

BOOK REVIEW

THE MARGINAL REVOLUTIONARIES: HOW AUSTRIAN ECONOMISTS FOUGHT THE WAR OF IDEAS

JANEK WASSERMAN

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Before I had read less than a hundred pages of this book, I surmised that the author was not an economist and definitely not an economist who had any “Austrian School” affiliation. Instead, I was sure he was an historian. The dustcover of the book identified him only as associate professor at the University of Alabama. A quick Google search confirmed that Janek Wasserman is Associate Professor of Modern German and Central European History at that university.

This explained the welcome use of a rich trove of German language sources and his ability to place the social narrative in the context of Central European history. It also explained the main weaknesses of the book—its lack of a general economic understanding or of precision in theoretical explication.

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Of course, to write a history of a school it is necessary to identify its members by elucidating some common bond or feature that ties the members together. Wasserman recognizes this; however, other than the fact that the early members he includes were part of the economic clerisy in Vienna at the turn of the twentieth century and knew each other, and that the next generations associated and interacted with the previous ones, a defining characteristic is never presented. He refers to the scholars he discusses as (p. 40) "a social network", or (pp. 231, 267) "a thought style". He's also rather loose with the use of the terms "pupil," "student," and "students." Eugen von Boehm-Bawerk and Friedrich von Wieser were never "students" of Carl Menger. It would be more accurate to describe him as their "mentor."

So far as the other names mentioned as members of the early "school," it's rather a grab bag of contrasting foci. Perhaps, it is possible to gather them together in what Deirdre McCloskey (p. 3, referencing Kwame Anthony Appiah) terms "a loose and baggy sense." If there is any principle that might be useful in this regard, it is probably the fact that they all seemed to accept and use the marginal utility principle in their theorizing. And, of course, most of the men listed not only knew each other—some participated in organized discussion groups and other forms of socializing.

The marked division between those who employed the causal-genetic method of logical reasoning and those who attempted with varying degrees of success to use mathematical reasoning in their theorizing makes calling them a "school" even baggier and may partly explain why contemporary "Austrian" scholars sort themselves into different traditions. The scholars working in Menger's methodological tradition rejected the assumption that there are any constant relations in human action and employed causal narrative rather than mathematical methods for theorizing, while others, like Wieser and Joseph Schumpeter, either accepted the use of mathematical functionality in their theories of human action or didn't question it.

In any event, I think it is more useful to view this book as a sociological, rather than an intellectual, history of a collection of scholars united by geography in the early years and exhibiting varying degrees of theoretical indebtedness in the later decades.

A number of Austrian intellectuals in the late nineteenth and early twentieth centuries, most of them living and working in Vienna, gathered together and interacted in various ways in the pursuit of new knowledge mostly concerning the economic side of life. If there was a spark that ignited these gatherings and interactions, it was Carl Menger's 1871 *Grundsätze*. It inspired Eugen von Böhm-Bawerk and Friedrich von Wieser and others to do further research and to meet for intellectual companionship. They met in coffee houses, formed intellectual circles of research, discussion, and instruction; some taught at university, some attracted and mentored students who went on to engage in similar activities, many emigrated to other countries and continued those activities, some became faculty members at leading universities in Britain and the United States, and some also became international figures in economic policy-making. There were always factions among them, some bitter, others respectful, and this has continued to the present day.

Wasserman ably traces this social history, and the book is well worth reading for that information. He is less successful in explicating specific theoretical arguments of key figures in that history, especially in the early work by Menger, Wieser, and Ludwig von Mises.

Of Menger's *Grundsätze*, he characterizes it as focusing (p. 25) "on production, the role of time, and the importance of the final, marginal unit of a good." This is misleading. Menger's primary focus is on the knowledge and subjective evaluations of individual economizers that drive all economizing activity in a market economy. It is the individual who identifies his needs, the goods that might satisfy those needs, the causal processes that might result in the means for need satisfaction, and the structure of production that may result in the first order goods that are required for this result. There is some acknowledgement of this focus on pages 28, 35, and 52, but it does not receive the required emphasis that pervades Menger's work.¹ It's worth noting that only two out of eight chapters of the *Grundsätze* concern the structure of production—that's 70 out of 202 pages (58 out of 300 in the 1950 English translation). Even if we include the few pages on the concept of capital and the role of

¹ The emphasis on individuals as the source of actions directed to need satisfaction in "economic activity", producing individual as well as national economies, is also found in Menger's *Untersuchungen* ([1883] 1963, 193, n128).

the entrepreneur in Chapter III, the emphasis is still on individual economizing and valuation. The rest of the book continues the focus on the individual in his actions in valuing and exchanging goods in the context of a market economy.

Wasserman also mischaracterizes the *Methodenstreit* as (p. 31) “primarily a dispute between two irascible, vain professors.” It was much more importantly a clash between two seriously opposed epistemological perspectives, and especially those concerning the nature of causality. (Bostaph 1978) Using descriptives such as “vain,” “ponderous,” “opaque,” and “constipated” to characterize Menger and his prose is one of the less appealing aspects of Wasserman’s portrait of Menger (and others) in his social history. Terms like “dogma,” “elitist,” “reactionary,” and “radical” are sprinkled throughout the book in reference to “Austrian” figures and their thought.²

