Introduction

THE AUSTRIAN ECONOMISTS AND NEOCLASSICAL ECONOMICS

The chapters in this volume attempt to explain some of the theories and apply some of the policy implications of the Austrian School of Economics. The Austrian School had its beginnings with the publication of Carl Menger's *Grundsätze der Volkswirtschaftslehre* in 1871. He is best known for having formulated a version of the theory of marginal utility, along with the two other founders of the marginalist approach, William Stanley Jevons and Leon Walras. Jevons and Walras structured their variations on the marginalist theme in the garb of mathematical notation, with an emphasis on the conditions and requirements for the existence of equilibrium states.

Menger, on the other hand, presented the theory in a framework that gave greater emphasis to the roles of uncertainty, imperfect knowledge, and causal and time processes of economizing and production. He was also more interested in explaining the logic behind the process of price formation, rather than the particulars of a specific equilibrium end-state of affairs in the changing conditions of the market. And, in addition, he emphasized an aspect of the social process that neither of his two marginalist co-founders gave any serious attention to: the evolution and formation of spontaneous social institutions. Menger's mode of exposition lead Frank H. Knight to comment in 1931 that, 'In fact, the entire theory is much more convincing in the loose, common-sense formulation of Menger than it is in the more refined mathematical version of Jevons and Walras.'¹

The Austrian School, however, established its place in the mainstream of economic thought in the 1880s and 1890s through the contributions of Eugen von Böhm-Bawerk and Friedrich von Wieser. The two, who were also brothers-in-law, had come across Menger's book when they were students and devoted a good portion of their scholarly efforts over the coming years to developing and extending Menger's ideas. They wrote widely on the topics of value and price, capital and interest, imputation and factor pricing, and opportunity cost. Böhm-Bawerk was the careful methodical logician who assisted in getting Austrian ideas noticed by the economics profession by his willingness to enter into extensive debates in the pages of the economics journals, both in German and in English. Wieser was more of an introvert who

shied away from debates and argument for the most part, but attempted to incorporate some of the Austrian ideas within his second field of interest, historical sociology, in which he formulated a theory of entrepreneurship and leadership for understanding the nature of social and political processes.

During these first decades of the school's existence, the most visible battle lines of debate and disagreement seemed to be primarily with the German Historical School. The latter's proponents rejected an essentially logical-deductive approach to economic analysis for what often appeared an almost purely atheoretical focus on statistical and historical fact gathering from which they believed period-specific economic 'laws' might be derivable. In the wider economics profession, the 'Austrian' approach seemed to many to be merely one variation on the common marginalist theme. In the 1890s and 1910s, the most heated area of argumentation between Austrians like Böhm-Bawerk and 'neoclassical' economists like John Bates Clark often seemed to be over 'technical' issues of how one should think about capital and capital goods; that is, as concrete, discrete produced means of production that are way stations through time leading to the completion of a finished consumer good (as Böhm-Bawerk argued), or as a self-sustaining 'fund' of capital in which the role of time and a period of production could be set aside as not very useful concepts (as Clark insisted).

It is true that, below the surface, points of methodological difference were present. Thus British neoclassical economist Francis Y. Edgeworth could chide Böhm-Bawerk for missing some nuances in the logic of price formation because of his failure to construct his theory in mathematical form,² while, in turn, both Böhm-Bawerk and Wieser could take a young Joseph A. Schumpeter to task for rigidly adhering to a mathematical and 'positivist' approach that led him to reason in circles and fail to appreciate the uniquely 'mental' aspects to all economic phenomena and their understanding.³

