



## Paths of the Weberian–Austrian Interconnection

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**Abstract.** This paper centers on the theoretical–methodological interconnections between Weber and the Austrian economists. First, the influence of classical Austrian economics, especially Menger and Böhm-Bawerk, on Weber is reexamined. Then we are concerned with the importance of Weber’s ideas in neoclassical Austrian economics, including Schumpeter, Mises and Hayek. Also, Weber’s legacy in modern economics is reconsidered. Since little research is done on these interconnections between Weber’s sociology and Austrian economics, the paper thereby contributes toward spanning a gap in the present economic and sociological literature.

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The Weber–Austrian connection (Boettke 1998) is relatively unexplored in the current literature in economics and sociology despite a certain number of studies. In particular, studies explicitly analyzing the relations of Weber to Austrian economics are rare, with some exceptions (Boettke 1998, Lachmann 1971, 1992). More frequent are those studies that deal with these issues in more indirect ways, namely via analyzing the relations of Schutz and the Austrians (Pietrykowski 1996, Prendergast 1986, Wagner 1983; see also on these pages Augier 1999), or as parts of more general analyses of Weber’s work in relation to neoclassical economics and classical sociology (Holton and Turner 1989, Parsons 1947, Swedberg 1998).

Of all these studies concerned directly or indirectly with the Weber–Austrian connection, those concentrated on Schumpeter and Weber are most frequent (cf., Swedberg 1991). In retrospect, the focus on the connection between Weber and Schumpeter is not surprising given not only their personal relations, but also their interactions as social scientists, especially the influence of Weber on the young Schumpeter. Notably, Schumpeter was considerably influenced by Max Weber’s attempts at creating a ‘new and broad type of trans-disciplinary economics’ (Swedberg 1991:2) as an alternative to theoretical and historical economics, and thus as a resolution to their methodological dispute (*Methodenstreit*). Schumpeter reportedly borrowed (Swedberg 1991:93) the notions of social economics and economic sociology from Weber. More particularly, Schumpeter’s concept of the sociology of enterprise was an application of Weber’s economic sociology, with the Schumpeterian constructed type of the entrepreneur being a special case of Weberian ideal types. No wonder Schumpeter has been characterized as Weber’s greatest successor in the role of an economic sociologist (Hughes 1977).

However, what is less known is the general connection, in theoretical and methodological terms, between Weber and Austrian economics as a whole. In the ensuing we focus on this Weberian–Austrian connection, and treat that between Weber and Schumpeter as one of its

particular aspects. For that purpose, the paper has the following organization. In Section 1 we examine the impact of classical (or early) Austrian economics, particularly of Menger and Böhm-Bawerk, on Weber. Section 2 is concerned with certain manifest and latent influences of Weber on neoclassical (or later) Austrian economics, as represented by Schumpeter, Mises, Hayek, Machlup, Löwe (and partly Schutz). Weber's legacy in modern Austrian economics is reexamined in Section 3. We also offer concluding remarks condensing the arguments presented in these sections.

## 1. The Influence of Classical Austrian Economics on Weber

The influence of classical Austrian economics on Weber has been particularly prominent in areas such as the theory of value and methodological individualism and its applications to analyzing social phenomena, including institutions.

### 1.1. Value Theory

Weber fully embraced the Austrian marginal utility theory of value/prices. Hence the observation that “whatever theory [Weber] used, he took from the Austrians” (Seligman 1962:23), can be first and foremost applied to Weber's theory of value and prices, with qualifications in regard to economic sociology<sup>1</sup> (Swedberg 1998). Weber was particularly receptive of the marginal utility theory of Menger, Böhm-Bawerk, and Wieser. This was indicated by Weber's (1975a:33n) praise and defense of Menger and Böhm-Bawerk from what he termed the “disparaging” treatment of the Austrians by some historical economists like Brentano.<sup>2</sup> Weber (1975a:33n) states that in the field of value theory Menger advanced excellent views, albeit “not methodologically finished”, and that Böhm-Bawerk, “if not perhaps Menger”, was a “master” of style. Relatedly, Weber (1968:78) adopted Mises' monetary theory as most acceptable.

More generally, in what some neoclassical economists call his famous essay (Stigler 1965:117) on the relations between marginal utility theory and psychological laws, Weber defended the distinctiveness of the former in relation to the latter. Particularly, Weber addressed Brentano's assertion that the so-called fundamental (Ernst Weber-Fechner) law of psychophysics<sup>3</sup> was the foundation of marginal utility theory, so the latter was but a special application of the former.<sup>4</sup> Weber (1975a:25) called this assertion simply an error, arguing that marginal utility theory is independent of any psychological principles. According to Weber (1975a:33) the “heuristic significance of marginal utility theory rests on this particular *cultural-historical* fact [the capitalist epoch] but not on its supposed foundation in the Weber-Fechner [psychological] law.” Such an argument was both praised and mitigated by Böhm-Bawerk. Thus Böhm-Bawerk (1959:430–431, n. 81) commented that “certain statements of Weber may definitely be said to overshoot the mark—statements the intention of which is to convert the divergence between psychology and economics into outright opposition.”<sup>5</sup>

Weber's view on the relationship between value theory and generally economics to psychology appears distinctive. First, certain neoclassical economists argued that economics,

especially value theory, was and should be based on psychology. For instance, Wicksteed (1933:767–768) maintained that the “laws of value are dependent on the psychological law of diminishing returns of satisfaction”, and even that economics is “mainly a branch of applied psychology.” Second, some heterodox economists noted that neo-classical economics, particularly its marginal utility theory of value, resorted to (hedonistic) psychology, but strongly objected to such a resort. According to Veblen (1909:622), both “the classical school in general, and its specialized variant, the marginal-utility school, in particular, take as their common point of departure the traditional psychology of the early nineteenth-century hedonists, which is accepted as a matter of course or of common notoriety and is held quite uncritically.” Hence, in one case grounding economic theory in psychology was a virtue, in another a vice.

In contrast to both views, Weber (1975aa:24) argued that economic theorizing, including the marginal utility and any subjective theory of value, was neither founded on psychological laws nor should be. Thus, Veblen, “the economist could challenge marginal utility theory in the way he did, a way which Weber [the sociologist] could of course have regarded as mistaken [and] disagreed with Veblen’s view that traditional economics really rested on dubious psychological premises” (Schneider 1975:22–23).

Although this Weberian argument may have tended to occasionally “overshoot the mark”, it seems congenial to the position of Austrian economics, including its modern version. The latter centers on the logic of the situation rather than on the internal psychology<sup>6</sup> (Langlois 1986b) of individual agents. It thus utilizes situational (Langlois and Csontos 1993) or/and institutionalist (Boettke 1989) analyses, eschewing psychologizing prominent in bounded rationality theories or the old behavioral economics (Langlois 1990). In addition, the concept of subjective value and generally the Austrian subjectivism (Kirzner 1992) was situated within the framework of the market process in a decentralized market economy in a state of disequilibrium (Boettke and Prychitko 1998). Expressing the uniqueness of the Austrian tradition (Boettke, Horwitz, and Prychitko 1994), such a framework was intended to go beyond equilibrium<sup>7</sup> (Boettke, Horwitz, and Prychitko 1994), especially the formalistic use of equilibrium models that “bear little resemblance to reality” (Boettke 1997:11), i.e. to transcend comparative statics in favor of dynamics.

Furthermore, Weber “adds another interesting [social-economic] twist to his argument about the nonpsychological foundation of marginal utility theory” (Swedberg 1998:195). For to assert that the law of marginal utility as an ontological phenomenon was founded in a cultural-historical fact such as modern capitalism rather than in psychology is to state a key assumption of social economics, especially economic sociology. Relatedly, founding marginal utility theory as an epistemological category in such a fact is an instance of what Weber’s colleague Mannheim termed sociology of knowledge, including sociology of economics. In Weber (1975a:33) words, the “historical peculiarity” of capitalist society as well as the relevance of marginal utility theory lies in that within such a society the “approximation” of reality to economic assumptions is higher than in previous societies. According to Weber, an important instance of such approximation is provided by the Berlin-stock exchange in relation to Böhm-Bawerk’s theory of price formation, viz. pricing by marginal pairs of sellers and buyers. As Weber (1975a:3) put, “it is, for example, no accident that an especially striking degree of approximation to the theoretical propositions of price

formation (as Böhm-Bawerk connecting his work with that of Menger, developed them) has been represented by the fixing of the Berlin [stock-exchange] market-rate under the system of uniform quotation.” These theoretical propositions thus approximate or fit a peculiar economic reality, such as modern stock exchange. For on the latter individual behavior “is economically rational in especially high degree—or *can* be so” (Weber 1975a:33).

