy*, 20 (2): 251-64.

- Boettke, P. J. 1990. *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928*. Boston: Kluwer.
- Bohm, S. 1985. "The Political Economy of the Austrian School." In *Gli economisti e la politica economia*, edited by P. Roggi. Naples: Edizioni Scientifiche Italiane.
- 1990. "The Austrian Tradition: Schumpeter and Mises." In *Neoclassical Economic Theory, 1870 to 1930*, edited by K. Hennings and W. Samuels. Boston: Kluwer.
- Bohm-Bawerk, E. von. 1891. "The Austrian Economists." *Annals of the American Academy of Political and Social Science*, 1 (January).
- _____ 1924. "Nachtheilige Wirkungen des freien Wettbewerbs." In *Gesammelte Schr(ften*, edited by F. X. Weiss. Vienna! Leipzig: Holder-Pichler-Tempsky.
- Boos, M. 1986. *Die Wissenschaftstheorie Carl Mengers. Biographische und ideengeschichtliche Zusammenhange*. Vienna: Hermann Bohlaus.
- Bukharin, N. 1927. *The Economic Theory of the Leisure Class*. New York: International Publishers.
- Caidwell, B. J. 1984. "Praxeology and Its Critics: An Appraisal." *History of Political Economy*, 16 (3): 363-79.
- _____ 1986. "Towards a Broader Conception of Criticism." *History of Political Economy*, 18 (4): 675-81.
- _____ (ed.). 1990a. *Carl Menger and His Legacy in Economics*. Annual Supplement to Volume 22, *History of Political Economy*. Durham, NC: Duke University Press.
- _____ 1990b. "Editor's Introduction." *Carl Menger and His Legacy in Economics*. Annual Supplement to Volume 22, *History of Political Economy*. Durham, NC: Duke University Press.
- Chaloupek, G. 1986. "Marxistische Kritik an der Osterreichischen Schule." In *Die Wiener Schule der Nationalökonomie*, edited by N. Leser. Vienna: Hermann Böhlaus Nachf.
- Dasgupta, A. K. 1985. *Epochs of Economic Theory*. Oxford: Basil Blackwell.
- De Jasay, A. 1991. *Choice, Contract, Consent: A Restatement of Liberalism*. London: Institute of Economic Affairs.
- Dolan, E. G. (ed.). 1976a. *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward. 1976b. "Austrian Economics as Extraordinary Science." In *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.
- Elster, J. 1985. *Making Sense of Marx*. Cambridge: Cambridge University Press.
- Fetter, F. A. 1923. "Value and the Larger Economics. Rise of the Marginal Doctrine." *Journal of Political Economy*, 31(5): 5 87-605.
- Finer, S. E. 1968. "Pareto and Pluto-Democracy: The Retreat to Galapagos." *American Political Science Review*, 62 (2): 440-50.
- Friedman, M. 1991. "Say 'No' to Intolerance." *Liberty*, 4 (6): 17-19.
- Garrison, R. W., and I. M. Kirzner. "Friedrich August von Hayek." Pp. 119-30 in *The New Pa/grave: The Invisible Hand*, edited by J. Eatwell, M. Milgate, and P. Newman. New York: Norton.
- Gellner, E. 1968. "Holism Versus Individualism." In *Readings in the Philosophy of the*

Social Sciences, edited by M. Brodbeck. New York: Macmillan.

