

## K. Christ / History of Economic Thought

### 9: Alternative Views

#### Outline

#### I. 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).

##### A. Characteristics:

- Historicism and emphasis on evolution and Darwinism; anthropological analysis
- A reaction against formalism and reductionism; advocacy of a “holistic” approach
- Intransigence of institutions and implications for individual decision making.
- Discontent with the “casual empiricism” of neoclassical economics.

##### B. Key figures of “old” institutionalism:

- Thorstein Veblen (1857 – 1929) – *Theory of the Leisure Class* (1899) and *The Engineers and the Price System* (1921).
- Wesley Mitchell (1874 – 1948) – Business cycle analytics.
- John Commons (1865 – 1962)
- Clarence Ayres (1891 – 1972)

##### C. Key figures of “new” institutionalism:

- John Kenneth Galbraith – *The Affluent Society* (1958) and *The New Industrial State* (1967).
- Ronald Coase / Oliver Williamson – Transaction cost economics
- Douglass North – New Institutionalism

#### II. 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 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.

##### A. 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
- a stress on uncertainty and information in the economy
- a concern with the psychology of economic actors

##### B. 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)