But at this time, in general, these differences in 'method' and 'approach' of exposition seemed more a matter of temperament and training than something central or crucial to the reformulation and development of economic theory on the basis of the marginalist concept. The Austrians began to become more conscious of distinctive features in their approach during the 1920s and, especially, 1930s. In 1932, Hans Mayer, successor to Wieser's chair at the University of Vienna, contrasted what he referred to as the 'functional' and 'causal-genetic' theories of price. The functional theory, at the core of the mathematical school that had grown out of the work of Jevons and Walras, focused on a detailed description of *the conditions and requirements for states of general equilibrium*. Mayer also highlighted the distinctly artificial assumptions that were frequently postulated in the formulations of the functional approach. The causal-genetic theory, that had emerged out of Menger's contributions, focused on explaining *the logical processes of price*

*formation out of the interactions of market participants on the basis of their subjective valuations and choices.*⁴

At the same time, in 1931, Ludwig von Mises also argued that ‘Within the field of modern economics the Austrian School has shown its superiority to the School of Lausanne and the schools related to the latter, which favor mathematical formulations, by clarifying the causal relationships between value and cost, while at the same time eschewing the concept of function, which in our science is misleading.’⁵ It was misleading in the social sciences, including economics, Mises had argued earlier in 1929, because it directed attention away from that unique property of the human sciences that is the ultimate causal factor at work that sets the sequence of social events in motion – men’s intentional and volitional will. It also gave the false impression that quantitative predictability was possible in the social sciences in the same manner that it was believed possible in the natural sciences. Mises insisted that ‘Economics too can make predictions in the sense in which this ability is attributed to the natural sciences. The economist can and does know in advance what effect an increase in the quantity of money will have upon its purchasing power or what consequences price controls must have. ... However, this knowledge is not quantitatively definite’, because it depends upon the subjective valuations, judgments and expectations of the interacting market participants. And these were always subject to change and modification owing to the volitional character of such valuations, judgments and expectations. Hence the laws of economics referred to qualitative logical relationships, and not quantitative empirical relationships. ‘This is the reason why history cannot predict things to come and why it is an illusion to believe that qualitative economics can be replaced or supplemented by quantitative economics,’ Mises reasoned. ‘Economics as a theoretical science can impart no knowledge other than qualitative. And economic history can furnish us with quantitative knowledge only *post factum*.’⁶

It is nonetheless true that what separated the Austrians from the neoclassical economists was not easy to see on the surface, especially following Lionel Robbins’ 1932 *Essay on the Nature and Significance of Economic Science*, in which he attempted to synthesize what he saw as the common elements in the ‘Austrian’ and ‘Lausanne’ Schools in terms of a refined and general conception of the universal logic of human choice under conditions of scarcity.⁷ The critical references to and analyses of the mathematical or ‘functional’ approach by Austrians like Mayer and Mises have sometimes confused the issues involved. Neoclassical economists have often presumed that the Austrians were opposed to their method of analysis because of a lack of proper mathematical training or a failure to appreciate the centrality of a careful formalization of the equilibrium concept for any successful economic reasoning. And as the Austrian economist Ludwig M. Lachmann once

observed, 'Unfortunately, they [the Austrians] never were able to show, with the cogency their case required, the incompatibility between the idea of planned action, the very core of Austrian economic thought, and an analytical model which knows no action, but only reaction.'⁸

For the neoclassical theorist, man is the 'chooser' within a set of superimposed 'given' constraints. He is assumed to already have a set of given ends which have been ranked in order of importance, an endowment of given means technologically known to be usable for certain uses and applications, and to be confronted with various terms-of-trade in the form of market prices at which he may trade off the alternatives amongst which he must choose. Given his tastes, means and price constraints, the individual merely calculates what has to be the only rational and optimal 'choice' in his objectively known circumstances. All the individual's decisions are in principle predictable, in fact, preordained, in this 'Logic of Choice', since any choice other than the one dictated by the 'given' conditions would be by definition suboptimal and therefore contrary to the purpose of utility maximization.