- Hamowy, R. 1987. *The Scottish Enlightenment and the Theory of Spontaneous Order*. Carbondale, IL: Southern Illinois University Press.
- Hayek, F. A. 1933. "The Trend of Economic Thinking." *Economica*, 13 (May): 121-37.
- _____ 1948. *Individualism and Economic Order*. Chicago: University of Chicago Press.
- _____ 1955. *The Counter-Revolution of Science*. Glencoe, IL: Free Press.
- _____ 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- _____ *The Austrian School and Classical Liberalism*
- _____ 1967. *Studies in Philosophy, Politics, and Economics*. Chicago: University of Chicago Press.
- _____ 1968. "Economic Thought: The Austrian School." In *International Encyclopedia of the Social Sciences* (volume 4), edited by D. Sills. New York: Macmillan and the Free Press.
- _____ 1973. "The Place of Menger's Grundsätze in the History of Economic Thought." In *Carl Menger and the Austrian School of Economics*, edited by J. R. Hicks and W. Weber. Oxford: Clarendon.
- _____ 1978. *New Studies in Philosophy, Economics, and the History of Ideas*. London: Routledge & Kegan Paul.
- _____ 1983. *Evolution and Society*. London: Adam Smith Institute.
- _____ 1988. "The Fatal Conceit. The Errors of Socialism." In *The Collected Works of F. A. Hayek* (volume 1), edited by W. W. Bartley, III. Chicago: University of Chicago Press.
- _____ 1992. "The Fortunes of Liberalism. Essays on Austrian Economics and the Ideal of Freedom." In *The Collected Works of F. A. Hayek* (volume 4), edited by Peter Klein. Chicago: University of Chicago Press.
- Hennings, K., and W. J. Samuels. 1990. *Neoclassical Economic Theory, 1870 to 1930*. Boston: Kluwer.
- Hicks, J. R., and W. Weber (eds.). 1973. *Carl Menger and the Austrian School of Economics*. Oxford: Clarendon.
- Hoppe, H.-H. 1993. "Einführung: Ludwig von Mises und der Liberalismus." Pp. 7-38 in *Liberalismus*, edited by L. von Mises. Sank Augustin: Academia Verlag.
- _____ 1994. "F. A. Hayek on Government and Social Evolution: A Critique." *Review of Austrian Economics*, 7 (1): 67-93.
- Humboldt, W. von. 1969 (1854). *The Limits of State Action*, edited by J.W. Burrow, translated J.C. Coutland and J.W. Burrow. Cambridge: Cambridge University Press.
- Hutchison, T. W. 1972. "The 'Marginal Revolution' and the Decline and Fall of English Classical Economics." *History of Political Economy*, 4 (2): 442-468.
- _____ 1981. *The Politics and Philosophy of Economics. Marxians, Keynesians and Austrians*. New York: New York University Press.
- Kauder, E. 1957. "Intellectual and Political Roots of the Older Austrian School." *Zeitschrift für Nationalökonomie*, 17 (4): 411-425.

- _____ 1965. *A History of Marginal Utility Theory*. Princeton, NJ: Princeton University Press. Keizer, W. 1994. "Hayek's Critique of Socialism." Pp. 207-31 in *Hayek, Co-Ordination and Evolution*, edited by J. Birner and R. van Zijp. London: Routledge.
- Kirzner, I. M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press.
- _____ 1976a. "Philosophical and Ethical Implications of Austrian Economics." In *The Foundations of Modern Austrian Economics*, edited by E. G. Dolan. Kansas City: Sheed and Ward.
- _____ 1976b. "Ludwig von Mises and the Theory of Capital and Interest." In *The Economics of Ludwig von Mises*, edited by Laurence S. Moss. Kansas City: Sheed and Ward.
- _____ 1987. "Austrian School of Economics." In *The New Paigrove: The Invisible Hand* (volume 1), edited by J. Eatwell, M. Milgate, and P. Newman. New York: Norton.
- _____ 1990. "Menger, Classical Liberalism, and the Austrian School of Economics." In Caldwell 1990a.
- _____ 1992a. "Human Action, Freedom, and Economic Science." In *The Man of Principle: Essays in Honor of Hans Sennholz*, edited by J. Robbins and M. Spangler. Irvington, NY: Foundation for Economic Education.
- _____ 1992b. "Austrian Economics and the Doctrine of Wertfreiheit." Paper presented to the Austrian Economics Seminar of New York University.
- Krohn, C.-D. 1981. *Wirtschaftstheorien als politische Interessen. Die akademische Nationalökonomie in Deutschland 1918-1933*. Frankfurt: Campus Verlag.
- Lachmann, L. 1973. *Macro-Economic Thinking*. Menlo Park, CA: Institute for Humane Studies.
- _____ 1978. *Capital, Expectations, and the Market Process: Essays on the Theory of the Market Economy*. Kansas City: Sheed and Ward.
- Lavoie, D. 1985. *Rivalry and Central Planning. The Socialist Calculation Debate Reconsidered*. Cambridge: Cambridge University Press.
- Machlup, F. 1981. "Ludwig von Mises: The Academic Scholar Who would not Compromise." *Wirtschaftspolitische Blätter*, 28 (4): 6-14.
- März, E. 1991. *Joseph Schumpeter. Scholar, Teacher and Politician*. New Haven, CT: Yale University Press.
- Matis, H. 1974. "Sozioökonomische Aspekte des Liberalismus in Österreich 1848-1918." In *Sozialgeschichte Heute. Festschrift für Hans Rosenberg zum 70. Geburtstag*, edited by H. Wehler. Göttingen: Vandenhoeck and Ruprecht.
- Meek, R. L. 1972. "Marginalism and Marxism." *History of Political Economy*, 4 (2): 499-511. Menger, C. 1935a (1906). "John Stuart Mill." Pp. 283-91 in *Kleinere Schriften zur Methode und Geschichte der Volkswirtschaftslehre*, in *The Collected Works of Carl Menger* (volume 3). London: London School of Economics.
- _____ 1935b (1891). "Die Social-Theorien der classischen National-Oekonomie und die moderne Wirthschaftspolitik." Pp. 219-81 in *Kleinere Schriften zur Methode und*

Geschichte der Volkswirtschaftslehre, in *The Collected Works of Carl Menger* (volume 3). London: London School of Economics.

