

Foreword

Austrian economics and its reception in different countries

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1. Introduction

The so-called Marginal revolution in economics (which began in the 1870s with the publication of books of C. Menger, W. S. Jevons, and L. Walras) was the most decisive turn in the history of economic science. The revolution, which originally focused on the value theory, changed the scope, method, and even the name of the science (economics instead of political economy). The Marginal revolution is traditionally divided into three different “schools” as follows: the Austrian school, the Lausanne school, and the “English” school.¹ Among the marginalist traditions, the Austrian school looked more like a real school with a founder (Carl Menger), a great book (*Grundsätze der Volkswirtschaftslehre*) and several generations of followers. Marshall’s “Principles of Economics” unfolded in Cambridge in a similar manner. The “Lausanne school” was actually a chair in the local University that was occupied successively by Walras and Pareto. Subsequently, the tradition proliferated across many countries and was no longer localized in a single place.

The division of these three schools was certainly connected with different language traditions — German, French, and English. The professional society of economists did not exist earlier; it emerged at the end of the nineteenth century only as a result of the Marginal revolution. Certainly, economists worldwide did not have a lingua franca earlier, unlike English that is the commonly adopted language among economists today, and they worked within their domestic traditions. However, there were several other prominent differences in the approach between the marginalists of different schools. These differences

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¹ In fact, Jevons did not create a school of his own; moreover, Alfred Marshall, the founder of a school in Cambridge, disagreed with Jevons on some important issues.

can be partly attributed to the so-called “patristic legacies” (Pribram, 1983; Perlman and McCann, 1998), which were not necessarily confined by national borders.

2. Marginalist schools and their patristic legacies

The “English” empirical utilitarian tradition, founded by Jeremy Bentham and the philosophic radicals, connected an individualistic approach with attempts at aggregation of individuals. According to them the best action was considered as one that achieved the greatest happiness for the greatest number of individuals through appropriate legislation and active policy. Utilitarian ethics were characterized by consequentialism and a measurable criterion.

The scientific heuristics of the tradition included mathematical modeling with a limited degree of abstraction (partial equilibrium system) and the possibility of measurement. This tradition can be easily traced in the works of Marshall, A. C. Pigou, and other representatives of the Cambridge school.

The “French” rationalistic” (not empirical) Cartesian tradition was not individualistic but universalist and tried to discover general natural and social laws (preferably of Divine origin²) governing human activity. However, such a social order can be established deliberately and by rational design. The scientific heuristics of this approach presumed an abstract formal representation of an economic system, the use of mathematical modeling, and a general coordination scheme. Its highest achievement in the field of economics was the theory of general equilibrium and its principal methodological goal was to establish a fully axiomatic theoretical system that can be as general as possible.

The subjectivist Austrian tradition, which is commonly referred to as an Aristotelian view (as opposed to Galilean), dealt with *qualitative laws governing the relationships between essences* (Boettke, 1994, p. 33),³ which can be known a priori. The Austrian approach was not empiricist, but rather phenomenological (Cubeddu, 1993, p. 186). It was individualistic and not universalist; however, unlike the utilitarian tradition, the Austrian tradition’s individualism could not lead to measurements and aggregate conclusions because of the subjective character of the variables in question.

Earlier, there was a tendency to consider the Austrian approach “psychological” (Pribram, 1983, p. 289). However, the scholars that used this term understood psychology in a sense that was common before the emergence of a new empirical science of psychology by W. Wundt and others. However, the Austrian tradition was not empirical but logical; its starting point was the a priori logic of individual behavior (not impersonal objective forces).

Patristic legacies (with particular “national flavors”) gave different meanings and uses to marginal analytic techniques, which were abstract universal instruments used by all the marginalist schools. The latter, in turn, influenced economists in different nations. We can also speak about a tentative connection between the schools of marginalism and the preferred character of economic poli-

² In fact, the utilitarians also considered their mandate as received from God. We can see it most clearly in Gossen’s work, which belongs to the utilitarian tradition.

³ For Menger (but not for Mises), essences existed in reality.

cies—activist by utilitarians, principal/libertarian by Austrians, and constructivist by Walrasians.

In the following articles, the authors will concentrate on the reception of the Austrian school of economics and its influence in different European countries.

3. Viennese cultural background

Apart from a patristic legacy, we can also observe the traits of the Viennese cultural atmosphere that influenced the development of the Austrian school. Here, we must highlight the importance of the non-academic ways of scientific communication. Viennese scholars met and discussed their ideas not only in the university auditoriums and through scientific journals but in circles⁴ that brought together representatives from different scientific fields. This caused the absence of disciplinary boundaries and other academic constraints, which was not the case in England (Dekker, 2016).

While because of the reputation of the Austrian school it is common to think of Vienna as the stronghold of liberalism, it was not uniformly liberal and pro-capitalist. The influence of social democrats and marxists was very strong (even among the Viennese economists) (Dekker, 2016). Therefore, probably the anti-Marxist positions of the Austrian school were developed explicitly as an antidote to Marxism, in the hands of Böhm-Bawerk.