For the Austrians, however, this is beginning the analysis one step removed from its causal origin in the mental processes of the individual actors. The Austrians, in other words, ask, from whence come the givens the neoclassical approach takes as its starting point? They argue that the individual creatively imagines a future state (or states) of affairs, conceives of ways in which the objects of the world might be usable as means to attain it (or them), tries to discern causal relationships in the use of those means, and weighs the worth to himself of giving up one goal possibly to achieve some other. Thus 'ends', 'means' and 'trade-offs' arise from and are brought into existence out of the minds of men; they do not exist independently and separately from the human minds that generate them. This is the basis for the Austrian conception of a wider notion of subjectivism than merely an agent's given tastes and preferences. These intentional activities of the mind are a reason why the Austrians often refer to their approach as a 'Logic of Action'.

The uniqueness of Austrian subjectivism, in contrast to the neoclassical subjectivism of given tastes and preferences, therefore, is its intentionalist starting-point. Man is not merely one of the many quantitative variables the simultaneous interactions of which produce a general equilibrium solution. Man, instead, is the focal, the Archimedean, point around which the social world revolves and comes into being. Man is, in the words of the American 'Austrian', Frank A. Fetter, not merely the passive evaluator of goods, but the 'doer of acts'.⁹ From Menger through Mises, the Austrians have seen man as the being that gives meaning, order, structure and significance to the world. Ends and means, costs and benefits, 'sooner' or 'later', finished consumer good and factor of production, profit and loss, friend or foe – all are ultimately concepts and relationships that are creations of the human mind. The alpha and

omega of social phenomena is the subjective world of acting man. The laws of nature and the physical environment may be the limits within which human endeavours are possible of accomplishment, but it is the human actor's conceptions and perceptions of the desirable, possible and attainable that serve as the divining rod for actions initiated, productions undertaken and social relationships formed.

This also helps to explain why, for the Austrians, human action and the events of the social world seem far more unpredictable and far less deterministic than they appear to many neoclassical economists. Having assumed the 'givenness' of the ends-means structure and the constraints out of which any choice will arise, the logic of that choice and its rationality under the circumstances can all be predictively and deterministically explained. Because the decision maker saw these as the alternative ends from which he would want to or could choose, and that these were the available means and their uses, and given that these were the trade-off options as he saw the possibilities before him, the individual came to – had to come to – the conclusion that 'this' was the only logical thing he could – or would – do under the circumstances.

The Austrians see the logic of choice as emerging out of a forward-looking mental process through which an individual *creates in his mind* the elements and options out of which a future choice might arise. Out of the individual's potential fields of interest, some particular interest (desire, want, 'urge', attraction) comes to be the focus of his attention. He imagines some future moment when this interest would be satisfied, fulfilled or completed if he were to act to bring it about. He pictures in his mind what such a state of satisfaction or fulfilment would look like or require. He then mentally brings himself back nearer the present and imagines ways and means by which he can bring that desired or wanted projected future state of affairs into existence. He may undertake any number of such mental projections into the future, imagining various sets of ends and means that are then competing options vying for accomplishment, and from which he may decide to choose.

He may retrace the mental steps of some previous imagined project to incorporate things he has 'learned' and thought of in fantasizing about other imaged projects, and then reshape this earlier goal and plan of action. He begins to weigh and compare the alternatives, and thinks what each is worth to him – what is the valued benefit of each and what costs in terms of forgone projects and uses of means he might be willing to pay – as the price to bring any one of them to fruition. All of this is occurring in time and takes time. And each represents a purpose and a plan about the actualized outcome of which he cannot be perfectly certain.

