

## K. Christ / History of Economic Thought

### 5-2: Alternative Views

#### Outline

#### I. Romanticism and German Historicism

As classical economics, with its views on the role of the individual choice in society, took hold in the early 19<sup>th</sup> century, an alternative view of society as an organic whole developed, primarily in Germany. At the time, proponents of this view saw themselves as providing a workable alternative to an emerging Anglo-Saxon orthodoxy.

#### II. Institutionalism

As economics developed and became professionalized during the latter part of the 19<sup>th</sup> century, other social sciences also evolved. Sociologists, Psychologists and Historians all applied different methodologies to analysis of society. In many cases, these “alternative paths” to social science rejected the mathematical and deductive approach that marked the neoclassical orthodoxy in economics. In the late 1800s, a dissident strain of economics that incorporated many of these ideas developed, primarily in the U.S., and became known as Institutionalism. Today we distinguish two forms of institutionalism: Old (early 1900s) and New (late 1900s).

- Characteristics:
  - Desire to redirect economics to more empirical methods; Historicism and evolution.
  - A reaction against formalism and reductionism; advocacy of a “holistic” approach.
  - Intransigence of institutions and implications for individual decision making.
  - Analysis at the level of society vs. methodological individualism.
- Key figures of “old” institutionalism:
  - Richard Ely (1854 – 1943), Thorstein Veblen (1857 – 1929)
  - Wesley Mitchell (1874 – 1948); John Commons (1865 – 1962); Clarence Ayres (1891 – 1972)
  - A later reincarnation: John Kenneth Galbraith (1908 – 2006)
- Key figures of “new” institutionalism: Ronald Coase, Oliver Williamson, Douglass North

#### III. Austrian Economics

The "Austrian School" of economics emerged around one of the pioneers of the 1870s Marginalist Revolution, Carl Menger at the University of Vienna. In the late 1800s, Menger and his followers engaged other, more historically minded German-speaking social scientists (primarily under the leadership of Gustav Schmoller, 1838 – 1917) in an ongoing debate over method, which is known as the *methodenstreit*. Austrian economists also engaged Marxists, and in the 1920s were leading figures in what became known as *the socialist calculation debate*. A diaspora of Austrian economists in the 1920s and 1930s eventually spread the influence of Austrian views.

- Characteristics:
  - Radically "subjectivist" strain of marginalist economics
  - Dedication to *a priorism* and an emphasis on *methodological individualism*
  - Time-theoretic approach to capital theory
  - Monetary overinvestment theory of the business cycle
  - Analysis of competitive market processes in terms of disequilibrium
  - Stress on uncertainty and information in the economy
- Key figures:
  - “First” generation: Friedrich von Wieser, (1851 -- 1926), Eugen von Böhm-Bawerk (1851 -- 1914)
  - “Second” generation: Ludwig von Mises (1881 – 1973), Joseph Schumpeter (1883 – 1950)
  - “Third” generation: Friedrich von Hayek (1889 – 1992), Oscar Morgenstern (1902 – 1976)