Alternatively, these propositions are not grounded in innate psychological-chemical laws and by implication in other natural-technical givens, such as human endowments and technological capabilities<sup>8</sup> (Langlois 1986b). No doubt, Weber is aware of many economists arguing that rationality has always existed, but he points out that the “fact is that as economic behavior itself becomes more rational, the notion of rational economic action become increasingly useful in analyzing this reality” (Swedberg 1998:195). Weber makes a twist from an explicit argument against the psychological foundations of marginal utility and all economic theory into an implicit assumption of the sociocultural underpinnings of that theory (sociology of economics) and of its underlying “praxis”, viz. the actual salience of rational behavior (sociology of the economy).

Another twist that Weber makes in regard to the foundations and validity of marginal utility theory is more of a logical or epistemological nature. This is implied in his admonition that the theory of marginal utility “is not exempt from the law of marginal utility itself” (Weber 1949:88), i.e. from diminishing incremental usefulness when used as an analytical panacea. It is also indicated by Weber’s distinction (especially in his outline for the course in *Theoretical Economics* he taught in the 1890s as well as in *Economy and Society*) between theoretical and empirical price formation, i.e. between the theory and reality of prices. The main principle of theoretical price formation and distribution, or for purposes of economic theory, represents the “marginal utility structure of the disposable money incomes of the final consumers” (Weber 1968:92). However, in the “actual fact, given the actual distribution of power”, price formation is governed by the “conflicts of interests in bargaining and competition and the resolution of these conflicts [that is by] the battle of man with man” (Weber 1968:92–93). Apparently, Weber followed Austrian economics (Swedberg 1998:293) more in explaining theoretical price formation and thus in pure economic theory than in explanation of empirical price formation, i.e. economic history and economic sociology. No wonder, Weber tended to equate pure economic theory as a whole with marginal utility theory of the Austrian kind (Swedberg 1998:26). On the other hand, as a putative resolution to the *Methodenstreit* Weber attempted to blend marginal utility theory and generally theoretical economics with economic history and economic sociology in social economics, as discussed elsewhere in this article.

### 1.2. *Methodological Individualism and Its Application to Social Phenomena*

Another pertinent connection between Weber and the Austrians is methodological individualism and its application to explaining the genesis and evolution of social phenomena, including institutions. The term methodological individualism was probably for the first time (according to Swedberg 1998:213) used by Schumpeter in *Theoretical Economics*. Moreover, the concept itself can be traced back to the ideas of Menger and the classical economists such as Locke, Hume, Smith, and J.S. Mill as well as sociologists a la Spencer

and de Tocqueville (Hayek 1948:4). Like Schumpeter who was in most respects, especially pure economic theory, methodologically closer to Menger than to Schmoller, Weber was mostly influenced by Menger in adopting the principle of methodological individualism in its various ramifications and applications, including explanation of the genesis of social institutions.

Thus, Weber (1975b:80) in his critique of the early Historical School stated that the “fundamental substantive and methodological problem of economics is constituted by the question: how are the origins and persistence of the institutions of economic life to be explained, institutions which were not purposefully created by collective means, but which nevertheless function purposefully?” This statement apparently reflects or connects with Menger’s respective ideas on the methodological problems of economics and sociology. For according to Menger (1963:152–159), “how is it possible that institutions which serve the common welfare [. . .] can arise without a common will aiming at their creation is the most significant problem of the social sciences”. It seemed that Weber particularly “liked” (Swedberg 1998:176) such Mengerian ideas about the unintended (organic) origins and spontaneous evolution of social institutions. In turn these early ideas of Austrian institutionalism (Boettke 1989) have been through their refinement and development in Hayek’s institutionalist theory (Caldwell 1997, Vaughn 1999) instrumental in the emergence of the new institutional economics, especially its neo-Austrian version (Langlois 1986a:1–2).

In retrospect, these statements adopted and elaborated on the classical premise of the market’s invisible hand, thus creating a tripartite, Smith–Menger–Weber connection. In such a connection Menger was initially affected by Smith (Hayek 1955:83–84) and then impacted Weber who was thereby exposed to classical political economy through early Austrian economics. In this triangle Menger<sup>9</sup> and Weber share the view that the operation of Smith’s invisible hand and its institutional-social consequences, viz. that “man in society ‘constantly promotes ends which are no part of his intention’ describes the central problem of the social sciences” (Hayek 1955:83). The explanandum of social science would be to demonstrate the unintended social effects of individual actions, rather than to analyze these latter per se, especially to provide invisible hand explanations (Koppl 1994a, Langlois 1986b) of the genesis, evolution and existence of institutions. As distinguished from intentional explanations assuming prior blueprints or schemes in explaining institutions and other social phenomena, such explanations are logically predicated on the principle of methodological individualism.<sup>10</sup> Using functionalist terminology, social institutions would be, within the Weberian–Austrian connection, latent rather than manifest functions of individual actions. In Menger’s terminology, institutions are in terms of their genesis primarily organic or spontaneous, and secondarily pragmatic or planned. Nonetheless, some modern Austrian economists point out that both organic and pragmatic (contractarian) types “qualify as institutions [in] that both are in large measure regularities of behavior understandable in terms of rules, norms and routines” (Langlois 1986a:19).

Hence, Weber’s statement about the origins and persistence of institutions implied not only formal adoption of Menger’s methodological individualism, but also its substantive application to explaining social phenomena as unintentional consequences of individual actions rather than as products of a conscious design (contract). In the view of some Austrian economists particularly interested in his economic sociology, Weber did not present an

elaborated theory of institutions as the “sociological counterpart of the theory of competition in economics” (Lachmann 1971:68). Arguably, “no general theory of institutions is to be found in Weber” (Lachmann 1971:52). However, in other interpretations (Swedberg 1998:224, n. 84), this void indicates that Weber did not consider such a theory useful or worthwhile to construct.

A more plausible view seems to be that Weber though did not use often the term institution had an implied general and coherent theory of institutions and its components, viz. rules, sanctions, conventions, values, traditions, etc. This is suggested, *inter alia*, by Weber’s concepts of traditional (or conventional) and value-rational action. For example, traditional-conventional action can be subsumed under what some neo-Austrian institutional economists, following Hayek, call rule-following behavior (Langlois and Csontos 1993), and value-rational action under Mises’ human action seeking ultimate ends, including ethical universality (Caldwell 1997). As regards the genesis and evolution of institutions and other social structures, Weber initially adopted Menger’s organic, and thereby Smith’s (Hayek 1955:83–85) invisible hand, explanations. In elaborating these explanations Weber may have drawn broader sociological implications, by stressing the feed-back impact of institutions, especially traditions, conventions as well as legal rules, on individual economic behavior. In particular, Weber’s well-known typology of (elements of) institutions into customs, conventions and rules, and his analysis of their effects on economic agents and their actions is an instance of a general institutional-structural theory. In essence, Weber’s entire (economic) sociology is, as Parsons<sup>11</sup> (1947:31–32) noted, permeated by “two deep underlying convictions”, viz. the “fundamental variability of social institutions” and the “inherent instability of social structures.”<sup>12</sup> Notably, to Weber the “specific connexion of economic rationality with settled routine conditions points to a peculiar connexion between institutional patterns, backed by moral sentiments, and the ‘self-interest’” (Parsons 1947:53).

More generally, Weber’s (1968:13) adoption and application of methodological individualism, and alternatively his rejection of holism, is clearly suggested by the statement that social groups or collectivities “must be treated as solely the resultants and modes of organization of the particular acts of individual persons, since these alone can be treated as agents in a course of subjectively understandable action”. Since pertinent instances of such collectivities are social institutions, methodological individualism treats the latter in the same way as any other collectivities, viz. as resultants and modes of organization of individuals. In turn Weber’s rejection of methodological holism was more explicitly indicated by the following passage (from a letter to R. Leifmann, as cited in Swedberg 1998:214): “If I became a sociologist [. . .], it is mainly in order to exorcize the spectre of collective conceptions which still linger among us. In other words, sociology can only proceed from the actions of one or more separate individuals and must therefore adopt strictly individualistic methods”. At this juncture, Weber departs from the methodological holism or ontological realism of such French classical sociologists as Comte, Durkheim and some German sociologists like Tönnies, and instead comes closer to Spencerian sociological individualism or ontological nominalism.