4. Key features of the Austrian school

The Austrian school had the most specific methodology among the marginalist schools and has kept its specificity until today. In the 1930s, the works of marginalists were consolidated under the neoclassical theory that had Walrasian dominance. Although it was argued that the distinct Austrian school disappeared, it actually survived.

There is a consensus about the characteristic features of the Austrian approach in economics (see an extensive list in Faccarello and Kurz, 2016, pp. 259–260). This can be partly attributed to the fact that nearly all Austrian economists were deeply involved in methodological questions and did not leave them to outsiders. A noticeable feature is the remarkable logic of the Austrian economics—all its characteristics can be consequently derived from each other in a causal chain.

The three basic methodological tenets of Austrian economics are methodological individualism, methodological subjectivism, and theoretical attention on processes in time and not on equilibrium states (Boettke, 1994).

Methodological individualism was also found in the utilitarian tradition; however, the possible existence of empirical knowledge and objective measurement and representation of individual evaluations established this connection.

Methodological subjectivism, which is rightly considered the most important element of the Austrian school (Boettke, 1994), starts with valuations of goods that are given independently of exchange (the latter determines prices, not values). The costs became subjective in the form of opportunity costs. Ultimately, value,

⁴ It was obligatory to make presentations on subjects that were not related to one's field in one of these gatherings.

wealth, profit, loss, and costs, among others can be rightly considered the products of human thought. Subjectivity also refers to the unobservability of economic magnitudes and impossibility of their comparison by different individuals—the external observer can see only exchanges and prices and deduce the underlying values from them. Nevertheless, the Austrians claim to have elaborated an objective science of subjective phenomena.

For Austrians, *market processes* are processes in real time in which there is uncertainty about the future of both consumers and producers. Human action for Austrians is rational but not fully informed. This implies a dynamic concept of competition in contrast to the static neoclassical models of perfect and imperfect competition. Uncertainty provides opportunities for entrepreneurship—the existence of profit and loss—which is also a specific Austrian topic. Such an approach does not include a concept of equilibrium. The institutions (money, property rights, and contracts) emerge spontaneously because of market processes.

It is not easy to place the Austrian school on the axis of “abstract-concrete.” It is evident that the partial equilibrium theory in the manner of Marshall (Cambridge) is less abstract than the general equilibrium theory, which is in the manner of Walras (Lausanne). However, the Austrian tradition does not fit this classification. It can be called abstract with regards to the aspect of *individualism* centered on Robinsonades (although it does refer to the cultural aspects underlined by Hayek) and at the same time relatively concrete with regards to *time and information*.

In fact, the Austrian school provides the informational logic of the economy and society with categories such as goods, exchange, competition, uncertainty, entrepreneurship, and social institutions.

The pervasiveness of non-avoidable uncertainty influences the methods used by Austrian economists. They are opposed to mathematical formalism and opt for qualitative, not functional, explanations.

5. Influence of the Austrian school: Stages

The Austrian school is relatively stable with regards to its basic principles going back to Menger’s *Grundsätze*. Certainly, there were significant changes following the transition to the New Austrian school (with Mises and Hayek as the main protagonists). However, its place relative to the economic mainstream has substantially changed mostly because of changes in the economic mainstream.

During the first stage, till World War II, the Austrian influence was spread mostly in countries with a dominance of the German language (at least among the scientific communities). Menger’s work was translated very late into main European languages (it was translated into English in 1950 and it is being translated into French; see Campagnolo’s article in this issue). The first recipients of Menger’s work were Swedes and Russians. In countries with alternative marginalist schools like Britain, the Austrian approach influenced researchers who did not conform to the Cambridge tradition (Hicks in Oxford, Robbins at the London School of Economics). Hicks introduced the time element into the general equilibrium framework. Robbins insisted that economics should be a positive science without in-built normative ethics.

The most important Austrian “export article” emphasized time and uncertainty and, accordingly, the treatment of entrepreneurship, interest rates, capital struc-

ture, and business cycles. Menger's emphasis on institution-building through free interaction of individuals was also important for many branches of social thought.

While the rapidly growing global popularity of Schumpeter's *Theory of Economic Development* can also be considered, this author cannot be counted as a true representative of the Austrian school.

The economists with a philosophical bent of mind (like M. Tugan-Baranovsky) found the Austrian tradition especially attractive because it was firmly based on philosophical foundations.

In general, the Austrians could participate actively in mainstream economic discussions until the Great Depression, which helped them to get additional publicity (Harvey, 2015): the *Methodenstreit* between Menger and Schmoller, the most important among them was the debate on economic calculation under socialism and the debate on business cycle theory between Keynes and Hayek that occurred after the publication of the *Treatise on Money*.