With respect to Wasserman’s treatment of Friedrich von Wieser, I can’t imagine a greater misunderstanding of his writings. Wasserman managed to read *Natural Value* and *Social Economics* without comprehending that both are briefs for state socialism. Wieser correctly perceived that state socialist societies with no private property rights for higher order goods lacked a means of calculating their relative scarcities. This would make the organization of production ad hoc. Wieser’s solution was to invent a faux util to use for calculation—a unit of “natural value.” He even admitted at the end of *Natural Value* (p. 242) that the unit was fictional.³ In fact, his concept of it is not only fictional, it is incoherent (Bostaph 2003). Wasserman terms it “innovative.” In his *Social Economics* Wieser refers to “units of utility” which are the economy’s “natural values” that can be used for calculation by state socialist planners. As Menger and others in his methodological tradition recognize, marginal utility calculations are only possible for individuals—they are subjective,

² Wasserman (p. 5) asserts that “the Austrians blended philosophical and ideological values, scientific work, and policy intervention, creating a radical *mélange*.” A *mélange* is a mixture of different things, like a stir fry. It is not a logical development of ideas into a consistent system of understanding and interpretation, such as that provided by Ludwig von Mises. There is no scholarly argument in this book that supports Wasserman’s characterization.

³ One is reminded of the old joke about the priest, the physicist, and the economist on a desert island trying to open a can of beans without any tools. The economist solves the problem saying, “Assume we have a can opener.”

and ordinal. They cannot be objectified and used for state socialist planning as Wieser fantasized.

Wasserman also applauds Wieser's theory of imputation as presented in *Natural Value*. There, Wieser confuses the question of the imputation of expected values by an individual economizer with that of the calculation of distributive shares of cooperating factors from an expected return. He attempts to construct a theory of distribution using a theory of imputation. His use of three simultaneous equations to do so is particularly flawed because the meanings of the variables and constants in the equations are ambiguous and each assumes a fixed proportion production process. It is not clear what is being imputed to what. Also, without realizing he has done so, Wieser necessarily drops the marginal utility theory of value. Wasserman finds Wieser's approach "creative" and "novel."

Wieser's *Law of Power* fails to rise much above the level of the *obiter dicta* of a widely-read and learned man. Other than a few passing mentions of classic works and authors, the text of the book is completely unreferenced. Aside from the basic ad hoc nature of the theory, the ambiguities in Wieser's concepts of "power," "leadership," "goals," and "success" are fatal to its coherence. What exactly is "power"? So many influences on individual decision-making are mentioned by Wieser that it is difficult to resist the conclusion that by "power" he means whatever causes one to do what one does. Wieser's "theory" of power was earlier used by him in *Natural Value* and *Social Economics*. There, the "power" of large enterprises and personal wealth are said to distort the nexus of natural values between traded commodities. Prices and production become determined by the wealthy and powerful to the disadvantage of the poor because the marginal utility of money is lower for the former than the latter group. What this argument illustrates is a basic lack of understanding of how markets work and an assumption that interpersonal comparisons of utility can be made. Even in an economy with equal incomes, wealth, and power for all participants, there would be a "stratification" of prices and marginal utilities as a result of differing preferences, education, degrees of good and bad taste, and the ebb and flow of individual participants in different markets. Wasserman opines that Wieser's *Law of Power* was the only novel contribution by an "Austrian School" scholar in the 1920s. Indeed.

Wasserman's failure to grasp the core of Wieser's alleged solution to the calculation problem for a state socialist society may be the reason his explication of Mises's 1920 and 1936 argument also fails. Contra Wasserman's p. 106, Wieser did not argue that money calculation was a natural feature of any economy, he invented units of "natural value" or "utility" to use for the needed calculations in a state socialist society.

Contra Wasserman's p. 105, Mises did not argue that state socialism could not use money as a unit of calculation, he argued that with no private ownership of higher order goods in such a society, no market-determined prices could be established for them that reflected their relative scarcities to those contending for their uses in production. To economize is to calculate in prices, whether barter or money; it is to seek the lowest expected opportunity cost of the means to achieve the end for which one is economizing. That is why Mises argued that the socialist planned economy is in reality no economy. Without market-determined prices that reflect their relative scarcities, no one in that society can calculate the expected opportunity costs of the productive use of higher order goods, and thus make decisions as to how they are to be efficiently used in the production of lower order goods. Without market-determined prices for all resources, production processes would be ad hoc and non-economic.⁴

The social history sections of the book are actually pretty interesting. Wasserman gives succinct histories of the Mont Pelerin Society, the European Forum, the Institute for Advanced Studies, the Institute for Economic Affairs, the Atlas Network, the Cato Institute, George Mason University's Mercatus Institute, and the influence of Gottfried Haberler and Fritz Machlup on various international institutions.

The last chapter of the book is titled "Conclusion", and while it does end the book, it contains much recent history of "Austrian" factionalism and an extended *ad hominem* against major figures

⁴ There was much more in Mises's brief against socialism, but the inability to use market prices in calculation was the crucial argument. The subsequent history of the Soviet Union and the China of Mao Zedong proved Mises's case. They became parasitic of Western technology and production processes and devoted considerable effort to stealing intellectual property from the West, as China under Xi Jinping still does.

associated with the Ludwig von Mises Institute. In short, it is a political chapter rather than a continuation of a social history that aspires to be an intellectual one. This is Wasserman's opportunity to empty a bucket of right-wing tar on the scholars associated with the Mises Institute indirectly through its founders and some of their associates, as if the scholarship that the Institute has encouraged, sponsored, and published is somehow thereby also demeaned. It is greatly disappointing that the author chose to substitute an attempted smear for what could have been a discussion of promising current trends in "Austrian" scholarship.

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