However, Weber’s was a peculiar type of methodological individualism in some respects. In general terms, Weberian methodological individualism was of a “social rather than an atomistic nature as in [traditional] economic theory” (Swedberg 1998:164), as well as in

Spencerian sociology. Such a nature of methodological individualism was expressed in the treatment of the elements of individual actions or problem-situations as “not fully arbitrary” (Langlois 1986b:237) but rather as having some objective correlatives in “distinct social yet not psychological entities (called institutions, customs, traditions, societies, etc.)” (Agassi 1974:145). In particular, Weber’s was institutional individualism (Agassi 1974), by virtue of stressing the important roles that social institutions play in individual behavior, viz. their coordination, informational-support (Langlois 1986b:145) and error-correcting (Boettke 1994) functions. Such institutional individualism was implemented by the Weberian method of situational analysis (Langlois and Csontos 1993), i.e., what Popper and Hayek call the logic of the situation, and is to be distinguished from psychological individualism, as suggested by Weber when discussing the relations of psychology to economic (marginal utility) theory as well as sociology. According to Weber and the Austrians, whereas social institutions and other collectivities are (unintended) results of individual actions, they “cannot be reduced to psychological states” (Langlois 1986b:237). Both rejected psychological reductionism and adopted in one way or another some type of institutional individualism that is aware of the presence and salience of system constraints (Langlois 1986b:237), including Hayekian general principles, on agents, and thus of the links between individual actions and social institutions (Boettke 1989).

The result is the interpenetration between what Weber and Hayek term rule-governed or norm-following behavior and goal-attainment or rational choice (Langlois and Csontos 1993, Vanberg 1994), as two types of human action. In a Weberian framework, for instance, the second type is implied in instrumentally-rational (*zweckrational*) action or formal rationality, and the first type in value-rational (*wertrational*) action or substantive rationality as well as in traditional or conventional actions. In this sense, Weber’s *wertrational* and traditional-conventional action (or substantive rationality) seem isomorphic to Hayek’s rule-following behavior, and the former’s *zweckrational* action (or formal rationality) to the latter’s purposive behavior. Moreover, just as Weber deemed *wertrational* and traditional action as historically primary relative to *zweckrational* action, Hayek sometimes attributed empirical or ethical primacy to rule-governed versus goal-oriented behavior in terms of creating and sustaining social order. In particular, for Weber (1927:354–355) at the “beginning of all ethics and the economic relations which result is traditionalism”, i.e. traditional action as a special type of rule-following or institution-governed behavior. In more general terms, Hayek (1991a:368) argues that the “general order of society into which individual actions are integrated results not from concrete purposes which individuals pursue but from their observing rules which limit the range of their actions. It is not the purposive but the rule-governed aspect of individual actions which integrates them into the order on which civilization rests.” To the extent that these rules are not just laws, including contractarian constitutions, but spontaneous, evolutionary and organic normative orders like morals and conventions, Weber and Hayek share Kant’s ideas of ethical universalizability<sup>13</sup> (Caldwell 1997:1871).

Also, it is to be noted that there are some differences in the scope of application of methodological individualism between Schumpeter, and Weber. According to Schumpeter, methodological individualism has a prominent role in economics, especially economic theory—“but not in sociology” (Swedberg 1991:104). Presumably, the main unit of analysis

of (theoretical) economics is the individual, and of sociology the group. For instance, in his economic theory, including the theory of economic development Schumpeter takes individual entrepreneurs as the point of departure. However, in his theory of classes Schumpeter (1965:113) explicitly states that the group [the family], “not the physical person [individual], is the true unit of class and class theory.” And in a Durkheimian (and Marxian) vein, Schumpeter (1965:105–106) characterizes classes as “social entities which we observe but which are not of our making [and] in this sense, every social class is a special social organism.” Compare this with Weber’s (1968:927) denial of Marxian class theory, and indirectly of Durkheimian holistic (structuralist) sociology, by asserting that social classes are not communities, i.e. social entities or organisms in Schumpeter’s terminology.

Further, distinguishing methodological from sociological individualism, Schumpeter (1954:888–889) explicitly rejected the latter as an “outdated attempt to explain sociological phenomena by individual actions.” This rejection of sociological or ontological individualism and implicit adoption of holism is exemplified in the statement reminiscent of Durkheim or Marx, namely that social class “is something more than an aggregation of class members [but] is aware of its identity as a whole [and] has its own peculiar life and characteristic ‘spirit’” (Schumpeter 1965:106). Apparently, Durkheim’s collective representations and Marx’s class consciousness/solidarity here loom large. Also, according to Schumpeter, methodological individualism differs from political individualism since no argument for the latter can be derived from (economic theory based on) the former.

In turn, Weber viewed methodological or epistemological individualism as applicable both to economic theory and sociology. Moreover, Weber relied, just as did Mises and Hayek, on what Schumpeter called sociological or ontological individualism, by defining and explaining empirical social phenomena, including institutions, as resultants of individual actions. On this account, Weber, as a “sociologist, above all” (Schumpeter 1991:225), would appear more individualist in methodological and even sociological (ontological) terms than a self-confessed professional economist like Schumpeter.

In an ironic twist, Schumpeter’s limitation of the principle of methodological individualism to economics and *a fortiori* his rejection of strident sociological individualism a la Spencer would imply that the notion of rational choice sociology premised on both types of individualism would be a *non sequitur*. Still, Schumpeter is often acknowledged (by Downs et al.) as a precursor of that branch of rational choice theory called public choice as a market-economic model of politics predicated explicitly on methodological and by implication on sociological individualism. In turn some modern Austrian economists (Boettke 1994) suggest that not only Schumpeter but also Hayek (e.g. from *The Road to Serfdom*) be viewed as one of the founders of the economic analysis of politics by endorsing (methodological and sociological) individualism as well as by recognizing the limits of democracy. Moreover, Schumpeter’s confinement of methodological individualism to theoretical economics vs sociology, including politics, and his disqualification of sociological individualism would not qualify him as the founder of public choice in the same sense as Hayek. Further, some (Swedberg 1991:94) would argue that Schumpeter’s theory of the politician as an entrepreneur and of politics as competition, owes more to Weber (e.g., *Politics as Vocation*) than is commonly recognized and that even the former minimized the influence of the latter.

To summarize, by espousing methodological and ontological individualism in economics and sociology Weber diverges from Schumpeter who adopted the first type alone and only in regard to pure economics. Alternatively, in so doing Weber connects with Mises and Hayek, as well as Menger, who also embraced both types of individualism and viewed them as applicable both to pure economics (catallactics) and sociology, viz. Mises' praxeology (Prychitko 1994) and Hayek's social philosophy (Boettke 1994). In terms of individualism, the connection of Weber with such principled Austrian economists as Mises and Hayek is stronger than with some "independent" Austrians like Schumpeter. In retrospect, it seems that just as Mises and Hayek, Weber was more influenced by Menger's types of methodological and sociological individualism than was Schumpeter with his restriction of the former type to economics and his rejection of the second. In consequence, both economic and sociological theory in Weber, as well as in Hayek and Mises, were decidedly individualistic. In contrast, Schumpeter's individualistic theoretical economics as Menger's legacy was combined with a holistic sociology, as epitomized in his class theory, that was more influenced by the holism of Marx and Durkheim, as well as Tönnies, Schmoller, and others. On the account of sociological individualism at least, Weber would qualify more as an Austrian economist/sociologist of the kind of Wieser, Mises, and Hayek than would Schumpeter.

## 2. The Influence of Weber on Neoclassical Austrian Economics

### 2.1. *The Concept and Project of Social Economics/Economic Sociology*

First and foremost, Weber influenced the Austrian school, especially its younger members through the "encyclopedic" (Schumpeter 1966:300) project *Grundriss der Sozialökonomik*, of which he was the editor. As parts of *Grundriss*, for example, Schumpeter's *Economic Doctrine and Method* and Wieser's *Social Economics* both evince the influence of Weber's idea of social economics (Swedberg 1998:159–160), including economic sociology.

Thus Wieser (1967:151) stated in *Social Economics* (or *Theory of Social Economy*) that "modern economic theory needs to be completed by a sophisticated theory of society in order to be convincing." At this juncture, Wieser agreed with Weber on the need of a broadly conceived economic science which would also rely on sociological theory, albeit their projects of sociology were not necessarily identical, as partly shown by Weber's objection to Wieser's discussion of certain sociological problems<sup>14</sup> (Swedberg 1998:160). Overall, Wieser's work was perhaps the fullest early Austrian statement of a broadly conceived economic theory in the form of social economics, including economic sociology as an admixture of economics and sociology. Thus Hayek (1992:138) called Wieser's work the "greatest synthesis [of economics and sociology] in economic theory in our time", Schumpeter (1966:300) "his last and ripest message on pure theory", Morgenstern (1990:68) the "greatest treatment by an Austrian in which the principle of marginal utility is analyzed in all its [sociological] ramifications", Mitchell (1967:ix) the "first systematic treatise upon economic theory at large [economic-sociological theory] produced by the Austrian School", and so on. In retrospect, Wieser's mature synthesis of economic and sociological theory was a logical consummation of what was, according to Schumpeter (1966:301), his first interest in Historical Sociology

or Sociological History,<sup>15</sup> and generally in sociology understood as an analysis of history or as “history without names.”