In the 1930s, the mainstream shifted towards the Walrasian tradition in microeconomics and Keynesianism in macroeconomics. The Austrian school lost its significance and nearly merged with neoclassical economics. Owing to the efforts of Mises and Hayek, it kept its independence though; however, now it is not part of the mainstream. Now we turn to the second stage of its development which took place after the emigration of the main representatives of the Austrian school to the USA. Keeping the entire theoretical structure of the Austrian economics, the representatives of the New Austrian school shifted the main emphasis of the school to an analysis of the market economy and the society built upon it. This kind of society was favorably compared with the alternative centralized economic system existing in the communist Soviet Union and Nazi Germany; this society partly manifested itself in the liberal Western countries.

Some reasons of this switch are obviously connected with World War II. According to some great thinkers, including Schumpeter, this epoch seemed to lead to the inevitable end of capitalism and to the victory of socialism in a certain manner. However, the New Austrians decided to face the enemy in the uneven battle which looked hopeless for many spectators.

This transition is also related to the sociology of economic science. In the USA, the fast-growing specialization, emphasis on measurement, and mathematization of economics posed serious obstacles to careers of Austrian economists who were accustomed to the atmosphere of the unity of science, which prevailed in Vienna (Dekker, 2016). Mises and his school tried to continue their theoretical work in economics along the same lines, as an alternative to the neoclassical mainstream. F. Machlup and G. Haberler became mainstream economists "with an Austrian flavor," while O. Morgenstern was considered a game theorist. Hayek himself conducted broader societal studies.

The Austrian school is traditionally associated with economic liberalism, with one exception (F. Wieser) and one dubious case (Schumpeter). The older Wieser and Schumpeter could be better characterized as elitists than liberals. The Austrian tradition does not assume determinism and gives the individuals a real and responsible choice, which is not necessarily the ideal one. The subjectivity of economic choices is logically compatible with political recognition of freedom of choice.

A very important characteristic of Austrian liberalism is its emphasis on spontaneous social institutions, which are not a product of rational design but

emerge through the interaction of free individuals. This tradition finds its roots in Menger's theory of money, based on the concept of the most exchangeable good. However, the most important contribution was made by Hayek. The individual, as contemplated by Hayek and his school, is not an isolated, but a culturally embedded creature. Cultural and social forces *enable* individuals with limited information and provide them the willpower to be free, rational, and autonomous (Dekker, 2016).

In the USA, the New Austrians met new allies in their fight for liberalism. Chicago neoclassical economists of liberal orientation (M. Friedman, G. Becker, G. Stigler, and R. Posner) and neoinstitutionalists (R. Coase, A. Alchian, and H. Demsetz) joined forces with their Austrian colleagues (though they did not share other Austrian ideas and were not such refined methodologists as Mises and Hayek). However, overall, the Austrian influence was felt more prominently in socio-political discussions than in professional economics

The Austrian *economics* returned to the limelight after the stagflation in the 1970s and the defeat of Keynesianism. The Austrian school became part of a neoconservative turn (though the Austrians were not conservatives in any sense). The awarding of the Nobel Prize to Hayek was a clear symptom of this development. For Austrians, inflation and expansionary monetary policy was an evil, which should be avoided on principal grounds. Here they joined monetarists though unlike the latter they opposed aggregation.

In some sense, the Austrian tradition can relate to the establishment of the micro-foundations of macroeconomics and the macroeconomic policy device that focuses on following general principles (rules). This was Hayek's focus in the debate with Keynes in the 1930s.

An additional advantage of the Austrian approach was its consequent and lucid logic, which made it particularly suitable for introductory textbooks. A few such textbooks are *The Economic Way of Thinking* by P. Heyne; a textbook *Microeconomics: Principles and Policy* by W. Baumol and A. Blinder; and *Economics in One Lesson* by H. Hazlitt.

The following articles⁵ deal with the various aspects of reception and influence of the Austrian economics in different countries. The opening article by Campagnolo gives the reader more than a complex history of the reception of Austrian ideas in France. The scope of the paper is much broader and includes valuable information about the development of the Austrian school itself. An important point that should be underlined is that the Austrian school increased its popularity in France after the Russian *perestroika* and the fall of the Berlin Wall. This point is linked with two other articles devoted to the reception of the Austrian school in two communist countries, which later became post-communist countries (Russia and Bulgaria). The articles by Avtonomov and Makasheva, and Nenovsky and Penchev present the history of this process in Russia (Soviet Union) and Bulgaria, distinguishing three principal periods—initial reception (in Bulgaria via the Russian intermediation), complete oblivion during the communist regimes, and renaissance in post-communist times.

⁵ The contributions to this special issue are based on the papers presented at a special session of the Second World Congress of Comparative Economics “1917–2017: Revolution and Evolution in Economic Development” (St. Petersburg, Russia, June 2017).

Magliulo's contribution to this issue deals with the two periods of the Italian reception of Austrian ideas before World War II, connected with Menger's and Hayek's influence.

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