Herein lies the inherent unpredictability of choice and decision making in the Logic of Action. The analyst cannot know with predictive certainty what

the actor's choice will be, *ex ante*, because the actor does not even know what the alternatives are or how he will evaluate and rank them independent of the temporal 'fantasizing' process out of which a choice may be made. In this sense, our future choices are hidden not only from the social and economic analyst, but from ourselves as well. We can never really know our own choices until we make them. Thus knowledge about our own choices always awaits us in our own future, whether that future is a moment from now or decades away.¹⁰

This is part of the reason behind the Austrian resistance to and often rejection of the 'mathematical' method in economics. In the neoclassical scheme of things, man is reduced to being one of the 'data' in the form of his given tastes and preferences, the quantitative aspect of which now makes its contribution to the determination of general equilibrium outcomes. As Pareto expressed it, 'The individual can disappear, provided he leaves us this photograph of his tastes.'¹¹ Man becomes merely one of the dependent variables in a system of interdependent equations for an economic equilibrium. Or, as the Swedish economist Gustav Cassel once visualized it, man is now 'merely fate determined, like wind-blown shavings raised and lowered on the curves of mathematical determination'.¹² There is no place in this conception of man for acting men who know best their own interests, who can evaluate best their own local circumstances, or who can judge how to pursue their own interests and use their local circumstances to the best effect in the face of profit opportunities as they may see them. Man becomes inanimate matter manifested in the form of relative amounts of various combinations of goods 'chosen' when confronted with a 'given' set of prices.

As an extension of this view of man, in general neoclassical economists have been far more receptive to admitting the possibilities for government intervention, regulation and control than have been the Austrians. With man viewed as a passive responder to his given circumstances, and with a misplaced confidence on the part of a growing number of economists that they had the ability to master not only qualitatively but quantitatively the interconnected relationships between all of the factors at work in the economic system, it became in the 20th century an easy step to conclude that men and their 'choices' were capable of manipulation in the name of attaining more 'optimal' outcomes than when men were left on their own in the market. This was an attitude that was increasingly held by economists on both the 'left' and 'right'. The professional economist possessed the theoretical and quantitative tools to remake, or at least modify, the economic terrain, because of the higher plain from which the neoclassical economist claimed to be able to see the workings of the world.

Many Austrians have, instead, adopted as their conceptual starting point

Max Weber's use of the idea of 'purposeful action' as human behaviour to which 'the acting individual attaches a subjective meaning', and 'social action' as an action by an individual in which he 'takes account of the behavior of others and is thereby oriented in its course'.¹³ In this Weberian framework, individual and intersubjective meanings that the actors assign to their own conduct and the reciprocal conduct of others define the meaning and context of social actions. Thus an 'exchange' is determined by the meanings the actors see in their mutual conduct, said Weber, and 'Without this "meaning" we are inclined to say that an "exchange" is neither empirically possible nor conceptually imaginable.'¹⁴

Especially following the writings of Ludwig von Mises, the Austrian economists have argued that a theory of human action should be constructed on the basis of the qualities and characteristics that common-sense reflection suggests are the natural conditions under which the human actor chooses and acts. Thus the Austrians have emphasized imperfect knowledge, decision making under uncertainty, and the possibility of error. Furthermore, as we have seen, they have argued that 'choice' should not be viewed as fully predetermined or predictable from some prior 'data' of the 'given' situation. Instead, choice emerges out of mental processes in which the actor, in a fundamental sense, creates the 'ends' and 'means' and the terms-of-trade in the context of which a choice will be made. Hence the 'givens' of neoclassical theory in which choices are made are, in fact, not given to either actor or analyst prior to the actual choice-making process itself.

The Austrian economists have also assigned crucial importance to understanding the role of the entrepreneur as initiator and coordinator of enterprising activities, and the processes through which multitudes of human plans in the market may or may not be successfully coordinated through the institutions of market competition and the price system. Their emphasis has been less on the final state of any general equilibrium and more on the processes of creation, adjustment and change in temporal sequences of market interaction. A hypothetical equilibrium state has served more as a conceptual reference point to explain the circumstances under which there would no longer be incentives or opportunities for further profitable actions by either demanders or suppliers. The task of market theory, in the view of most Austrians, has been to explain logically and trace the implications and consequences of the process by which market actors discover potential gains-from-trade at particular moments in time and through time, and initiate actions that take advantage of them.