In turn the young Schumpeter was even more impressionable than the mature economic statesman Wieser to Weber’s influence. Hence Schumpeter’s contribution to the *Grundriss* more closely followed Weber’s ideas of social economics and economic sociology, and to some degree reflected his overall agreement with Weber’s stance on the *Methodenstreit* (Swedberg 1998:160–161). This was shown by Schumpeter’s implicit division of economic science, i.e. social economics into economic theory, economic history and economic sociology. Whereas pure economic theory or theoretical economics is concerned with the operation of economic mechanisms, economic history deals with particular economic events in time, and economic sociology (*ökonomische Soziologie*) analyzes economic institutions and their impact on individual economic behavior, with general sociology studying social institutions. In this connection, Schumpeter particularly emphasized the role of (economic) sociology in economic analysis. Schumpeter (1954:72) considered sociology a “deeper” insight into society by virtue of its being a “satisfactory theory of social institutions and principles of social organization.”

The above division of social economics was made more explicit in Schumpeter’s later works such as *History of Economic Analysis*. In the latter Schumpeter (1954:12–24) proposes four fundamental fields of economic analysis or social economics, such as economic history, economic theory, economic statistics, and economic sociology. Not only did Schumpeter probably borrow the term economic sociology from Weber, albeit the term was much in the air in German social science, especially in the work of Sombart<sup>16</sup> (Swedberg 1991:88/262) as well as of Schmoller as a “historically minded sociologist” (Schumpeter 1954:812) at the turn of the century.

More importantly, Schumpeter attempted throughout his entire career to link theoretical economics with economic sociology (and economic history) in some kind of social economics, and this effort “was connected with the work of Max Weber” (Swedberg 1991:i). As Schumpeter (1954:21) stressed, Weber was the “man who did more than anyone to assure some currency to social economics”. Like some (neo) classical economists such as Say and even Marshall and Cassel Weber thought that social economics<sup>17</sup> was the best name for the discipline. In turn Schumpeter, as what he termed an all-round or broadly minded economist, had wide ranging interests in social science, not only in theoretical economics but also in history, sociology, statistics, and partly political science. This made Schumpeter sympathetic (Swedberg 1991:34/204) to Weber’s concept of social economics which contained important roots for the former’s conception of wide-ranging economic analysis. Weber and Schumpeter viewed economics in an almost identical way as a broad social science, used the same designation for such science (*Sozialökonomik*), and were thus connected by the notion of social economics, including economic sociology (Swedberg 1991:46, 1998:204).

Reminiscent of Weber’s views, Schumpeter often pointed out that economic science, including theoretical economics is concerned with economic behavior within the social framework. (To that extent, this would imply that economics is by assumption social economics, as also implied hitherto by Say, Mill, Marshall, Cassel, and others.) Admittedly, the young Schumpeter was heavily influenced by Weber’s social economics and his attempt to

use (economic) sociology as a link between economic theory or pure theoretical economics and economic history or historical economics. This influence was reflected in Schumpeter's position in the *Methodenstreit*, in which he attempted to be fair to both sides of the debate, especially to Menger and Schmoller, while considering the whole thing a methodological disaster. However, unlike Weber's attempts at synthesis of the two positions in the form of social economics, that included economic theory and economic history (and economic sociology), Schumpeter's point was that in both theoretical and historical economics one has to begin with concrete reality. Thus even in pure theoretical economics à la Walras, Schumpeter suggested that "we start from the facts."<sup>18</sup>

In particular, according to Schumpeter (1954:819), Weber's writings (and teaching) were instrumental in the emergence and establishment of economic sociology as one (fourth) of the fundamental fields of economic science. Weber did not invent the term economic sociology, the inventor being Jevons. Oddly enough, such a pure (mathematical and utilitarian) economist hoped that "it is only by subdivision, by recognising a branch of Economic Sociology [. . .], that we can rescue our science from its confused state" (Jevons 1965:20–21). However, apart from adopting the Spencerian definition of (general) sociology as the "Science of the Evolution of Social Relations" (Jevons 1965:20), he did not explicitly define the subject-matter of economic sociology. In analogy to Spencer's general sociology an implicit definition of economic sociology by Jevons might have been the "science of the evolution of economic relations" in their interconnections with the "evolution of social relations".

In turn Weber (1968:63) defined economic sociology as a discipline studying "sociological categories of economic action" or "sociological relationships in the economic sphere". As a sociological analysis of core economic phenomena (Swedberg 1998:202), Weberian economic sociology influenced Schumpeter-Wieser's conception and incorporation of the discipline in economic science. This influence is transparent in Schumpeter's (1951:256–257) definition of economic sociology as a description and interpretation or "interpretative description of economically relevant institutions." Apparently, both Weber's method of interpretative understanding (*Verstehen*) and his theoretical concept of economically relevant phenomena loom large. One particularly relevant subtype of Weberian economic sociology<sup>19</sup> is what Schumpeter termed the sociology of enterprise. For according to Schumpeter (1951:225), the "sociology of enterprise reaches much further than is implied in questions concerning the conditions that produce and shape, favor a or inhibit entrepreneurial activity. It extends to the structure and the very foundations of capitalist society." Schumpeter's sociology of enterprise is premised upon the constructed type of the entrepreneur, which is a particular application of the Weberian method of ideal types.

In retrospect, like the general concept of social economics, its fourth field, i.e. economic sociology, was admittedly one instance of Weber's legacy in Austrian economics, including its classical (Wieser 1967), neo-classical (Schumpeter 1954) and modern (Lachmann 1971) formulations. Hence, it is only partly accurate to say that the older members of the Austrian school showed little interest (Swedberg 1998:204) in Weber's ideas of social economics and economic sociology. A case in point of such interest was such an old member of the School as Wieser. Moreover, perhaps influenced by Weber's project of *Grundriss*, most likely through Wieser's contribution to the project, Menger reportedly in his late period moved more in an "economic sociological direction" (Swedberg 1998:288). Also, it is even less accurate to say

that the younger members of the school, including the participants of the Mises seminar were “extremely interested” in Weberian social science methodology, viz. *Verstehen* and ideal types, but not in social economics or economic sociology (Swedberg 1998:205). Cases in point of this second line of interest are Schumpeter’s social economics/economic sociology, Mises’s sociology or praxeology, Hayek’s implicit institutionalism, Löwe’s sociopolitical economics, as well as some modern Austrians’ versions of economic sociology (Lachmann 1992) or structural-institutional economics (Langlois 1986b).

If not the older members like Menger and Böhm-Bawerk, the younger Austrians reportedly were “fascinated” (Swedberg 1998:204) at least by certain aspects of Weber’s work. For example, Weber’s theoretical and methodological ideas were presented and discussed on the Mises seminar (from 1920 to 1934), with participants including Hayek, Machlup, Haberler, Morgenstern, and Rosenstein-Rodan, as well as Schutz. Moreover, some of the seminar’s participants such as Haberler recollected that Weber’s *verstehende Soziologie* and related issues were favorite subjects (Swedberg 1998:302, n. 142). Some results of this exposure to Weber’s ideas were Machlup’s (1978:211–221) adoption and further development of ideal types as a “bad name for a good construct”, as well as Schutz’s works on the phenomenology of social life. Thus Schutz (1967:241–249) also touched on (prompted by Mises) the relations of marginal utility and generally economic theory to the concept of ideal types.

However, whereas Mises vigorously denied that Weberian ideal types and economic, especially marginal utility, theory were compatible, Schutz “took the opposite direction.” (Swedberg 1998:145–146), i.e. one closer to Weber’s. Since a similar direction was taken by Machlup who tried to apply ideal types to economic theory, both members of the Mises seminars thereby developed the ideal typical method “out of the Weberian tradition” (Langlois 1986b:231).

It is interesting that Mises was the one recommending Schutz to begin reading Weber. However, since Mises saw Weber’s work as being historical, and thus not a part of economics, especially catallactics (market theory), Schutz’s task was to change Weber’s ideal-type methodology to make it fit Mises’ vision of human action. Touching upon Schutz can be important in regard to building a possible bridge between Weberian sociology and Austrian economics, particularly the differences between Weber’s and Mises’ theories of human action.

A major difference in this regard is that Mises considers human action as by definition rational action, thus rejecting the latter notion as a pleonasm, whereas for Weber action can be both rational and non-rational. Also, in Mises’ (1966:42) praxeology “social action is treated as a special case of the more universal category of human action”, while in Weber’s (1968:4) sociology social action is the main subject. And Weber’s (1968:4) definition of social action as a type of human action that “takes account of the behavior of others and is thereby oriented in its course” is different from that of Mises (1966:42–43) who associates such action with a “social collective”. Since Weber does not equate social with collective action, in his framework social action is in fact individual human action in a social context, and in Mises (impossible) supra-individual action. However, by rejecting the idea of collective action in the Hegelian (and Durkheimian) sense, they converge upon methodological as well as sociological individualism (Mises 1966:42, Weber 1968:13). Another path of convergence

is that, according to Schutz (1967:243), “for Mises [and Weber] economics is only a part of sociology, though, the most highly developed part.”

