Lecture 12: Marginalists – the Austrian school (+ Wicksell)

We are now at the last of the three branches of marginalism as it arose in the 1870s, known as the 'Austrian' school. Compared to the two previous schools, it looks as if being a more comprehensive and long-lasting theoretical direction, but this is somewhat deceptive. What is common for all the authors belonging to the Austrian school is mainly the fact that they worked in what was at that time Austria(-Hungary), but the individual members differ markedly from each other.

To make the confusion even greater, there is a 20th century 'modern' Austrian school of economists, whose members are situated mainly in USA, and these Austrians have very little common with the founding researchers of the Austrian school, originating with work of von Mises and Hayek, who were also of Austrian origin but whose main work was done outside Austria. We return the those, and also to the contemporary 'Austrians', in due course.

Carl Menger (1840 – 1921) was the pioneer of the school, introducing marginalism in economic analysis. He is best known for his long debate with Gustav Schmoller from the (younger) German Historical School about the methodology of economics, where he emphasized the need for deductive reasoning from simple first principles (as opposed to statements inductively crystallized from observations). The controversy ran out with no definitive conclusion, and it is alive even today.

Friedrich von Wieser (1851 – 1926) was perhaps the most original of the three, working with problems of allocation and distribution which were taken up only much later. His views on social justice and welfare would place him on the political left (not altogether uncommon for university professors at that time), another point where the 'old' Austrians differ from the 'new' Austrians which are oriented towards the political right wing.

Eugen von Böhm-Bawerk (185 – 1914) is mainly important for his work on the role of capital (indeed one may consider him as the founding father of what today is called capital theory). The most original of his contributions was perhaps the notion of 'roundabout' production as a way of achieving higher output. This idea had of course been mentioned also by earlier authors, but it was only with Böhm-Bawerk that it was applied systematically.

Knut Wicksell (1851 – 1926) was Swedish and he does certainly not belong to the Austrian school of economist, but he worked with many of the same topics, and

therefore it is rather natural that he comes in here. What is particularly interesting is that he links capital theory with the quantity theory of money in the so-called *cumulative process.* A simple version of this is given in Lecture Note 12.

We read: E&H, chapter 14, chapter 22 pp. 555 – 557.