The Austrian emphasis on active intentionality on the part of individual decision makers has led a number of the members of the school to give especial emphasis to the evolution and development of institutions and societal patterns that are the unintended consequences of human action. From

the interactions of multitudes of individuals, each pursuing their own particular ends, Austrians such as Menger and Hayek have clarified how a complex social order emerges, forms and sustains itself, without either prior design or directed central plan. Through evolved rules and codes of interpersonal conduct, and customs and patterns of social and market interaction, individuals may retain a wide latitude of personal freedom in their actions, while, at the same time, constantly having incentives for constructing and adjusting their respective plans in ways that tend to be harmonious with and mutually beneficial for many of the other members of society.

Finally, the Austrians have drawn various economic policy conclusions from their theoretical explorations into social and market phenomena. Their fundamental argument is that a complex economic order cannot successfully function for purposes of mutual coordination of multitudes of human plans without the institutions of private property and market competition. Only in a setting in which individuals may own goods and resources and buy and sell them will they have the incentives and opportunities to evaluate and appraise their usefulness for the attainment of competing purposes for which they could be applied. Out of these valuations and appraisements emerge gains-from-trade that manifest themselves in the form of market prices in consummated transactions. And these market prices, expressed in the common denominator of money offered to buy and sell goods and resources, then serve as the device for economic calculation which make possible the efficient use of the scarce means of production and the economizing of dispersed information for the coordinating of those multitudes of individual consumer and producer plans.

The Austrians concluded that both socialism and political intervention within the free competitive market process prevent or impede effective use of people's abilities and knowledge for the greater mutual benefit of all the members of society. Traditional socialism abolishes private property, eliminates private buying and selling of goods and resources, and imposes centrally directed planning on all economic activity. By doing so, socialist central planning does away with all the mechanisms for discovering what the members of the society consider worth buying, how best to produce the goods desired by the consuming public, and how to balance the plans of production with those of consumption for a rational apportioning of men and material among their alternative uses. Political intervention in the market through regulations, controls and prohibitions does not do away with the competitive process in the same radical manner as comprehensive socialist planning, but it prevents the free choices and decisions of individuals from determining what actually gets produced, in what productive manner, at what prices and costs and for whose mutual benefit. If, as the Austrians have argued, more knowledge and information is dispersed among the various members of

society than can ever be fully mastered, appreciated and integrated in a single mind or among the best of a handful of minds, then both socialism and political intervention in the market must reduce the effectiveness and efficiency of the way the economic order works and its results.¹⁵

OUTLINE OF THE BOOK

Chapter 1, on ‘How Economics Became the Dismal Science’ compares the older 18th and 19th centuries’ classical economic tradition with the neoclassical school of the late 19th and 20th centuries. It is argued that, in spite of their many limitations and misconceptions, central to the classical way of thinking was the discovery that economic order was possible without political design. The human actor was seen as the discoverer of gains-from-trade, the initiator of market transactions for mutual benefit, with market competition and the system of prices being the institutional framework through which the activities of all the members of the global community were brought into balance and patterned structure. They were confident in having unearthed the socioeconomic regime that could provide both freedom and prosperity. And the chapter explains how different was the neoclassical approach, with its narrow conception of man reduced to passive responder to given, known constraints.

Chapter 2, on ‘The Significance of Austrian Economics in 20th-Century Economic Thought’, contrasts the alternative conception of economic theory and method developed by the Austrian economists from Menger and Böhm-Bawerk to Mises and Hayek. The emphasis is on man as active imaginer and creator, who initiates action and brings about the market process. It is shown that the Austrian meaning to and emphasis on time and production, capital and interest, money and unintended consequences follows logically from the school’s starting premises concerning man and his circumstances. The significance of unintended consequences is highlighted and the limits of planning and regulation are explained within the Austrian framework.