Weber’s definition and conception of social action has ramifications in the action theory of Schutz who probably wanted to connect Weber and Mises. Moreover, Schutz may be a key figure in understanding the relations between Weber and the Austrians, as acknowledged by the expanding literature on this topic in economics (Augier 1999; Pietrykowski (1996) and sociology (Prendergast 1986). In particular, the work of some neo-Austrian economists (Langlois and Csontos 1993, also Vanberg 1994) on the relations of rule-following behavior and rationality explicitly or implicitly involves, alongside Hayek, Schutz and Weber in discussing the nature and role of social institutions, and thus in the new institutional/behavioral economics. Also, Schutz used Husserl’s phenomenology to transform Weber’s sociology (and Mises’ human action theory) into a sociological phenomenology by using the notion of typification to analyze how actors behave in the social world, viz. the taken-for-granted reality.

Another offspring of the exposure of the younger Austrian economists (either through the Mises seminar or otherwise) to Weber’s ideas was an attempt at integration of economics and sociology in a more organic mixture (Löwe 1965), viz., sociological economics<sup>20</sup> (Swedberg 1991:88), than even Schumpeter’s economic sociology. Moreover, such integration was attempted officially at German and Austrian universities in the form of single chairs in “economics and sociology” in the 1920–30s. For instance, some of these chairs (thirteen in total during 1919–33) were held by economists-sociologists such as von Wiese, Oppenheimer, Löwe, Mann, etc. (Swedberg 1998:287, n. 30). This also can be considered a case of Weber’s legacy, for he was among the first to teach both economics and sociology, viz. at the University of Vienna after WWI. More important, such an organic mixture of economics and sociology would center on the social dimensions, i.e. the “Man–Matter–Society core” (Löwe 1965:3–18) of economy as distinguished from the technological aspects. And such attempts at distinguishing technical activity and the “Man–Matter core” of economy and society are “going back to Weber” (Löwe 1965:18).

Some Austrian economists like Löwe (1965:6) termed the result of such “reintegrating Economics with Social Science at large” political economics. Further, following J.B. Say, Mill, Menger, Wieser and Marshall a more appropriate term might be social economics, even sociological economics though Weber probably never used the second term but rather the first one. On the other hand, Weber did use economic sociology (*Wirtschaftssoziologie*, *Soziologie der Wirtschaft*, *Wirtschafts-Soziologie*) as an integral part of *Sozialökonomik*, as well as “A Sociological Theory of the Economy” (*eine Soziologische Theorie der Wirtschaft*).<sup>21</sup> Hence we use the terms social economics and economic sociology rather than sociological economics when referring to Weber’s idea of economic science, as exemplified by the project *Grundriss der Sozialökonomik*, of which *Economy and Society*, just as Schumpeter’s and Wieser’s abovenoted works, was part (Swedberg 1991:88).

## 2.2. *The Impact of Weber’s Proposed Resolution to the Methodenstreit*

First and foremost, Weber, a nominal member of the Youngest Austrian school, regarded the *Methodenstreit*, viz. the opposition between methods relying on economic theory and

those using economic history, as unnecessary. Furthermore, Weber viewed such a battle of methods as self-destructive to economics and social science generally, a view adopted in Schumpeter's qualification of the *Methodenstreit* as one of the greatest misfortunes in the history of economics. Weber repeatedly regretted that economics had been divided into two sciences, i.e. theoretical and historical ones, as the result of the *Methodenstreit*, regrets shared by such independent Austrians as Schumpeter and some historical economists like Sombart and Jaffe (these three being, along with Weber, the editors of *Verein*).

Weber tried to resolve or transcend the *Methodenstreit* by introducing "new epistemological theories into the debate" (Swedberg 1991:38). For this Weber earned appreciation of some Austrian economists, above all Schumpeter, who "especially admired how Weber had resolved the *Methodenstreit*" (Swedberg 1991:45). As hinted before, Weber's overall solution to the *Methodenstreit* was the notion of social economics as broad economic science that would include both economic theory and economic history, a notion that he practically tried to implement in *Grundriss*. Although the *Methodenstreit* ended with a resounding victory of the Austrian School, from this perspective its end was in fact marked or anticipated by Weber's *Grundriss* in 1908. For both Austrian economists like Wieser and Schumpeter (and later the young Hayek) and their historical counterparts like Büsher, Brentano and others were invited by Weber to participate in this project. Weber's intention was by such a variety of participants to build bridges between economic theory and economic history, thus making the methodological dispute redundant. As Weber intended to blend theoretical and historical economics in a single richer concept of economic science as social economics, the latter also included economic sociology.

Weber considered economic sociology a particularly important bridge between theory or analysis and history or empirical reality, and so a specific type of resolution or transcendence of the *Methodenstreit*. Weber as a sociologist (Schumpeter 1991:225) was, first and foremost, focused on building economic sociology as an integral and legitimate part of (social) economics as well as of sociology. For Weber, economic theory, particularly its Austrian version, was no doubt indispensable, as were economic history and economic sociology (Swedberg 1991:33). And in a way influenced by or reminiscent of Weber, some younger Austrian economists contributing to *Grundriss*, such as Schumpeter, explicitly proposed economic sociology as a "kind of solution to the *Methodenstreit*" (Swedberg 1991:86). Further, an implicit proposal for such a solution was envisioned by the older members like Wieser, whose conception of social economics implied economic sociology as an interface between economic theory and sociology/history, with special importance in the realm of prices viewed as outcomes of socioeconomic interrelations.

Presumably, Weber's position in the *Methodenstreit* displayed more affinity with Menger's on the division of labor between theoretical and practical social sciences, viz. economic theory and history, but was closer to Schmoller's on the subject-matter and scope of economics<sup>22</sup> (Swedberg 1998:176). No doubt, Weber was considerably influenced (Hayek 1992:78) by Menger's relatively sharp distinction between economic theory and economic history on the one hand, and by Schmoller's view of economics as a broad social science on the other. But this needs to be qualified.

First, for Weber such a distinction between theory and history implied by no means erecting rigid disciplinary boundaries between the particular social sciences. Further, Weber

“never observed the boundaries that social scientists generally draw [and] whenever boundaries were at stake, his zeal surmounted all obstacles” (Schumpeter 1991:226). In particular, Weber’s career can be described as a coherent and vigorous attempt to transcend such boundaries between economics and sociology (and history). This attempt was exemplified and culminated in *Economy and Society* as an inter- or trans-disciplinary endeavor *par excellence* and thus Weber’s characteristic contribution to *Grundriss*. Second, not just Schmoller and other historical economists, but also Menger, Wieser and Böhm-Bawerk often conceived economic science in broader terms than as pure theoretical economics, by recognizing the role of sociology and history<sup>23</sup> as well. In particular, elements of economic sociology or social economics are present in both Schmoller and in Menger and other early Austrian economists, especially in Wieser’s synthesis of economic and sociological theory. Such elements were made more explicit and prominent by the younger Austrians, especially by the Weber-influenced conception of a broad economic analysis including economic sociology (Schumpeter 1954), as well as by proposals for full integration of economics with sociology and other social sciences (Löwe 1965).

Initially, Weber’s conception of social economics and its implementation in the project of *Grundriss* emerged as a direct reaction to the *Methodenstreit* (Swedberg 1991:31). Eventually, Weber’s conceptions and projects resolved or transcended such a “strife among methodological factions characteristic of our [economic] science, which was so detrimental to the progress of positive work and led to stereotypical formulas and phrases on every page” (Schumpeter 1991:22). In epistemological terms, Weber’s resolution was methodological pluralism, i.e. the use of both theoretical and empirical-historical methods (e.g., deduction and induction), rather than monism using exclusively one method with the exclusion of the others. Weber’s methodological pluralism was explicitly embraced by some younger Austrian economists, such as Schumpeter and was by implication shared by some older members like Böhm-Bawerk. For instance, despite reliance on abstract theoretical analysis (deduction) in the almost Ricardian vein rather than concrete historical studies (induction) à la Schmoller et al., Böhm-Bawerk (1929:xxv) would agree that “there is no method which could in itself lead us to the truth, but conversely, each method is good, if, in given case, it leads us to the objective of science.” And so would, in their own ways, other classical Austrian economists such as Menger and Wieser, who were theorists “first of all” (Schumpeter 1966:300). More particularly, in both neo-classical and modern Austrian economics the abstract method of market process theory (Boettke et al. 1994, Kirzner 1992) is to a degree complemented by institutionalist and evolutionary approaches (Boettke 1989), including institutional history (Boettke and Prychitko 1994), as well as the method of situational/structural analysis (Langlois and Csontos 1993). On this account, most Austrians can be characterized as, alongside market process economists, institutionalists (Boettke 1989) or evolutionary theorists, though in a different sense from the institutional and evolutionary science of Veblen et al. (Langlois 1986a:2–5).