- _____ 1935c (1884). “Die Irrthümer des Historismus in der deutschen Nationalökonomie.” Pp. 3-97 in *Kleinere Schriften zur Methode und Geschichte der Volkswirtschaftslehre* in *The Collected Works of Carl Menger* (volume 3). London: London School of Economics.
- _____ 1981 (1871). *Principles of Economics*. Translated by J. Dingwall and B. F. Hoselitz. New York: New York University Press.
- _____ 1985 (1883). *Investigations into the Method of the Social Sciences with Special Reference to Economics*, edited by L. Scheider, translated by F.J. Nock. New York: New York University Press.
- Mill, J. S. 1985 (1859). *On Liberty*. London: Penguin Classics.
- Mises, L. von. 1933. *Grundprobleme der Nationalökonomie*. Jena: Gustav Fischer.
- _____ 1944. *Omnipotent Government*. New Haven: Yale University Press.
- _____ 1949. *Human Action: A Treatise on Economics*. New Haven: Yale University Press.
- _____ 1957. *Theory and History*. New Haven: Yale University Press.
- _____ 1969. *The Historical Setting of the Austrian School of Economics*. New Rochelle, NY: Arlington House.
- _____ 1978a (1927). *Liberalism: A Socio-Economic Exposition*. Translated by R. Raico. Kansas City: Sheed, Andrews, and McMeel.
- _____ 1978b. *Notes and Recollections*. Translated by H. F. Sennholz. South Holland, IL: Libertarian Press.
- _____ 1981 (1922). *Socialism. An Economic and Sociological Analysis*. Translated by J. Kahane. Indianapolis: Liberty Press.
- _____ 1990 (1961). “On Equality and Inequality.” In *Money, Method, and the Market Process: Essay by Ludwig von Mises*, edited by R. M. Ebeling. Norinwell, MA: Kluwer Academic Publishers.
- _____ 1993 (1927). *Liberalismus*. Sankt Augustin: Academia Verlag.
- Mises, L. von, and A. Spiethoff (eds.). 1933. *Prbleme der Wertlehre* (Part II). Munich/Leipzig: Duncker and Humblot.
- Nyiri, J. C. 1986. “Intellectual Foundations of Austrian Liberalism.” In *Austrian Economics. Historical and Philosophical Background*, edited by W. Grassl and B. Smith. New York: New York University Press.
- O’Driscoll, G. P. 1986. “Money: Menger’s Evolutionary Theory.” *History of Political Economy*, 18 (4): 601-616.
- Plant, R. 1994. “Hayek on Social Justice: A Critique.” Pp. 164-177 in *Hayek, Co-Ordination and Evolution*, edited by J. Birner and R. van Zijp. London: Routledge.
- Raico, R. 1992. “Prolegomena to a History of Liberalism.” *Journal des Economistes et des Etudes Humaines*, 3 (2/3): 259-72.
- _____ 1994. “Classical Liberalism and Austrian Economics.” Pp. 320-327 in *Elgar Companion to Austrian Economics*, edited by P. J. Boettke. Aldershot: Edward Elgar.
- Reekie, W. D. 1984. *Markets, Entrepreneurs and Liberty: An Austrian View of*

Capitalism. London: Wheatsheaf.