Chapter 3, on ‘A Rational Economist in an Irrational Age: Ludwig von Mises’, offers a fairly detailed exposition and analysis of some of the core ideas to be found in Mises’ writing. Particular emphasis is given to understanding and appreciating his insistence that the central concepts in economic reasoning are inescapably derived from introspective reflection on the logic of our own actions. The chapter explains the significance of economic calculation in Mises’ system and how it forms the foundation for his argument concerning the workings and superiority of the market economy over either socialist planning or various forms of production and price intervention by government.

Chapter 4, ‘Economic Calculation under Socialism: Ludwig von Mises and his Predecessors’, is an exploration in the history of economic thought, and demonstrates that there was in fact a small handful of economists before World War I who had cogently and insightfully made many of the same criticisms of socialist central planning made famous by Mises and Hayek in the middle decades of the 20th century. It then discusses Mises’ criticisms of socialist planning in relation to these earlier criticisms, both in his early writings on socialism in the 1920s and in his more mature restatement of the argument from a more consciously ‘subjectivist’ perspective in the 1940s.

Chapter 5 on ‘Ludwig von Mises and the Gold Standard’, discusses the Austrian theory of money and the monetary system. Building on the earlier contributions of Menger on the market-based origin of money, Mises developed a theory of the value of money and its purchasing power that was constructed on strictly methodological individualistic lines. Thus we find in Mises’ exposition a microeconomic foundational approach to what in the 20th century became known as macroeconomic change and fluctuations. Mises also questioned any monetary and macroeconomic goal of price level stability, precisely because the very notion of a ‘stable’ price level was inconsistent with an insight into the ‘dynamics’ of money’s effect on the ‘real variables’ of the economy. Instead, Mises advocated what he referred to as ‘sound money’, by which he meant a commodity-based monetary standard, such as the gold standard, and one not open to the discretionary and disruptive influences of government manipulation and control.

Chapter 6, on ‘Liberalism and Collectivism in the 20th Century’, explains how and why the liberal market order came to be undermined during that century by socialism and interventionism and what its consequences have been on society. World War I, more than any other event, brought about the demise of the liberal social order that prevailed in many parts of the world before 1914. Private property, freedom of trade and commerce, sound, gold-backed money, international freedom of investment and movement of people came to an end. The state grew strong and the individual grew smaller and weaker in comparison. As the chapter suggests, all of the major ills of society can be traced back to the transfer of power and authority away from free, private individuals interacting in the market-place to the halls of government – most especially the undermining of the free and spontaneous institutions of civil society that in the earlier liberal market era served as the means for individual moral responsibility and social activity to solve the problems of poverty and the poor, and for the fostering of a sense of ‘social duty’ by free men.

Chapter 7, on ‘The Political Myths and Economic Realities of the Welfare State’, discusses how this shift away from individual, private action to

organized state control came about and with what effects. It attempts to explain how the modern welfare state began in late 19th-century Imperial Germany as an attempt by the monarchy and the ruling political groups to pre-empt the rapid growth of the socialist movement, by undermining the appeal of socialism, and how it both created an elitist planning mentality among a wide number of intellectuals and social scientists and bred a politicization of society whose web of privileges and favours through state action is far more intricate and difficult to break than anything under the old mercantilist system of government management and control.

Chapter 8, 'The Free Market and the Interventionist State: the Political Economy of Public Policy', applies the Austrian approach to a critique of three rationales for government intervention in the market economy: the ideal of 'perfect competition', 'social justice' and the 'public interest'. It develops the Austrian position that the perfect competition framework offers a poor basis from which to evaluate the 'efficiency' of market outcomes, as well as arguing that the 'social justice' critique of the market economy fails as both a benchmark and an 'operational' policy tool from which to advocate redistributive changes in society. Finally, the chapter tries to show that a market process approach can show how many supposed social and public goods problems can be solved in the private, competitive arena.