Finally, another well-known battle in which Weber played a prominent, even a leading, role (Schumpeter 1991:221) was the *Battle of Values* or *Value Judgements* (*Wertfreitsstreit*). During this battle, reportedly Weber was “also closer to the Austrian position” (Swedberg 1998:190–191) by his famous plea for *value-free* social science, a plea fully embraced by Schumpeter, Mises and other younger Austrians. For instance, Weber and Schumpeter

“fought on the same side in the battle of values” (Swedberg 1991:45), and were, incidentally both members of the German Sociological Society (which Weber left later because of the very issue of the role of values in social science). Overall, the notion of a *wertfrei*, especially ideologically neutral, analysis is a common trait of Weberian sociology and Austrian economics in its classical and modern versions (Boettke 1994).

### 3. Weber’s Legacy in Modern Austrian Economics

The connection of Weber to modern or neo-Austrian economics has been more implicit than that to its classical (Menger, Wieser and Böhm-Bawerk) and neoclassical (Mises, Schumpeter, Hayek, Machlup, Löwe, Schutz) versions. In particular, Weber’s influence has been relatively more latent and weaker in modern than in neoclassical Austrian economics. Nevertheless, Weber’s legacy (Lachmann 1971) in modern Austrian economics cannot be neglected. A case in point is the interconnection of Weberian sociology and modern and neo-classical Austrian economics in analyzing human agency and rational choice (Boettke 1998). While Weber was greatly impacted by Menger’s concepts of actor rationality, he also influenced the next generation of Austrian economists, such as Schumpeter, Mises, Hayek, Machlup, Löwe, (and *a fortiori* Schutz) and others (e.g. Lachmann), with his own views on this and related matters.

Major instances of Weber’s legacy in modern Austrian economics include his substantive conception of economic sociology and social economics as well as his ideal-typical, *Verstehen* and *wert-frei* methodology. As an integrating or mediating discipline between economics and sociology in analyzing economic phenomena, including markets, economic sociology has been explicitly or implicitly embraced by some modern Austrian economists (Lachmann 1992) as well as by other economists, viz. the “economic sociology of the market” (Boulding 1970:153). The idea of economic sociology is implied in some Austrian proposals for a theory of institutions and their impact on economic behavior, as a “sociological counterpart” to the doctrine of free competition in pure economics or catallactics (Lachmann 1971:68). This is insofar as, following Schumpeter (1954:12–22), economic sociology is concerned with institutions and their influence on individual economic agents and actions, and economic theory with economic mechanisms, especially free markets.

No doubt, in modern Austrian (and other) economics the concept of economic sociology and/or social economics has been less prominent than Weber as well as Schumpeter, Wieser and Löwe expected. This applies mostly to the manifest formulations of economic sociology/social economics. However, its latent or indirect applications and implications have been more numerous and important, viz. the new Austrian institutional economics<sup>24</sup> and the new Austrian behavioral economics.<sup>25</sup> Moreover, some statements of modern Austrian economists implicitly recognize the need of some kind of broader economics. Admittedly, Weber’s (and for that matter Veblen’s) views that economics is “too narrow a field and should include more ideas from philosophy and from the other social sciences...—all of these themes are congenial to [modern Austrian economists]” (Langlois 1986a:3). To indicate this congeniality, some modern Austrian economists (Boettke 1998) engage in analyzing the conceptions of human agency and rationality in (Weberian) sociology and

comparing them with those in (Austrian) economics. Overall, the suggested inclusion of ideas from sociology and other social sciences would tend to eventually make economics a broader science in the sense of what Weber as well as the earlier Austrian economists like Wieser and Schumpeter (and Menger) termed social economics. On the account of such latent applications and implicit recognitions at least, the rumors (Schumpeter 1954:535) of the “death” of Weber’s idea of economic sociology and generally social economics in modern Austrian economics can be deemed partly exaggerated.

The above *a fortiori* applies to Weber’s methodological or epistemological ideas, viz. ideal types, *Verstehen* and *wert-frei* analysis. For instance, situational analysis or the logic of the situation, as articulated by Popper and Hayek and suggested by some modern Austrians (Langlois and Csontos 1993) is a method whose “basic technique goes back at least to Max Weber” (Langlois 1986b:231). Such a technique is implied in Weberian *Verstehen* methodology using interpretive reasoning<sup>26</sup> (Prychitko 1995). As hinted earlier, the method of situational analysis is non- or even anti-psychological in that it is premised on the principle of institutional individualism (Agassi 1974), including institutionalized motivation (Parsons 1990). For the Weberian method of situational analysis using interpretative understanding “permits one to take as exogenous the existence of various *social institutions* [as] interpersonal stores of coordinative knowledge” (Langlois 1986b:237), as well as other social rather than psychological categories (Agassi 1974:145). In addition, situational analysis can help specify the relations between optimization (and satisficing) as a form of procedural rationality<sup>27</sup> and rule-following behavior reflecting the impact of social institutions and other systemic constraints on individual actions (Langlois and Csontos 1993, Vanberg 1994). In retrospect, Weber’s situational analysis or the logic of the situation was adumbrated in his dissociation of marginal utility (and all economic) analysis from “psychological contamination” (Schneider 1975:23), programmatically defined in his *Methodology of the Social Sciences*, and further specified and implemented in *Economy and Society*.

Relatedly, though some neo-classical Austrian economists like Mises had serious misgivings about the applicability of Weberian ideal-type methodology to economic theory, other prominent Austrians were more receptive. Admittedly, Weber’s ideal-typical method was implicitly applied by Schumpeter to his analysis of entrepreneurs and elaborated by Machlup and Schutz, as well as paid attention to by some modern Austrian economists (Koppl 1994b). Among the second generation of Austrian economists, Machlup was a particularly strong proponent of the method of ideal types (Langlois 1986b:240).

In modern Austrian economics Weber’s ideal-typical methodology is to a degree implied in, or consistent with, such concepts as rational choice and human agency (Boettke 1998), more particularly the alert and discovering entrepreneur (Kirzner 1997), as a variation of Schumpeter’s constructed ideal type of entrepreneurs, etc. Moreover, Schumpeter’s constructed type of a heroic entrepreneur was a particular variation of Weber’s ideal type of a charismatic leader (Swedberg 1991:45). Further, the modern Austrian (Kirzner 1999) notion of an alert and discovering entrepreneur, irrespective of its degree of congruence with Schumpeter’s creative entrepreneur,<sup>28</sup> can also be deemed a special case of Weber’s charismatic leader insofar as alertness, discovery, just as creativity (creative destruction) and the like are properties of any leader, business, political or religious.

More generally, personal capitalism, including entrepreneurship, can admittedly be characterized as a particular form of Weberian charismatic authority (Langlois 1998b), as distinguished from traditional and legal authority. For one thing, both charismatic authorities and creative/alert entrepreneurs act in a real world of structural or radical uncertainty (Langlois 1986b), even sheer ignorance, at best incomplete and dispersed information (Kirzner 1997). In turn alertness, discovery, creative destruction and related properties would make not only business entrepreneurs agents of desocialization (Herbener 1992), but any charismatic leaders. For in a Weberian framework charismatic leaders are revolutionary forces vis-à-vis the existing social, political, cultural and economic order, by trying to destroy what Schumpeter would term the old socioeconomic space and create a new one. Like business entrepreneurs, charismatic leaders would produce desocializing (often destructive) effects for both established praxeology and conventional wisdom in economy and society. These processes would thus be placed within the framework of what some neo-Austrians term the organizational economics of the Weberian concept of charisma (Langlois 1998b).

As regards *wert-frei* analysis, the Weber–Austrian interconnection is even more explicit and acknowledged. Admittedly, Weber was the key player (Schumpeter 1991:221–222) in the battle of value judgements, by his vigorous advocacy for value-neutral social science, thus making a critical rupture with the opposite position of Schmoller et al., and connecting with the identical view of Menger and other Austrians. For *wertfrei* doctrine has been a central epistemological tenet of both Weberian sociology and Austrian economics (Boettke 1994), including its classical, neoclassical and modern formulations. In methodological and philosophical terms, this tenet thus provides an important connection of Weber to the modern Austrian economists as well.

#### 4. Conclusion

In the preceding we have identified and analyzed certain pertinent theoretical and methodological interconnections between Weberian sociology and Austrian economics. On the one hand, we have shown that Weber was greatly influenced by early or classical Austrian economics, first and foremost by Menger and then Böhm-Bawerk and Wieser. This influence was especially exemplified by Weber's adoption of Menger's (and Böhm-Bawerk-Wieser's) marginal utility theory of value and prices, though with some additional qualifications in economic sociology, viz. empirical price formation. It was also epitomized by Weber's embrace of Mengerian methodological and sociological individualism and its application to the organic genesis and evolution of social phenomena, including institutions and other macro-structures.