- Robbins, L. 1953. *The Theory of Economic Policy in English Classical Political Economy*. London: Macmillan. Robinson, J. 1962. *Economic Philosophy*. Chicago: Aldine.
- Ross, D. 1991. *The Origins of American Social Science*. Cambridge: Cambridge University Press.
- Rothbard, M. N. 1962. *Man, Economy, and State*. Princeton: Van Nostrand.
- _____ 1963. *America's Great Depression*. Princeton: Van Nostrand. 1970. *Power and Market. Government and the Economy*. Menlo Park, CA: Institute for Humane Studies.
- _____ 1972. "War Collectivism in World War I." Pp. 66-110 in *A New History of Leviathan*, edited by R. Radosh and M. N. Rothbard. New York: E. P. Dutton.
- _____ 1973. *For a New Liberty*. New York: Macmillan.
- _____ 1976a. "New Light on the Prehistory of the Austrian School," in Dolan 1976a.
- _____ 1976b. "Praxeology, Value Judgments, and Public Policy." *The Foundations of Modern Austrian Economics*, edited by E. G. Dolan. Kansas City: Sheed and Ward.
- _____ 1978. "The Foreign Policy of the Old Right." *Journal of Libertarian Studies*, 2 (1): 85-96.
- _____ 1979. *Individualism and the Philosophy of the Social Sciences*. San Francisco: Cato Institute.
- _____ 1981. "The Laissez-Faire Radical: A Quest for the Historical Mises." *Journal of Libertarian Studies*, 5 (3): 237-53.
- _____ 1988. *Ludwig von Mises: Scholar, Creator, Hero*. Auburn, AL: Ludwig von Mises Institute.
- _____ 1995. *An Austrian Perspective on the History of Economic Thought* (2 volumes). Aldershot: Edward Elgar.
- Salerno, J. T. 1990. "Ludwig von Mises as Social Rationalist." *Review of Austrian Economics*, 4: 26-54.
- Schmoller, G. 1883. "Zur Methodologie der Staats- und Sozial-Wissenschaften." *Schmollers Jahrbuch*, 7 (3): 240-58.
- Shand, A. H. 1984. *The Capitalist Alternative: An Introduction to Neo-Austrian Economics*. New York: New York University Press.
- _____ 1990. *Free Market Morality. The Political Economy of the Austrian School*. London and New York: Routledge.
- Silverman, P. 1990. "The Cameralist Roots of Menger's Achievement." In Caldwell 1990a.
- Steele, D. R. 1992. *From Marx to Mises. Post-Capitalist Society and the Challenge of Economic Calculation*. La Salle, IL: Open Court.
- Streissler, E. 1986. "Arma virumque cano. Friedrich von Wieser, the Bard as Economist." In *Die Wiener Schule der Nationalökonomie*, edited by N. Leser. Vienna: Hermann Böhlau Nachi.
- _____ 1987. *Wie Liberal Waren die Begründer der Österreichischen Schule der*

Nationalökonomie? Vienna: Carl Menger Institute.

- 1988. “The Intellectual and Political Impact of the Austrian School of Economics.”
- *History of European Ideas*, 9 (2): 191-204.
- 1990a. “The Influence of German Economics on the Work of Menger and Marshall.”
- In Caldwell, I 1990a.
- _____ 1990b. “Carl Menger on Economic Policy: The Lectures to Crown Prince Rudolf.” In Caldwell, 1990a.
- _____ 1990c. “Menger, Bohm-Bawerk, and Wieser: The Origins of the Austrian School.” In *Neoclassical Economic Theory, 1870 to 1930*, edited by K. Hennings and W. J. Samuels. Boston: Kluwer.
- Streissler, E., and W. Weber. 1973. “The Menger Tradition.” In *Carl Menger and the Austrian School of Economics*, edited by J. R. Hicks and W. Weber. Oxford: Clarendon.
- Vaughn, K. I. 1989. “Invisible Hand.” Pp. 168-72 in *The New Palgrave: The Invisible Hand*, edited by J. Eatwell, M. Milgate, and P. Newman. New York: Norton.
- _____ 1990. “The Mengerian Roots of the Austrian Revival.” In *Carl Menger and his Legacy in Economics*, edited by B.J. Caldwell. Durham, NC: Duke University Press.
- _____ 1994. *Austrian Economics in America: The Migration of a Tradition*. Cambridge: Cambridge University Press.
- Vleugels, W. 1935. “Die Kritik am wirtschaftlichen Liberalismus in der Entwicklung der deutschen Volkswirtschaftslehre.” *Schmollers Jahrbuch*, 59 (5): 513-52.
- Weber, W. 1949. “Wirtschaftswissenschaft und Wirtschaftspolitik in Osterreich 1848 bis 1948.” Pp. 624-78 in *Hundert Jahre Osterreichischer Wirtschaftsentwicklung*, edited by H. Mayer. Wien: Springer Verlag.
- White, L. H. 1984. *The Methodology of the Austrian School Economists*. Auburn, AL: Ludwig von Mises Institute.
- _____ 1990. “Restoring an ‘Altered’ Menger.” In Caldwell, 1990a.
- Wieser, F. von. 1923. “Karl [sic] Menger.” *Neue Osterreichische Biographie, 1815-1918*. Vienna: Wiener Drucke.
- Zlabinger, A. H. 1994. *Ludwig von Mises*. Konigswinter: Friedrich Naumann Stiftung.