Chapter 9, on 'The Limits of Economic Policy: the Austrian Economists and the German ORDO Liberals', discusses two of the leading market-oriented schools of thought in the 20th century. It seeks to bring out those areas of diagnosis and prescription the two schools shared for understanding the collectivist tragedies of the 20th century. But it also traces where their views on the evolution and impact of historical capitalism diverged and therefore lead them to significantly different conceptions of the role of government in the free society.

Finally, Chapter 10, on 'The Global Economy and Classical Liberalism: Past, Present and Future', offers a political-economic account of the rise and decline of the system of free trade in the 19th and 20th centuries. It discusses the connection between restrictions on international trade and the emergence of the interventionist welfare state, and suggests the policy changes that would be necessary and appropriate for the 21st century to produce a truly integrated, open, peaceful and prosperous global economy.

Together, I hope these chapters offer a clearer conception of the ideas and policy prescriptions of the Austrian School of Economics and show the potential for freedom and prosperity in a political and market order in which men are at liberty to use their knowledge and abilities without unnecessary political restraint and control. The people of the 21st century deserve better than the political and economic ideas and policies the 20th century gave to the world.

NOTES

1. Frank H. Knight, 'Marginal Utility' [1931], reprinted in *The Ethics of Competition* (New York: Harper & Brothers, 1935) p. 160.
2. Francis Y. Edgeworth, 'Professor Böhm-Bawerk on the Ultimate Standard of Value' [1892], reprinted in *Papers Relating to Political Economy*, Vol. III (London: Macmillan, 1925) pp. 59–64.
3. Eugen von Böhm-Bawerk, *Capital and Interest*, Vol. 3 (South Holland, IL: Libertarian Press 1959) pp. 228–9; and Friedrich von Wieser, 'The Nature and Substance of Theoretical Economics' [1911], in Israel M. Kirzner (ed.), *Classics in Austrian Economics*, Vol. I (London: William Pickering, 1994) pp. 285–303.
4. Hans Mayer, 'The Cognitive Value of Functional Theories of Price' [1932], in Israel M. Kirzner (ed.), *Classics of Austrian Economics*, Vol. II (London: William Pickering, 1994) pp. 55–168.
5. Ludwig von Mises, 'On the Development of the Subjective Theory of Value' [1931], in *Epistemological Problems of Economics* [1933] (New York: New York University Press, 1981) p. 165. Attention has been drawn to Mises' comment the following year, at a meeting of the *Verein für Sozialpolitik* in Dresden, Germany, in 'The Controversy Over the Theory of Value' [1932], *ibid.*, p. 214, that 'Within modern subjectivist economics it has become customary to distinguish several schools. We usually speak of the Austrian School and the Anglo-American Schools and the School of Lausanne ... these three schools of thought differ only in their mode of expressing the same fundamental idea and ... are divided more by their terminology and by peculiarities of presentation than by the substance of their teachings', to suggest that Mises did not at this time really and fully see the difference between the Austrian and neoclassical approaches. But considering his comment the year before, in 1931, a more reasonable interpretation is that at the meeting of the *Verein* he was emphasizing to an audience made up of some Marxists and a large number of members of the German Historical School that the great divide was between all those who understood the logic of the laws of economics along the 'marginalist' line regardless of the different approaches, and those like the Marxists who still adhered to the Classical labour theory of value or the German Historicists who rejected any universal and theoretical laws of economics.
6. Mises, 'Sociology and History' [1929], *ibid.*, pp. 116–8.
7. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* [1932] (London: Macmillan, rev. edn, 1935).
8. Ludwig M. Lachmann, 'Methodological Individualism and the Market Economy' [1969], in Walter E. Grinder (ed.), *Capital, Expectations, and the Market Process: Essays on the Theory of the Market Economy* (Kansas City, KS: Sheed Andrews and McMeel, 1977) p. 164, n. 9.
9. Frank A. Fetter, *Economic Principles* (New York: The Century Co., 1915) pp. 171–2.
10. I have attempted to develop some aspects of this intentionalist approach and a complementary Austrian theory of expectations formation in the market process. See Richard M. Ebeling, 'Human Action, Ideal Types, and the Market Process: Alfred Schutz and the Austrian Economists', in Lester Embree (ed.), *Schutzian Social Science* (Norwell, MA: Kluwer Academic Publishers, 1999) pp. 115–34; 'Austrian Subjectivism and Phenomenological Foundations', in Peter J. Boettke and Mario J. Rizzo (eds), *Advances in Austrian Economics*, Vol. 2 (part A) (Greenwich, CT: JAI Press, 1995) pp. 39–53; 'Expectations and Expectations-Formation in Mises' Theory of the Market Process', in Peter J. Boettke and David L. Prychitko (eds), *The Market Process: Essays in Contemporary Austrian Economics* (Brookfield, VT, US/Aldershot, UK: Edward Elgar, 1994) pp. 83–95; 'Cooperation in Anonymity'; 'Toward a Hermeneutical Economics: Expectations, Prices, and the Role of Interpretation in a Theory of the Market Process', in David L. Prychitko (ed.), *Individuals, Institutions, Interpretations: Hermeneutics Applied to Economics* (Brookfield, VT, US/Aldershot, UK: Edward Elgar, 1995) pp. 81–92 & 138–53; and 'What is a Price? Explanation and Understanding', in Don Lavoie (ed.), *Economics and Hermeneutics* (London/New York: Routledge, 1990) pp. 177–94.