On the other hand, we have also shown that Weber manifestly or latently influenced later or neo-classical Austrian economics,<sup>29</sup> especially Schumpeter, Mises as well as the members of the Mises seminar, including Hayek, Machlup and Schutz. The main paths of such influence were Weber's conception of social economics, including economic sociology, as well as his ideal-typical, *Verstehen* (interpretive) and *wert-frei* methodology. In particular, Weber's attempt to resolve or rather transcend the *Methodenstreit* by the huge project (Hayek 1992) *Grundriss der Sozialökonomik* had an impact on some Austrian economists, above all Schumpeter and Wieser. This was indicated by the contributions of Schumpeter and

Wieser to the project, as well as by Hayek’s later participation (in the 1920s) with a work on money and monetary theory from 1650 to 1850.

In particular, Wieser’s and Schumpeter’s contributions reflected the impact of Weber’s ideas of social economics and economic sociology. Given that *Grundriss*, as an intended encyclopedia of economic theory and methodology (Schumpeter 1991:226), also contained contributions of some members of both Austrian and Historical schools, this project of social economics not only emerged in response to the “venomous academic conflict”, i.e. the “bitter *methodenstreit*”<sup>30</sup> (Kirzner 1992:59) between the two schools. Further, the project to some degree effectively ended this, in Schumpeter’s (1991:222) words, “state of methodological confusion in [economic] science”, a state which, as Weber complained, truncated the latter into two separate and opposing sciences (theoretical and historical ones). *A fortiori*, Weber was particularly instrumental in resolving the *Battle of Values* by proposing and defending a solution that was fully embraced by or congruent with Austrian economics, viz. *wertfreiheit* social science.

Also, we have revisited Weber’s legacy in neo-Austrian economics. The legacy of Weber in modern Austrian (and other heterodox) economics has both theoretical and methodological elements. The theoretical elements entail the Weberian conception of economic sociology and generally social economics, irrespective of the terminology used, viz. political economics, as well as the Austrian versions of the new institutional and behavioral economics. The methodological elements of Weber’s legacy in modern Austrian economics include the method of ideal-typical types as further developed by Machlup and Schutz, understanding or interpretive reasoning, the method of situational analysis or the logic of the situation, and the like. Weber’s another major methodological legacy in or connection with the modern Austrians is the idea of objective and value-free knowledge as a central epistemological or philosophical principle of Weberian sociology and Austrian economics.

Hence Weber’s theoretical and methodological ideas are far from being “dead” or irrelevant in neoclassical and modern Austrian economics. On the contrary, many neo-Austrian (and generally heterodox) economists in one way or another seem attentive to the suggestion that “anybody who takes social science seriously [. . .] should make the acquaintance of Max Weber [as] the most powerful sociological mind of his period” (Robbins 1998:244–245).

## Notes

1. Swedberg (1998:25/215) maintains that Austrian marginal utility theory plays no role in Weber’s economic sociology, as especially found in *Economy and Society*. In turn, Polanyi criticized Weber’s notion of (total and marginal) utility for equating humans with objects, viz. commodities, and generally for his being a “marketist”, ignoring the realm of production.
2. Moreover, in a letter to Brentano, a member of the Historical school, Weber pointed out that Menger rather than Schmoller was right in the *Methodenstreit* on the key issue, viz. whether or not to replace marginal utility and other economic theory by economic history (Swedberg 1998:293).
3. According to the (Ernst) Weber-Fechner law the “strength of a stimulus must increase in geometric ratio if the perceived strength of sensation is to increase in arithmetic ratio” (Weber 1975a:26). In Max Weber’s (1975a:25–26) view it is the application of the “simple old Weberian formula” to economic phenomena that is dubious.
4. Specifically, Brentano viewed the Weber-Fechner as a “confirmation and generalization of theses which Bernoulli had proposed for the connection between the relative (personal) evaluation of a sum of money and

- the absolute level of the wealth of the owner or received or user” (Weber 1975a:25). Hence Weber’s (1975a:25) put under scrutiny Brentano’s “assertion that the ‘fundamental law of psychophysics’ is the foundation of ‘marginal utility theory’ and that the latter is the application of the former.”
5. In this connection, Böhm-Bawerk (1959:430, n. 81) also complained that “even Wieser [. . .] appears to go somewhat too far when he says ‘You may say, if you wish, that we are and wish to remain psychological laymen’”.
  6. In a Weberian vein, Langlois (1986b:236) states that a “knowledge of the agent [social] environment serves in some cases—including many of those most relevant for economic theory—as a *substitute* for a knowledge of the details of his or her internal psychology.”
  7. In his earlier works, especially *Prices and Production* and *The Pure Theory of Capital*, no doubt Hayek used the concept of equilibrium. However, Hayek “used equilibrium to show that while capitalism is not perfect, it contains error-correcting institutions that bring it closer to perfection than is intuitively apparent” (Boettke 1997:11). By contrast, in modern mainstream economics Hayek’s “realistic economic theory has been replaced by the formalistic use of equilibrium models that [. . .] the economist either to condemn capitalism for failing to measure up to the model of perfect competition, or to praise capitalism as a utopia of perfect knowledge and rational expectations” (Boettke 1997:11).
  8. In this connection, Langlois (1986b:236–237) objects that general equilibrium theory, in addition to placing phenomenal cognitive demands on agents, “seeks to reduce economic phenomena to psychological states (utility functions) and natural givens (endowments and technological possibilities).” Here, the term natural is apparently used in the sense of non-institutional, non-situational and generally non-social, viz. abstracting from agents’ environment (Langlois 1986b:236, n.10).
  9. There are many other statements of Menger’s and generally Austrian adoption of Smith’s invisible hand theorem. This relatively less-known statement is particularly simple, clear and indicative: “It is better for the general welfare of society if the individual has the responsibility of caring for his own and his family’s livelihood; for such responsibility constantly drives him to an unceasing activity that foster the well-being of all mankind” (Menger 1994:31). Austrian economics in both its neo-classical and modern versions has adopted and developed the invisible hand in the form of a market process theory as the analysis of systemic and orderly plan coordination in a free and decentralized market economy (Boettke and Prychitko 1998).
  10. In turn some modern Austrian economists (Gordon 1993, Varzner 1997) engage on these pages in deconstruction of conventional utility/welfare economics because of the latter’s adverse implications for methodological individualism, viz. the social utility/welfare function or aggregate efficiency (Kirzner 1997), as well as perfectly competitive general equilibrium (Prychitko 1993). An alternative Austrian welfare economics has also been proposed in this journal recently (Vihanto 1999).
  11. Arguably, Parsons’ (1947:30–55) analysis—in his introduction to the English translation of the first part of *Economy and Society* (called *Theory of Economic and Social Organization*)—of what he terms Weber’s Economic Sociology is “correctly treated as the most important commentary” (Swedberg 1998:217, n. 17).
  12. In Parsons’ (1947:31) view, these institutionalist propositions of Weberian economic sociology “contrast with the dominant tone of much of economic thought”, especially neoclassical orthodoxy. In a similar vein, objecting to such critiques, Lachmann (1992:43, n.12) stated that to “ascribe to [Weber’s] economic sociology any intended relationship to the neoclassical orthodoxy of our own days would of course be grotesque.” At this point, Parsons and Lachmann seem to agree as to the nature of Weberian economic sociology, though the latter objected to the former’s implied critique of Weber for trying to supplement orthodox economic theory.
  13. Caldwell’s (1997) observation that Hayek adopted Humean epistemological pessimism can be applied to Weber as well. For like Hayek Weber was very pessimistic about the possibility of discovering universal social laws or what he termed non-understandable uniformities. The issue of whether Hayek’s (and Weber’s) ethical universalism can hardly be reconciled with such methodological pessimism (as argued by Caldwell 1997) remains open, and is outside the scope of the paper.
  14. In reaction to Wieser’ (and Büsher’s) contribution, Weber thought it was necessary for him to, in his own words, “provide a rather comprehensive sociological discussion for the section on economy and society” (Swedberg 1998:200) as his contribution to *Grundriss*.
  15. Schumpeter (1966:301) observes that “Historical Sociology or Sociological History had been [Wieser’s] first interest, and it was to be the last [as] the chief work of his later years centered in sociology”. Also,