11. Vilfredo Pareto, *Manual of Political Economy* [1927] (New York: Augustus M. Kelley 1971) p. 120.
12. Quoted in Eric Englund, 'Gustav Cassel's Autobiography', *Quarterly Journal of Economics* (May 1943) p. 474.
13. Max Weber, *The Theory of Social and Economic Organization* (New York: Oxford University Press, 1947) p. 88.
14. Max Weber, *Critique of Stammer* (New York: Free Press, 1977) p. 112.
15. I have discussed some additional aspects of Austrian views on public policy in essays not included in the present volume. I have explained the development and content of Ludwig von Mises' various policy writings in Austria during the years 1918–38, when he was a senior policy analyst for the Vienna Chamber of Commerce; see Richard M. Ebeling, 'The Economist as the Historian of Decline: Ludwig von Mises and Austria Between the Two World Wars', in Richard M. Ebeling (ed.), *Globalization: Will Freedom or World Government Dominate the International Marketplace?* (Hillsdale, MI: Hillsdale College Press, 2002) pp. 1–68. I have explained Mises' ideas concerning post-World War II European economic reform and reconstruction in the context of his general system of ideas in Richard M. Ebeling, 'Planning for Freedom: Ludwig von Mises as Political Economist and Policy Analyst', in Richard M. Ebeling (ed.), *Competition or Compulsion? The Market Economy versus the New Social Engineering* (Hillsdale, MI: Hillsdale College Press, 2001) pp. 1–85. I have also discussed the Austrian theory of money, monetary policy and the business cycle in the context of the Great Depression and in contrast to Keynesian economics, and in comparison to the ideas of Joseph Schumpeter, in Richard M. Ebeling, 'The Austrian Economists and the Keynesian Revolution: The Great Depression and the Economics of the Short-Run', and 'Two Variations on the Austrian Monetary Theme: Ludwig von Mises and Joseph A. Schumpeter on the Business Cycle', in Richard M. Ebeling (ed.), *Human Action: A 50-Year Tribute* (Hillsdale, MI: Hillsdale College Press, 2000) pp. 15–110 and 149–87. For a comparison of the similarities and differences between the Austrian and the Swedish economists on money, monetary policy and the business cycle, see Richard M. Ebeling, 'Money, Economic Fluctuations, Expectations and Period Analysis: The Austrian and Swedish Economists in the Interwar Period', in Willem Keizer, Bert Tieben and Rudy van Zip (eds), *Austrian Economics in Debate* (London/New York: Routledge, 1997) pp. 42–74.