- Schumpeter (1966:301) mentions what he calls Wieser's "great sociological book" on power (*Das Gesetz der Macht*) published when he was seventy-four years—"thus achieving what he had in his mind to do when still at school, and gathering in the harvest of his thought in that field."
16. A referee pointed out that Schumpeter was not only influenced by Weber's economic sociology, but equally much by Sombart's ideas on this topic—despite their troubled personal relations (Swedberg 1991)—and generally by the fact that economic sociology was in the air around the turn of the century and a few decades later in Germany. In particular, Sombart "comes out very strongly for a sociological theory of economics" (Swedberg 1991:262, n.77), i.e. economic sociology, in his *National Economy and Sociology*.
  17. The term social economics can probably traced back to J.B. Say as well as to Destutt de Tracy (the early 1920s) and Sismondi. Reminiscent of Say's social economy, Mill (1968:136–139) proposed the science of social economy as distinguished from, by being broader than, political economy proper. Probably influenced by Mill, Marshall (in 3rd and 4th editions of *Principles*) stated that economic science is better denoted Social Economics (or simply Economics) than political economy. Then, perhaps following on Wieser's *Social Economics*, Cassel proposed *Theoretical Social Economics*. In the German speaking world, the term social economics was probably first used in an economic work by Hildebrand in 1848 (Swedberg 1998:284, n. 19), and later by Knies, Wagner and other historical economists. It was also used by Weber's economics teacher Dietzel who suggested that the economy be viewed as a social phenomenon (Swedberg 1998:117–119). However, not only Dietzel but also Knies was particularly instrumental in Weber's adopting social economics (Swedberg 1998:285, n. 21). Among the early Austrian economists, Menger (in *Problems of Economics and Sociology*) also used social economy (sozial Ökonomie) in reference to Say. Also, a comparative analysis of the theory of value of Say and Menger can be found on these pages in Sanders (1994).
  18. I thank the referee for this quote, which can also be found in Swedberg (1991), from the first book of Schumpeter (*The Nature and Essence of Theoretical Economics*), which was never translated in English and even subsequently ignored by the author upon his coming to the U.S. However, a more elaborate consideration of these issues would require a separate paper.
  19. Another connection between Weber and Schumpeter can be found in another specialty of economic sociology, namely fiscal sociology (*finanze Soziologie*), a term originally coined by a sociologist Goldscheid, and with roots in the German Kameralist or public administration tradition. The term was explicitly embraced by Schumpeter and implicitly utilized by Weber. In particular, Schumpeter (1991:100) in analyzing the tax state approvingly cited Goldscheid's statement that the budget is the "skeleton of the state, stripped of all misleading ideologies". While Weber and Schumpeter agreed that state finances needed a sociological analysis penetrating beneath public accounting into the underlying relations between the social groups involved, in recent interpretations (Swedberg 1998:58) Weber's fiscal sociology is more realistic than Schumpeter's by depicting the "brutality" of the taxation system. Still another connection resides in the analysis of imperialism. However, Weber's analysis of imperialism differs at some points not only from that in Marx and Lenin, viz. that imperialism is a necessary product of capitalism, but also from Schumpeter's view of imperialism as pre- or anti-capitalist. Unlike both Marx/Lenin and Schumpeter, Weber is less deterministic by viewing imperialism as a historically contingent rather than an inexorable phenomenon resulting from or negating capitalism. However, in contrast to Marx and Lenin, and in similarity with Schumpeter, Weber characterized imperialism as an irrational, extra-economic phenomenon, viz. a form of politically oriented, including robber, capitalism as opposed to modern capitalism (Swedberg 1998:75).
  20. Probably with this in mind, Swedberg (1991:88, n. 103) translates what Weber (1968:311) termed *Socialökonomie* as sociological economics, albeit formally a more accurate translation is social economy. This translation is a felicitous error that well expresses the essence of Weber's (integration of) sociological and economic analysis. Thus though Weber hardly ever used the term sociological economics, he probably would have not objected to the term. Moreover, Weber's entire work (and teaching) was, especially in light of the *Methodenstreit*, in the direction of a synthesis of economics with sociology (and history) in some kind of sociological economics (as implied by Schumpeter 1954:21). In a broader sense, sociological economics is isomorphic to Sozialökonomik, in a narrower sense to economic sociology as part of social economics. Samuels (1990:274) identifies four main strands of social economics within traditional and contemporary economic science, viz., "theological idealism, pragmatism-instrumentalism, materialism and moral humanism."

21. These Weberian usages of economic sociology are documented by Swedberg (1998:299, n. 131; I thank the referee for bringing this to my attention.)
22. According to Swedberg (1998:176), Weber “would also be much closer to Menger than to Schmoller on the issue of using rationality as a method in economic research; and he especially liked Menger’s suggestion that economic institutions are often the intended result of individual action.”
23. Yet Hayek (1992:79) observes that even Menger, while refusing to substitute economic history for economic theory as urged by Schmoller et al., “was greatly interested in history and the genesis of institutions, and was anxious to mainly emphasize the different nature of the task of theory and the task of history proper and to prevent a confusion of their methods. The distinction [ . . . ] considerably influenced the later work of Rickert and Max Weber.”
24. Langlois (1986a:1) in the new institutional economics also includes the modern Austrian school (e.g., Kirzner), particularly as influenced by the work of Hayek. Here one may add as an earlier influence Menger’s conception of institutions which greatly influenced Hayek’s implicit institutional economics as an analysis of the “role of rules in the spontaneous [social-economic] order” (Vaughn 1999), and generally the codification of a specifically Austrian theory of institutions, including normative orders and corporate organizations (Langlois 1986b, Langlois and Csontos 1993). For instance, Menger (1963, book III) termed normative spontaneous orders organic institutions in the sense of unintended consequences of individual actions (Galloway 1997), and organizations pragmatic institutions or, in constitutional economics’ terms, contractarian ones. In addition, some modern Austrian economists (Boettke 1989, Boettke and Prychitko 1994) recognize elements of institutionalism and institutional history “behind market process theory” in Austrian economics.
25. However, Langlois (1990) distinguishes the new behavioral economics from its earlier versions in the theory of bounded rationality (or satisficing) or the old behavioral economics as advanced by Simon et al. In particular, Langlois (1986b) is concerned about the prevalent psychological underpinnings of the bounded rationality theory and economic behaviorism generally. In turn the new behavioral economics seeks to reduce these underpinnings in favor of situational analyses (Langlois and Csontos 1993) stressing the Weber–Popper–Hayek logic of situation.
26. Essays in Prychitko (1995) contain further discussions of the role of the Weberian type of interpretation and generally of hermeneutics in modern (Austrian) economics, including institutions analysis. Also, on these pages Vedder (1997) examines the relations of the interpretation of economic phenomena and statistic malfeasance.
27. Langlois (1986b:226; also Langlois and Csontos 1993) stresses that the problem with optimization or maximizing rationality is not that it is substantive (as argued by bounded rationality theorists) but rather too procedural. Instead, optimization is replaced with satisficing in the broader sense, viz. “reasonable behavior that cant be characterized as substantively rational” (Langlois 1986b:227, n. 2), not just as optimal as defined in the bounded rationality theory. In the latter, though non-optimal satisficing is rational behavior in procedural as well as substantive terms, while in the former it is only procedurally rational, which implies a weaker definition of the concept. Apparently, here loom large the Weberian concepts of formal rationality as a procedure of cost-benefit calculation and substantive rationality as a process of attaining of what both Weber and Mises termed ultimate ends. In this connection, not only modern Austrians, but also behavioral economists were influenced by these concepts. Admittedly, Simon adopted Weber’s concepts to formulate the theory of bounded (procedural) rationality or satisficing, as did, for that matter, Polanyi to distinguish formal and substantive economic theory.
28. On these pages, Kirzner (1999) reconsiders Schumpeter’s notion of entrepreneur by emphasizing entrepreneurial alertness and discovery rather than just creativity (“creative destruction”).
29. Further, Weber’s importance or influence was not limited to Austrian economics. For example, Knight was appreciative of and partly influenced by Weber and his ideas, as shown by the translation of *General Economic History* (the first in English of Weber’s works). Moreover, alongside holding a seminar (at University of Chicago) exclusively on Weber (as did A. von Sheltung at Columbia) in the 1930s, Knight reportedly said that “there has been the work of one man whom I have greatly admired. If I were to start again, I would build upon his ideas. I am referring, of course, to Max Weber” (quoted in Scheitzer 1975:279). Also, in addition to the Austrians like Hayek (1991b:360) and Rosenstein-Rodan (1994:204), some neoclassical economists such as Stigler (1965:117) expressed positive opinions about Weber’s essay on marginal utility theory and

psychology and thus indirectly his contribution to pure economics. Also, Robbins (1998:244) terms Weber's critique of the early Historical school of Roscher and Knies a famous essay.

30. According to Kirzner (1992:59), whereas the *Methodenstreit* is most often viewed by his historians of economic theory as a "tragic waste of scholarly energy", it "helped bring the existence of an Austrian school to the attention of the international economics fraternity."

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